New Issue – Book Entry Only | **Standard & Poor's "A"**
(See "RATING" herein)

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

$2,910,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Revenue Bonds
(Kinship Center)
2006 Series A

Dated: Date of delivery | Due: March 1, as shown below

The 2006 Series A Bonds (the "Bonds") will constitute limited obligations of the ABAG Finance Authority for Nonprofit Corporations (the "Authority") secured under the provisions of the Indenture and the Loan Agreement described herein, and will be equally and ratably payable from loan payments made by Kinship Center (the "Corporation") to the Authority under the Loan Agreement and from certain funds held under the Indenture.

The Bonds are not secured by any property of the Authority other than the pledge of Revenues, as and to the extent specified in the Indenture. Revenues primarily consist of loan payments made by the Corporation. No form of taxation has been pledged or levied to provide for payment with respect to the Bonds. The Authority will assign to U.S. Bank National Association, San Francisco, California, as trustee (the "Trustee"), its interests under the Loan Agreement and will grant to the Trustee a lien on and pledge of Revenues, 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 "THE BONDS – Book-Entry System" herein.

Interest on the Bonds is payable semi-annually on each March 1 and September 1, commencing September 1, 2006. **The Bonds are subject to redemption prior to maturity as described herein.**

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 HAS ANY TAXING POWER.

However, the Bonds, pursuant to Article XVI, Section 4, of the Constitution of the State of California, 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".

Maturity Schedule
$1,910,000 Serial Bonds

Maturity Date (March 1)	Principal Amount	Interest Rate	Price	Maturity Date (March 1)	Principal Amount	Interest Rate	Price
2007	$75,000	3.35%	100.000%	2017	$100,000	4.20%	100.000%
2008	70,000	3.50	100.000	2018	105,000	4.25	100.000
2009	75,000	3.60	100.000	2019	110,000	4.30	100.000
2010	80,000	3.65	100.000	2020	115,000	4.35	100.000
2011	80,000	3.70	100.000	2021	120,000	4.35	99.563
2012	85,000	3.75	100.000	2022	125,000	4.40	99.657
2013	85,000	3.85	100.000	2023	130,000	4.45	99.880
2014	90,000	3.95	100.000	2024	135,000	4.50	100.077
2015	95,000	4.00	100.000	2025	140,000	4.50	99.745
2016	95,000	4.10	100.000				

$1,000,000 4.65% Term Bonds due March 1, 2031, Price: 100%

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

The Bonds are offered when, as and if issued and received by the Underwriters, subject to an approving legal opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California. Certain matters will be passed upon for the Corporation by Delay & Laredo, Pacific Grove, California, as Corporation Counsel, and by Jennings, Strouss & Salmon, P.L.C., Phoenix, Arizona, as Disclosure Counsel. It is expected that the Bonds, in definitive form, will be available for delivery through the facilities of DTC, on or about March 14, 2006.

PIPER JAFFRAY & CO.

A.G. EDWARDS | **EDWARD JONES**

Dated: February 23, 2006

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

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriters. 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 Underwriters. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Information Subject to Change and Complete Documentation. 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, the Office or the Corporation since the date hereof. All summaries of the documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

Offer and Sale of Bonds. The Underwriters 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 Underwriters.

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. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY A FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT
$2,910,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Revenue Bonds
(Kinship Center)
2006 Series A

INTRODUCTORY STATEMENT

This Official Statement is furnished in connection with the offering of $2,910,000 aggregate principal amount of Insured Revenue Bonds (Kinship Center), 2006 Series A (the "Bonds") issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority"). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in that certain Indenture, dated as of March 1, 2006 (the "Indenture"), by and between the Authority and U.S. Bank National Association, San Francisco, California, as trustee (the "Trustee"), or as in that certain Regulatory Agreement, dated as of March 1, 2006 (the "Regulatory Agreement"), by and among the Authority, Kinship Center, a California nonprofit public benefit corporation (the "Corporation"), and the Office of Statewide Health Planning and Development of the State of California (the "Office"). See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions."

The Bonds will be issued under Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the California Government Code (the "Act"), and the Indenture. The proceeds of the sale of the Bonds will be loaned to the Corporation pursuant to a Loan Agreement, dated as of March 1, 2006, between the Authority and the Corporation (the "Loan Agreement") and, together with certain funds provided by the Corporation, will be used to refinance an existing bank loan, currently outstanding in the approximate principal amount of $2,470,000, incurred for the purpose of constructing a 27,000 square foot facility to house its administrative and business operation offices, a mental health clinic and health-related programs in Salinas, California, to fund the Bond Reserve Account in an amount equal to the Bond Reserve Account Requirement, and to pay a portion of the costs of issuance of the Bonds, including certain insurance premiums applicable to the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. Pursuant to the Loan Agreement, the Corporation will be required to make payments to the Authority sufficient to pay all principal of, interest and premium, if any, on the Bonds. Such payments constitute revenues of the Authority (the "Revenues" as defined herein) pledged for payment of the Bonds.

In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the "Insurance Law"), the Authority and the Corporation will enter into a Contract of Insurance (the "Contract of Insurance"), dated as of March 1, 2006, and 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 Corporation 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 – Contract of Insurance" and – "Regulatory Agreement".

THE AUTHORITY

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

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF 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 HAS ANY TAXING POWER.

THE CORPORATION

The Corporation is a California nonprofit public benefit corporation as described in Section 501(c)(3) of the Code and is exempt from income taxation pursuant to Section 501(a) of the Code. For more detailed information concerning the history, governance, organization, facilities, operations, and financial performance of the Corporation, see APPENDIX A - "INFORMATION CONCERNING THE CORPORATION" and APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION."

THE PROJECT

A portion of the proceeds of the Bonds will be used to refinance an existing bank loan to the Corporation, currently outstanding in the approximate principal amount of $2,470,000, incurred for the purpose of constructing a 27,000 square foot facility to house the Corporation's administrative and business operation offices, a mental health clinic, and health related programs located at 124 River Road, Salinas, California (the "Project"), owned and operated by the Corporation in connection with the provision of its children's mental health clinics, services to relatives who are providing homes to children, adoptive family wrap-around services, foster family care and adoption placement services.

Proceeds of the Bonds will also be used to fund the Bond Reserve Account and to pay a portion of the costs of the issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

THE BONDS

General

The Bonds will be dated as of their date of delivery, and will bear interest at the rates set forth on the cover page of this Official Statement, payable semi-annually on each March 1 and September 1, commencing September 1, 2006. 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 the Bonds will be payable by check mailed by the Trustee on each interest payment date to the registered owners thereof as of the 15th day of the calendar month preceding the interest payment date (a "Record Date") at the address shown on the registration books maintained by the Trustee. Upon written request of any owner of at least $1,000,000 aggregate principal amount of Bonds received by the Trustee before the Record Date, interest will be paid by wire transfer to an account within the United States. The Bonds are issuable only in fully registered form in denominations of $5,000 or any integral multiple thereof. So long as the book-entry system is in effect with respect to the Bonds, payments of the principal of and premium (if any) and interest on the Bonds will be made by the Trustee to The Depository Trust Company ("DTC") or its nominee. See "Book-Entry System" below.

Redemption

Optional Redemption. The Bonds maturing on or after March 1, 2015, are subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised as directed by the Corporation), in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation, from any source of available moneys, on or after March 1, 2014, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds called for redemption), together with accrued interest to the date fixed for redemption:

Redemption Period (Both Dates Inclusive)	Price (%)
March 1, 2014 through February 28, 2015	102
March 1, 2015 through February 29, 2016	101
March 1, 2016 and thereafter	100

Special Redemption. The Bonds are also subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised as directed by the Corporation) in whole on any date, or in any part (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity and by lot) on any interest payment date, upon forty-five (45) days prior written notice to the Trustee from the Corporation. Such redemption will be effected with moneys required to be deposited in the Special Redemption Account, which the Corporation has received from insurance or condemnation proceeds, at the principal amount of the Bonds redeemed plus accrued interest to the date fixed for redemption, without premium.

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

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

CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

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

As 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 "Book-Entry System" below.

Debt Service Requirements

The following table sets forth for the annual debt service requirements for the Bonds.

Year Ending (March 1)	Principal Payments	Interest	Total Debt Service
2007	$ 75,000.00	$120,512.62	$195,512.62
2008	70,000.00	122,515.00	192,515.00
2009	75,000.00	120,065.00	195,065.00
2010	80,000.00	117,365.00	197,365.00
2011	80,000.00	114,445.00	194,445.00
2012	85,000.00	111,485.00	196,485.00
2013	85,000.00	108,297.50	193,297.50
2014	90,000.00	105,025.00	195,025.00
2015	95,000.00	101,470.00	196,470.00
2016	95,000.00	97,670.00	192,670.00
2017	100,000.00	93,975.00	193,775.00
2018	105,000.00	89,575.00	194,575.00
2019	110,000.00	85,112.50	195,112.50
2020	115,000.00	80,382.50	195,382.50
2021	120,000.00	75,380.00	195,380.00
2022	125,000.00	70,160.00	195,160.00
2023	130,000.00	64,660.00	194,660.00
2024	135,000.00	58,875.00	193,875.00
2025	140,000.00	52,800.00	192,800.00
2026	150,000.00*	46,500.00	196,500.00
2027	155,000.00*	39,525.00	194,525.00
2028	160,000.00*	32,317.50	192,317.50
2029	170,000.00*	24,877.50	194,877.50
2030	180,000.00*	16,972.50	196,972.50
2031	185,000.00	8,602.50	193,602.50

* Indicates mandatory sinking account payment.

Book-Entry System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be delivered as one fully registered Bond for each of the maturities of the Bonds, registered in the name of DTC or its nominee, Cede & Co., as registered owner of all the Bonds. The Bonds will be retained and immobilized in the custody of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides assets servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants

("Direct Participants") deposit with DTC. DTC also facilities the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information can be found at www.dtcc.com.

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 Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant 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 the Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other 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 Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment 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. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC or Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal 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 the Trustee or Paying Agent on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or Indirect 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 Direct Participant or Indirect Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

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

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event definitive bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and the Corporation takes no responsibility for the accuracy thereof.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY METHOD IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS OF THE BONDS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DIRECT PARTICIPANT, OR OF ANY INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNER, OF ANY SUCH NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. THE TRUSTEE, THE AUTHORITY, THE CORPORATION AND THE UNDERWRITERS OF THE BONDS HAVE NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECTS OF THE RECORDS RELATING TO OR PAYMENTS MADE ON ACCOUNT OF BENEFICIAL OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERSHIP, OF THE BONDS.

The Authority and the Corporation cannot and do not give any assurances that DTC, the Direct Participants, the Indirect Participants or others will distribute payments of any amount in respect of the principal amount or redemption price of or interest on the Bonds paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED HOLDERS OF THE BONDS, WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

SECURITY FOR THE BONDS

California Health Facility Construction Loan Insurance Program

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

The full amount of the principal of and interest, but no redemption premium, if any, on the Bonds is insured under the Program and is backed by the full faith and credit of the State. Reference is made to the official statement relating to the general obligation bonds most recently issued by the State (at www.treasurer.ca.gov, under the heading "Bonds - Public Financing"), 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 first priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, the Corporation will grant a security interest in the Gross Revenues under the Loan Agreement and the Corporation will enter into a first Deed of Trust. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Pledge Under the Indenture; Pledge of Gross Revenues" and "—Deed of Trust" herein and APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—Deed of Trust" hereto.

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

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

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

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

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

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

While the Office has not requested the issuance of and the Treasurer of the State has not issued any such debentures and while definitive procedures for their issuance have not been established, including procedures covering matters such as compliance with the provisions of the Code and the Treasury Regulations promulgated thereunder, the Office has all necessary power to establish such procedures, and it is expected that such procedures would be established and that interest on such debentures would not be includable in the gross income of the holders of the Bonds for purposes of federal income taxation and would be exempt under the law as in effect on the date hereof from State personal income taxes. Upon the occurrence of certain Events of Default under the Indenture, there is the possibility that the interest on the Bonds could become subject to federal income taxation. The Indenture provides that there shall be no acceleration of the principal of and interest on the Bonds in the Event of Default under the Indenture without the consent of the Office. If the Bonds were declared taxable by the Internal Revenue Service (the "IRS") or another appropriate authority, thereby resulting in an Event of Default under the Indenture, and if the Office did not consent to an acceleration, the Bondholders would continue to receive interest payments, but those interest payments would not be excludable from gross income for federal income tax purposes. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—The Indenture—Events of Default and Acceleration of Maturities."

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

At the request of the Office, Milliman USA ("Milliman") completed a study in February of 2003 (the "2002 Actuarial Study") to evaluate, among other matters, (1) the reserve sufficiency of the HFCLIF as of June 30, 2002; and (2) the risk to the State General Fund from the Program. In the 2002 Actuarial Study, Milliman concluded that the HFCLIF, as of June 30, 2002, which at that time had approximately $181 million, appeared to be sufficient, assuming "normal and expected" conditions, and that the HFCLIF should maintain a positive balance over a period of 15 years. Even assuming abnormal and unexpected events, Milliman found that HFCLIF reserves would protect against any General Fund losses for 11 years. As of December 31,2005, the principal amount of loans insured under the Program was approximately $1,246,240,625 and the cash balance of the HFCLIF was approximately $170,862,917. A copy of the 2002 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, 300 Capitol Mall, Suite 1500, Sacramento, CA 95814, Telephone: (916) 324-9957; email: cminsure@oshpd.ca.gov.

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

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

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

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

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

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

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

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

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

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

3. selling, leasing, subleasing or otherwise disposing of all or portions of the real property subject to the Deed of Trust and, except in the ordinary course of business, buildings, improvements and tangible personal property located on such property;

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

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

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

Pledge Under the Indenture; Gross Revenues

Subject to and for the purposes and on the terms and conditions set forth in the Indenture, there are pledged to secure the payment of the principal of, and interest on, the Bonds, 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). Subject to the terms of the Loan Agreement, the Gross Revenues of the Corporation are pledged to the payment of Loan Repayments and to secure the payments of the principal of, and interest on the Bonds and Parity Debt. "Gross Revenues" means, in general, all revenues, income, receipts and money received in any period by or on behalf of the Corporation related to the Facilities (other than donor-restricted gifts, grants, bequests, donations and contributions). See APPENDIX A – "INFORMATION CONCERNING THE CORPORATION – Sources of Revenues" and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Definitions." The pledge constitutes a lien on, and security interest in, such assets. 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.

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

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

Bond Reserve Account

An amount equal to the Maximum Annual Bond Service Requirement on the Bonds will be deposited in the Bond Reserve Account on the date of delivery of the Bonds. "Maximum Annual Bond Service" is defined in the Indenture as, as of any date of calculation, the sum of (a) the interest falling due on 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 sum shall be largest. The Bond Reserve Account is required to be maintained in an amount equal to the Bond Reserve Account Requirement and the Loan Agreement requires the Corporation to make up any deficiencies therein within one year. The Bond Reserve Account Requirement is defined in the Indenture to be, as of any date of calculation, an amount equal to the Maximum Annual Bond Service on all Bonds Outstanding as of such date or such larger amount as may be established as the Bond Reserve Account Requirement by any Supplemental Indenture. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Indenture."

Deed of Trust

The Corporation will execute the Deed of Trust pursuant to which the Corporation will grant to the trustee thereunder, as trustee for the benefit of the Office, holders of the Bonds and Parity Debt, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances and subject to the right of the Corporation (with the prior consent of the Office) to remove property from the lien on and security interest in the Deed of Trust, as security for the performance of the Corporation's obligations under the Loan Agreement and the Regulatory Agreement. 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 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 DOCUMENTS."

Rate Covenant and Other Financial Covenants

Under the Loan Agreement and the Regulatory Agreement, the Corporation is required to fix, charge and collect rates, fees and charges which are reasonably projected to be sufficient in each year to produce a debt service coverage of at least 1.25 times. The Loan Agreement and Regulatory Agreement also require the Corporation to maintain a ratio of current assets to current liabilities of at least 1.50, and Days Cash on Hand of not less than five days beginning with the Corporation's fiscal year ending June 30, 2006, increasing by five days each fiscal year thereafter to at least twenty days for the Corporation's fiscal year ending June 30, 2009. The measurement of Days Cash on Hand is taken at the end of the particular fiscal year. For more specific information relating to these covenants, see APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Loan Agreement - Rates and Charges; Debt Coverage" and "Events of Default; Remedies Upon Default" and "Regulatory Agreement Rates and Charges; Debt Coverage" and "Loan Default Events; Remedies on Default." The Bonds will continue to be insured by the Office in the manner described above even if an Event of Default were to occur.

Parity Debt and Other Indebtedness

The Corporation has certain outstanding long-term debt described in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION - Financial Information – Outstanding Indebtedness."

The Corporation may incur other obligations or indebtedness, in some cases on a parity basis with the obligations of the Corporation under the Loan Agreement, subject to the conditions set forth in the Regulatory Agreement with respect to the Bonds. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Regulatory Agreement - Limitation on Indebtedness - Parity Debt."

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

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

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal Amount of Bonds	$2,910,000
Equity Contribution	101,827
Total Sources of Funds	$3,011,827
Uses of Funds:	
Deposit to Project Fund	$2,504,000
Deposit to Bond Reserve Account (1)	197,365
Deposit to Costs of Issuance Fund (2)	310,462
Total Uses of Funds	$3,011,827

(1) Represents an annual amount equal to the Maximum Annual Bond Service on the Bonds.
(2) Includes legal costs, accounting costs, third-party consultant costs, printing costs, insurance premium and fees, rating agency fees, Trustee fees, Authority fees, underwriting discount, original issue discount and other miscellaneous costs of issuance of the Bonds.

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 of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described herein.

This discussion of risk factors below is not, and is not intended to be, exhaustive or an attempt to prioritize such risks.

General

As described under "SECURITY FOR THE BONDS—Pledge Under the Indenture; Gross Revenues of the Corporation," the principal of, and premium, if any, and interest on, the Bonds are payable from amounts to be paid by the Corporation pursuant to the Loan Agreement and from amounts then held in, or otherwise available with respect to, the Bond Reserve Account. If the Corporation fails to make its payments under the Loan Agreement and other amounts are not then available under the Indenture, no assurance or any representation is given or can be made that, if the Trustee is required to pursue its remedies under the Indenture and the Loan Agreement, revenues will be produced in amounts sufficient to pay principal of and interest on the Bonds when due. The ability of the Corporation to produce revenues in amounts sufficient to pay principal of and interest on the Bonds when due is affected by and subject to conditions that may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed herein should be considered in evaluating the Corporation's ability to make payments under the Indenture, in amounts sufficient to provide for payment of the principal of, and premium, if any, and interest on, the Bonds.

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

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

Bond Insurance

The principal and interest payments on the Bonds will be insured by the Office, which is an instrumentality of the State of California. Accordingly, any decline in the State's fiscal condition could adversely affect the State's ability to make payment in the event of a claim on such insurance. For a full explanation of the obligations of the Office and the State of California with regard to such insurance, see the Insurance Law as set forth in California Health and Safety Code, Chapter 1 of Part 6 of Division 107, as the same may be amended from time to time. See also "SECURITY FOR THE BONDS -- California Health Facility Loan Insurance Program" and APPENDIX C -- "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- The Contract of Insurance" and "-- The Regulatory Agreement."

California Budget Problems

The State of California regularly has budget problems which are reported to be very significant. Balancing the State budget (as required by law) can be difficult to achieve without severely reducing programs, increasing taxes or other revenues, or both. The problems effect both health and social services programs necessary for the Corporation's success. Additionally, the viability of the State as the responsible party for paying off the Bonds could be adversely affected by rising costs and lower revenues.

Dependence Upon Governmental Funding

A large portion of the Corporation's services are provided to persons eligible for certain benefits that are funded under Federal, State, and various Monterey County and Orange County health and social services programs.

The Corporation receives a significant portion of its revenues from fee-for-service-based contracts with various social services departments in Monterey County and Orange County. The level of fiscal strength of county governments in California varies widely and from time to time counties experience significant reductions in funding, including funding for the provision of health and social services. Any reduction in funding from Monterey County social services departments may have a negative effect on the Corporation's operating and financial performance.

The State of California has experienced deficits in its operations and the future of all health and social services programs at the Corporation's facilities 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. As the Corporation's ability to make Loan Repayments is significantly dependent upon the continued funding of its programs by the State, any reduction in funding for various social services programs currently funded by the State could have a negative impact on the ability of the Corporation to meet its obligations on the Bonds.

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

Non-Operating Revenues

The Corporation has historically relied upon gifts and contributions, and the interest and dividends thereon. Any substantial diminution in such gifts, contributions, interest or dividends could adversely affect the Corporation.

No Assurance of Secondary Market for the Bonds

It is the present practice of each Underwriter to make a secondary market in the bond issues that it underwrites. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular bond issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon their prevailing circumstances. Such prices could be substantially lower than the original purchase price. There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold for any particular price. Accordingly, purchasers of the Bonds should be prepared to have their funds committed until the Bonds mature.

Additional Debt

The Regulatory Agreement permits the issuance of additional indebtedness secured equally and ratably with the Bonds. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Regulatory Agreement – Limitations on Indebtedness" and " – Parity Debt." While the Regulatory Agreement permits the Corporation to incur such parity debt only if certain financial and other requirements are met, such indebtedness would increase debt service requirements, reduce Bondholders' interest in the collateral securing the Bonds and could adversely affect debt service coverage on the Bonds.

Licensing, Surveys, Facility Inspections and Audits

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

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

Tax-Exempt Status

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

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

In 1996, the President signed into law the "Taxpayer Bill of Rights 2" which includes sanctions for certain "disqualified persons" and exempt organization managers who participate in transactions which result in excess benefit to the disqualified persons. While these intermediate sanctions now provide the Internal Revenue Service with enforcement options in addition to revocation of an organization's tax-exempt status in certain inurement-related transactions, revocation is still available to the Internal Revenue Service. The Internal Revenue Service has not frequently revoked the section 501(c)(3) tax-exempt status of nonprofit healthcare service type corporations in the past; however, until the regulations are implemented by the Internal Revenue Service regarding its intermediate sanctions authority and there is experience with those regulations, there can be no assurance that the Internal Revenue Service will not use the revocation penalty in the future or that it will not direct such enforcement action at the Corporation. Loss of tax-exempt status by the Corporation would result in loss of the exclusion from federal gross income of the interest received with respect to the Bonds and defaults in covenants regarding the Bonds would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation.

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

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

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

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

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

Bankruptcy Considerations

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

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

Affiliation, Merger, Acquisition and Divestiture

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

Claims and Insurance Coverage

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

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

The Corporation currently has comprehensive professional and general liability insurance coverage through commercial insurers with a maximum policy amount (inclusive of excess coverage) of up to $2 million per occurrence with an annual aggregate limitation of $4 million in the case of professional liability and $1 million per occurrence with an aggregate limitation of $3 million in the case of general liability. While the Corporation's management considers such insurance coverage to be adequate, no assurances can be given that the maintenance of such coverage will continue to be financially feasible for the Corporation in the future. The Corporation's insurance does not cover punitive damages. To date, the Corporation has never had to pay any punitive damage claim.

Environmental Laws and Regulations

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

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

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

Other Factors

Additional factors which may affect future operations, and therefore revenues, of the Corporation include the following, among others:

- Increased efforts by insurers, private employers and governmental agencies to limit the cost of social services.
- Cost increases without corresponding increases in revenue.
- The ability of, and costs to, the Corporation to insure or otherwise protect itself against professional and general liability claims.
- Shortages of social services professionals.
- Employee strikes, other adverse labor actions or disputes.
- Decreases in population within the service areas of the Corporation.
- Acts of terror.

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 or threatened 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 Corporation

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

TAX MATTERS

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

APPROVAL OF LEGALITY

Legal matters incident to the delivery of the Bonds are subject to the approving opinion of Quint & Thimmig, LLP, San Francisco, California, as Bond Counsel. Certain matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California. Certain legal matters will be passed upon for the Corporation by Delay & Laredo, Pacific Grove, California, as Corporation Counsel, and by Jennings, Strouss & Salmon, P.L.C., Phoenix, Arizona, as Disclosure Counsel to the Corporation. Certain legal matters will be passed upon for the Office by its counsel. Certain fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

RATING

Standard & Poor's Rating Services ("S&P"), has assigned its municipal bond rating of "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 State of California. Any explanation of the significance of such rating may only be obtained from S&P. The Corporation furnished to the rating agency certain information and material concerning the Bonds and itself. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the rating mentioned above will remain in effect for any given period of time or that it might not be lowered or withdrawn entirely by the rating agency, if, in its judgment, circumstances so warrant. The Corporation and the Underwriters have undertaken no responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds. Under the Corporation's continuing disclosure undertaking it will report to the Municipal Securities Rulemaking Board any material lowering or withdrawal of the rating on the Bonds. See "CONTINUING DISCLOSURE" below.

UNDERWRITING

The Bonds are being purchased by the Underwriters identified on the cover of this Official Statement (the "Underwriters") at a purchase price of $2,890,974.10 (representing the aggregate principal amount of the Bonds, less a net original issue discount in the amount of $1,362.20, and less an Underwriters' discount in the amount of $17,663.70). The Bond Purchase Contract provides that the Underwriters will purchase all of the Bonds, if any are purchased, and contains the agreement of the Corporation to indemnify the Underwriters against certain liabilities to the extent permitted by law. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract.

The Underwriters 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 Underwriters.

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

FEASIBILITY STUDY

Harrington Group Certified Public Accountants, LLP, San Marino, California, has prepared the Feasibility Study relating to the Corporation's operations. The Feasibility Study is included in APPENDIX F to this Official Statement and is subject to the limitations and conditions contained therein.

THE TRUSTEE

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

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

CONTINUING DISCLOSURE

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

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

Kinship Center
124 River Road
Salinas, CA 93908
Attention: Executive Director

The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Corporation has had no previous undertaking with regard to the Rule to provide annual reports or notices of material events.

MISCELLANEOUS

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

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

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS

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

APPROVED:

KINSHIP CENTER

By: /s/ Ann F. Hasselbach
Director of Finance

APPENDIX A

INFORMATION CONCERNING THE CORPORATION

The information contained in this Appendix A has been obtained from Kinship Center.

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KINSHIP CENTER

BACKGROUND

Kinship Center (the "Corporation"), a California nonprofit public benefit corporation, is dedicated to supporting the creation and preservation of foster, adoptive and relative families for children who need them. It accomplishes this goal by providing services to children, families and professionals through child development and mental health clinics, adoption and foster family care; parent and professional education; and special services for adoptive and relative caregiver families. It is dedicated to developing and supporting successful permanent families for foster children with identified special needs, such as medical, developmental, educational and mental health challenges; sibling groups that need to be kept together; and adolescents who would otherwise be in group care. Services to regional center eligible children, such as those with medical or developmental disabilities may include short or long-term family based care, guardianship or adoption. Specialized clinic-based mental health services for adoptive children, children being raised by relatives, and their families are offered to families with children at risk of out-of-home placement, with the goal of keeping the family together. In addition, a specialized program for relative caregivers provides health-related case management, support groups, family recreation, emergency services and referrals to various agencies for needed community resources.

The Corporation's facilities are located in the cities of Salinas, Monterey, Santa Ana, Hollister, San Jose, Pasadena and Redlands with its headquarters facility located within unincorporated Monterey County. All facilities are leased by the Corporation with the exception of its corporate headquarters facility, a 27,000 square foot building located just outside the city of Salinas, in Monterey County. The Corporation's primary service areas include the Counties of Monterey and Orange (approximately 85% of the Corporation's clients originate from its primary service area). The current estimated population of permanent residents living within the Corporation's primary service area is approximately 3.5 million.

The Corporation began operations in Monterey County in 1984. At that time, the primary focus was to provide child placement through adoption and foster family care, parent education and post placement and post adoption services to families and children. In 1986, licensing was expanded into San Benito County and by 1988 the agency was licensed statewide for adoption and foster family services. In 1993, program services in child placement and professional education services were expanded to Southern California. Monterey County Behavioral Health licensed the Corporation for EPSDT (Early Periodic Screening Diagnosis and Treatment) mental health services in 1995. In 1999 and 2000, branch offices for child placement services were opened in Pasadena (Los Angeles County) and Redlands (San Bernardino County). An office for adoptive family wraparound services for Santa Clara County was opened in San Jose in 2000. Also in 2000, the Corporation was licensed in Orange County for its first child outpatient mental health clinic that has operated continuously there since that date and serves approximately 200 children per week. With the opening of the headquarters building in 2003, the agency's Education Institute took on new proportions because of the large education center, audiovisual capabilities, and filming capacities that are in the new building. The education programs are funded primarily through grants from Ronald McDonald House Charities, Stuart Foundation, training fees, and various contracts for consultation and training. The Corporation's second outpatient mental health clinic was licensed by Monterey County in July 2004, which clinic is also located at the Corporation's headquarters facility. For the fiscal year ended June 30, 2005, more than 1,200 children were served statewide by the Corporation.

The Corporation has received numerous awards for its work, including two awards from the United States Department of Health and Human Services for services to adoptive families. One of these awards specifically cited the work of the Adoption Specialty Mental Health Clinics in Southern California, and the other cited regional post-adoption services provided in Monterey, Santa Clara, Santa Cruz and San Mateo Counties. The Children and Families Commission of Orange County recognized the clinics in 2002 and 2003 as a "distinguished grantee." Three national publications have reported on the agency's work as well, Bridges, American Humane Association, and the National Technical Assistance Center for Children's Mental Health, Georgetown University Center for

Child and Human Development. ("A View from the Child Welfare System: Promising Approaches for Behavioral Health Services to Children and Adolescents and their Families in Managed Care Systems.")

CORPORATE GOVERNANCE

The Corporation is governed by a Board of Directors (the "Board"), which consists of seventeen voting members. There are currently three vacancies on the Board. The term of an elected director is for a period of three years. The Board meets monthly unless special meetings of the Board are called.

The Board has overall responsibility for the operation and management of all affairs relating to the Corporation. The following table lists the members and officers of the Board as of October, 2005, their tenure on the Board and their respective occupations.

Name and Office	Occupation	Member Since
Amanda Gourley – President	Commercial Interior Designer	1998
Geoffrey LePlastrier – President Elect	Real Estate Developer	2000
Nicholas M. Pasculli – Vice President	Public Relations	2004
Richard Murninghan – Secretary & Treasurer	Community Leader and Retired Director of United Way	1999
Maria Osborne Anderson	Superior Court Judge	2004
Carsbia Anderson	College Administrator	2004
Linda Dorris	Real Estate Broker	1984
Sandra Haney	Board of Realtors Executive	2005
Melissa Larsen, M.D.	Ob-Gyn Physician	1998
Pat Miniaci Check	Retired Commercial Banker	1997
Anita Nasuto	Financial Consultant	2004
Judith Profeta	Real Estate Broker	2000
Robin Voet	Community Leader	2002
John Wilkinson	Agribusiness Broker	2004

Source: Corporation Records.

The Board has three standing committees: the Executive Committee, the Endowment Fund Investment Committee and the Audit Committee. The Corporation can appoint such other committees as may from time to time be designated by the Board.

MANAGEMENT

The Corporation's key administrative staff and a summary of biographical information for each are listed below:

Carol Biddle, MSW - Executive Director

Ms. Biddle is a co-founder of the Corporation and has held her present position since inception of the Corporation in 1984. Prior to that, she was the Director of the Monterey regional office for Children's Home Society (1982-1984), and served as a Senior Social Worker for the Los Angeles County Department of Adoptions (1975-1982). Previous to 1972, Ms. Biddle worked as a consultant for the Adoption Resource Center, Department of Health and Human Services in Los Angeles, California. She holds a Bachelor of Arts degree in Psychology and Social Work and a Masters degree in Social Work from the University of Georgia. She is affiliated with the Child Welfare League of America, the California Alliance for Child and Family Services (President Elect Board of Directors) and the California Association of Adoption Agencies. Ms Biddle received a congressional award in 2005 as an Angel in Adoption, nomination by Congressman Sam Farr (D-California).

Carol J. Bishop, MA, MFCC - Assistant Director

Ms. Bishop is a co-founder of the Corporation and has held her present position since 1996. She previously held the positions of Senior Social Worker (1984-1989), Program/Clinical Supervisor (1989-1996) and has worked as a social worker and program manager for County Social Service Departments and children's homes. She holds a Bachelor of Arts degree in Sociology from the University of Michigan, Ann Arbor, Michigan and a Master of Arts degree in Clinical Psychology from Antioch University, Yellow Springs, Ohio. Ms. Bishop is a licensed marriage, family and child counselor in the State of California, and is a member of the California Association of Marriage and Family Therapists. Currently, Ms. Bishop is secretary of the California Association of Adoption Agencies, serves on the Adoption Committee of the California Alliance for Child and Family Services, and is active in community programs that serve children.

Deborah N. Silverstein, MSW – Associate Director

Ms. Silverstein began her employment with the Corporation in 1998 as Program Manager for the Bridge Builders Program that provides pre- and post-adoption group education and counseling services. In 2000, she was the founding Director of The Adoption Clinic of Kinship Center in Orange County and has held her present position of Associate Director since 2002. She also has provided individual, marital, family and group psychotherapy in private practice for the past twenty-five years. Ms. Silverstein holds a Bachelor of Arts degree in Spanish from the University of Pennsylvania and a Masters Degree in Social Work from the University of Southern California. She is a licensed clinical social worker in the State of California and is a member of the Academy of Certified Social Workers of the National Association of Social Workers.

Ann F. Hasselbach, CPA – Finance Director & Business Manager

Ms. Hasselbach joined the Corporation in 2000, in her present position. Before joining the Corporation she was in private practice as a Certified Public Accountant in Salinas, California (1980-2000). Ms. Hasselbach has over thirty years of experience in public accounting preparing financial audits, tax returns and providing consulting services for a variety of governmental agencies, nonprofit corporations, for-profit corporations and individuals. Ms. Hasselbach holds a Bachelor of Science degree in Psychology from the University of San Francisco. She is a Certified Public Accountant in the State of California and is a member of the California Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Olivia B. Yates, EdD – Executive Director/Director of Development

Ms. Yates began her employment with the Corporation in July of 2005. Prior to joining the Corporation, she was Director of Advancement for the Salvation Army Crestmont College (1999-2005), Senior Development Officer for El Camino College (1995-1999), and Development/Public Relations Director for the Girl Scouts of Greater Long Beach (1991-1995). Ms. Yates holds a Bachelor of Fine Arts degree from Carnegie Mellon University, Pittsburgh, Pennsylvania, a Master of Public Administration degree from the University of Pittsburgh and a Doctorate degree in Education from Pepperdine University, Malibu, California. Ms Yates has an extensive background in major charitable gifts development.

EMPLOYEES AND PROFESSIONAL STAFF

As of August 1, 2005, the Corporation employed a total of approximately 93 full-time equivalent ("FTE") personnel. Of these employees, approximately 24 FTEs are licensed and unlicensed clinical social workers, approximately 4 FTEs are child assessment specialists, approximately 12 FTEs are family workers, approximately 16 FTEs are other professional, approximately 19 FTEs are management and executive staff, and approximately 18 FTE's are support staff. The Corporation also contracts with consultants to provide professional and clinical services where full-time employment is not economically feasible nor clinically warranted. During the most recent fiscal year, the Corporation contracted for the services of approximately 15 therapists, psychologists, psychiatrists and social workers.

None of the Corporation's employees are currently associated with any union or employed under the terms of a collective bargaining agreement and management of the Corporation is not aware of any union organizing activity at its facilities. Management believes that its working relationship with the Corporation's employees is excellent.

PROGRAMS AND FACILITIES

The Corporation offers a broad range of mental health services for children in addition to its specialized education programs. Services currently available from the Corporation include the following:

- Child developmental and mental health clinics,
- Parent and professional education,
- Foster family agency program and adoption services, and
- Special family services for adoptive and relative caregiver families.

Child Development and Mental Health Clinics

The Corporation's child development and mental health clinics provide specialty mental health services to adoptive children and those being raised by grandparents and other relatives. In addition to mental health treatment services, the clinics provide developmental and behavior screenings and treatment plans to remediate developmental lags, increase attachment, support the parenting process and diminish obstacles that would interfere with school readiness. During the fiscal year ended June 30, 2005, approximately 400 children received outpatient mental health services at EPSDT (Early Periodic Screening Diagnosis and Treatment) Medi-Cal funded clinics in Monterey and Orange Counties. The Monterey County clinic opened in July of 2004, and served approximately 100 children during its first year of operation. The Orange County (Santa Ana) clinic facility opened in 2000 as the first permanency-focused child mental health and child development outpatient program in the State and served approximately 300 children during the fiscal year ended June 30, 2005. Kinship Center has begun discussions with other California counties regarding opening a new outpatient mental health clinic that would serve approximately 200 children. Kinship Center has a restricted grant from The California Endowment to open a new children's mental health clinic somewhere in California by July 2006. The grant is in the amount of $409,000 and is restricted for start up funds. The California Endowment is strongly supportive of Kinship Center being able to replicate its specialty mental health clinic model in other California locations.

The Corporation's mental health clinics are certified by the counties they serve as outpatient Medi-Cal specialty mental health centers for two-year periods. Recertification reviews of programs and facilities are conducted by Monterey and Orange Counties once every two years near the conclusion of the prior certification period. The Santa Ana (Orange County) program is certified through March 17, 2006, and the Monterey County program is certified through June 30, 2006. The Corporation does not anticipate any difficulty in receiving recertification of its mental health programs in the future.

Parent and Professional Education

The Educational Institute of Kinship Center is a statewide educational institute that provides parent and professional educational programs from the Corporation's corporate offices in Monterey County. Over 1,500 families annually benefit from the Corporation's network of educational forums, conferences, parent support groups and counseling services. The Corporation's educational and model practice programs are regularly featured as conference forums and workshops at regional and national child welfare conferences. Its Adoption Clinical Training program is an intensive curriculum for clinicians and adoption professionals that has been provided since 1993 to over 3,000 mental health professionals in California, and is presently being taught nationally.

Foster Family Agency Program and Adoption Services

The Corporation's foster family agency program provides family-based foster care and treatment for neglected and abused children from birth to age 18 who are dependents of the juvenile court. The biological parents of children served by this program are not able to fulfill their responsibility to raise them safely to adulthood. Social workers in this program provide support and consultation to foster parents and coordinate the activities of treatment team members. Social workers are supported by a highly professional staff including a clinical supervisor, consulting psychologists and child psychiatrists. Children are placed in homes located in both rural and urban settings in the greater communities in Monterey, Santa Clara, Santa Cruz, San Benito, Los Angeles, San Bernardino, and Orange Counties. Foster children who are adopted may have a variety of special needs as a result of neglect, abuse, drug exposure, abandonment, and/or having experienced multiple foster placements. Over 90,000 California children require protection, as directed from juvenile courts and public social agencies.

The Corporation specializes in developing permanent families for California's foster children and youth who are awaiting a permanent family. During the past year 61 foster children were placed with permanent families. In addition, the Corporation's license as a full service adoption program allows the adoption services to include pregnancy counseling and infant adoption placements through voluntary relinquishment of the child by the child's birth parents for adoption. An infant adoption program exists in Northern and Southern California. Families adopting infants pay fees for service for their adoptions. Special needs families do not pay fees, but the agency's expenses in the development and placement of these families is reimbursed by the State Private Adoption Agency Reimbursement Program (PAARP) at the rate of $5,000 per placement. Additionally, Kinship Center assists various county child welfare agencies by conducting family adoption studies for families who already have a dependent foster child in their home, or relatives who are seeking adoption of a court dependent relative child. The costs of these services are also reimbursed by the PAARP program. On average, Kinship Center is reimbursed at a rate of $555,000 annually for PAARP and $396, 000 for client adoption fees.

STAR is a special foster family program for children with serious developmental disabilities and medical requirements who would otherwise be housed in hospitals or institutions.

Special Family Services for Adoptive and Relative Caregiver Families

The Corporation provides health funded (Target Case Management) services through Medi-Cal billing with the Monterey County Health Department. These services are provided at the Corporation's corporate offices in Monterey County and at client's residences. Generally children served by this essential program are residing with relatives, usually grandparents, who would likely be placed in foster care if the program were not available. In addition, the relative caregiver program provides support, services and recreation assisting low and fixed income relatives who are raising children because of abandonment, neglect or abuse by their parents.

The Adoptive Family Wraparound project is a State pilot program in Monterey and Santa Clara Counties that provides extensive community based services to adoptive families that are in crisis, preventing possible disruption and placement of the child outside the home. Financial support for the wraparound programs is provided through State Adoption Assistance Program (AAP) funding with the current monthly rate per child ranging from $5,046 to $5,997.

HISTORICAL UTILIZATION OF THE CORPORATION'S FACILITIES

The Corporation's clinical and service operations consist primarily of children's mental health and related family services. Revenue generating units of service in the Corporation's child development and mental health clinic programs are measured in terms of treatment hours. Utilization of the Corporation's foster family agency program is measured in terms of days in care and utilization of special needs and dependent relative adoption assistance (PAARP) is measured by the number of placements and finalizations. Utilization of infant adoption services is measured in terms of the number of finalized adoptions, utilization of adoption home study fees for independent or intercountry adoptions is measured in terms of number of home studies. Utilization of wrap-around services is measured in terms of months in care. The relative caregiver program utilization is measured by the number of billable encounters for Targeted Case Management Funding and number of cases for the other funding sources. Parent and professional education programs are measured by days of training.

Historical utilization data for the Corporation's child development and mental health clinics, parent and professional education, foster family and adoption services programs are shown for the Corporation's fiscal years ending June 30, 2003 through 2005, in the table presented below.

	Fiscal Year Ended June 30		
	2003	2004	2005
Child Development & Mental Health Clinics (hours)	15,903	14,895	19,985
Foster Care (days)	31,492	39,472	31,620
Special Needs & Dependent Relative Adoption Assistance (placements)	176	188	222
Infant Adoption (adoptions)	39	35	42
Adoption Home Study Fees (home studies)	36	58	74
Wrap-Around Programs (months in care)	139	163	223
Relative Caregiver Targeted Case Management (encounters)	0	612	772
Relative Caregiver Other Services (cases)	258	262	280
Parent & Professional Education Programs (days)	18	60	21

Source: Corporation Records.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the Statement of Activities of the Corporation for the years ended June 30, 2003, 2004 and 2005, derived from its audited financial statements. This summary should be read in conjunction with the audited financial statements and notes for the years 2004 and 2005 appearing in Appendix B to this Official Statement. The summary of the Statement of Activities of the Corporation for the six-month periods ended December 31, 2004 and December 31, 2005, are unaudited, but include all adjustments which, in the opinion of management, are necessary to present such information in conformity with generally accepted accounting principles. The statement of activities for the six months ended December 31, 2005, are not necessarily indicative of the operating results to be expected for the fiscal year ending June 30, 2006.

SUMMARY STATEMENT OF ACTIVITIES

	Fiscal Year Ended June 30			Six Months Ended December 31	
	2003 (audited)	2004 (audited)	2005 (audited)	2004 (unaudited)	2005 (unaudited)
Revenue and Support:					
Government contracts	$5,526,640	$5,842,000	$6,672,964	$3,159,579	$3,660,238
Contributions	420,452	1,317,214	467,759	235,695	446,953
Program service fees	498,002	678,020	539,248	235,023	308,922
Special events	30,413	138,507	119,091	68,415	64,198
In-kind contributions	33,178	86,759	83,128	40,690	21,534
Auxiliary and guild revenue	95,001	79,841	96,086	79,825	78,273
Interest and dividends	29,137	17,471	10,124	5,097	3,703
Other revenues, gains and losses	85,434	54,669	54,908	1,508	32,228
Total Revenue and Support	6,718,257	8,214,481	8,043,308	3,825,832	4,616,049
Expenses:					
Program services	6,467,029	7,203,114	8,120,456	3,960,111	4,247,565
Support services	374,388	384,662	455,245	232,171	293,361
Total Expenses	6,841,417	7,587,776	8,575,701	4,192,282	4,540,926
Change in Net Assets	(123,160)	626,705	(532,393)	(366,450)	75,123
Net Assets, Beginning of Year	5,146,066	5,022,906	5,649,611	5,649,611	5,117,218
Net Assets, End of Year	$5,022,906	$5,649,611	$5,117,218	$5,283,161	$5,192,341

Source: Audited and unaudited financial statements of the Corporation.

Outstanding Indebtedness

The Corporation has a $500,000 line of credit provided by First National Bank, secured by accounts receivable and equipment, which line is outstanding in the amount of $460,500, as of September 30, 2005. Payments of interest are made on a monthly basis, while principal payments are made when collections of account receivables allow for a reduction in the line of credit. Interest accrues on the line of credit at prime plus 1.00%, currently 8.25%. The Corporation also has several notes payable to various lending institutions, secured by automobiles and real property, at interest rates ranging from 1.90% to 6.75%, which notes are now outstanding in the aggregate principal amount of $250,323. All notes require monthly payments of principal and interest on a monthly basis and are due and payable in June 2008 and June 2009 with respect to auto loans and June 2011 with respect to the real property loan.

Management's Discussion of Recent Financial Performance

Looking at the summary statements of activities, the Corporation's recent financial performance appears to be volatile, with high income years followed by loss years. This volatility is mostly due to timing issues regarding restricted donations. Because these are summary statements, they do not show the breakdown between unrestricted, temporarily restricted and permanently restricted activities that are shown in the audited statements. Please refer to the audited statements included herein.

Unrestricted activity is essentially the general operations of the Corporation. Non-donation revenue (contracts, fees paid directly by clients, etc.) and donations that do not have any donor restrictions are recorded as unrestricted. All expenses are recorded as unrestricted. If a grantee (a Foundation or an individual) makes a grant or donation to the Corporation but restricts the use of those funds to a specific purpose or program, those funds are recorded as temporarily restricted income. If the restricted income is not used in the same fiscal year as when it was received, this temporarily restricted income will not impact the unrestricted operating results but contributes to the net income of the organization in the year received. In the following year when the temporarily restricted funds are used, the related expenses are recorded as unrestricted expenses, and the restricted funds used to cover those expenses are deducted from the temporarily restricted funds and added to the unrestricted funds, This allows the unrestricted operating column to match the grant and donation funds used to the expenses incurred. But the temporarily restricted column is reduced because the funds were used. If there were no new temporarily restricted funds received, the overall financial statement would show a net loss for the year.

The fiscal year ended June 30, 2003 statement of activities shows a $123,160 net loss. But looking at the audited statement of activities, the unrestricted operating column shows a $547,657 net income, but the temporarily restricted column shows a $671,917 loss because more restricted funds were used than were received in that year. The fiscal year ended June 30, 2005 statement shows a similar situation – a $54,770 unrestricted net income offset by a temporarily restricted "loss" of $587,222 due to using more restricted funds than were received in that year. The fiscal year ended June 30, 2004 statement shows a $601,444 unrestricted net income plus a temporarily restricted net income of $25,206 (here more restricted donations were received during the year than were used).

Thus, the Corporation has generated an operating profit in each of the past three years. The overall Corporation losses in the two years were caused by using more restricted grants and donations than were received in those years. These excess restricted grants and donations used had been received in a prior year for a specific use that carried into the next fiscal year.

A review of the revenue categories over the past three years shows government contracts increasing each year as a new mental clinic and a new wrap-around program opened and expanded in the Corporation's Monterey County facility. Contributions were up and down, but the large increase in fiscal year 2003-04 was due to restricted donations. Unrestricted donations went from $52,000 in fiscal year 2002-03 to $48,000 in fiscal year 2003-04 to $98,000 in fiscal year 2004-05. The increase in fiscal year 2004-05 was due to increasing the annual appeal mailings from one per year to four per year. The $139,000 decline in program service fees was mainly due to a $108,000 decrease in adoption fees, and a one-year $25,000 recruitment grant in fiscal year 2003-04 that was not there in the following year. The adoption fee decline had two main causes. The contract social worker who does adoption home studies for attorney-sponsored adoptions was out for several months in 2004-05 with an extended illness which resulted in a decrease in billings of over $80,000. She is now fully recovered and her billings are back to her pre-illness levels. Secondly, a thorough review of the adoption fee receivables was done in 2004-2005, which resulted in over $25,000 of write-offs of incorrectly billed or uncollectible fees. These billings are being monitored much more closely and future write-offs of that magnitude are not expected. Excluding contributions, overall income increased from $6,297,805 in fiscal year 2002-03, to $6,897,267 in fiscal year 2003-04 (9.5% increase), to $7,575,549 in fiscal year 2004-05 (9.8% increase).

Expenses have increased at a slightly more rapid pace: 10.9% from fiscal year 2002-03 to fiscal year 2003-04 and 13% from fiscal year 2003-04 to fiscal year 2004-05. New and expanding programs, especially the new mental health clinic, had start-up expenses larger than revenue (partially offset by donations restricted for those programs). Additionally, as the Corporation has continued to expand its programs and services, increases in administrative functions that support those programs were required in advance of full utilization of the new and expanded programs.

The financial performance of the last three years shows the Corporation to be a growing organization that is actively seeking program opportunities to enhance its services to children needing families, particularly in the areas of mental health and post-adoption services. These new program opportunities are contracts that not only cover all direct costs, but also contribute to the coverage of administrative overhead costs. Additionally, historical success in generating fund raising dollars shows that the Corporation is consistently able to generate contribution income, both unrestricted and restricted, for its programs and services. With a new development director and a revised development plan to increase fund raising income, a strong management team dedicated to the fiscal well-being of the Corporation, and continued expansion of programs that are fiscally sound and consistent with the Corporation's mission, the Corporation is a strong, viable organization.

Sources of Revenues

The largest percentage of the Corporation's revenues (approximately 70%) has historically been generated through government contracts and grants. Primary third-party payors include the State, Monterey and Orange Counties for foster care, mental health, adoption and post-adoption services. The Corporation receives funding from the State, the Counties of Monterey and Orange and the federal government in connection with the Short-Doyle/Medi-Cal program for its outpatient treatment programs. Approximately 8% of revenue is also generated by clients through the direct payment of program service fees, primarily for adoption services and educational training fees. The Corporation also receives between 10% and 20% of its revenues through contributions and special events. A very successful capital campaign generated approximately $4,485,000 towards the construction and equipping of the Corporation's corporate center, and active participation from auxiliaries, fundraising and public relations events are important contributors to the ongoing financial success of the Corporation. A summary of the Corporation's revenues by payor source for the years ended June 30, 2003 through 2005, is set forth in the following table.

	Fiscal Year Ended June 30		
	2003	2004	2005
Government Contracts & Grants:			
Mental Health	24%	20%	31%
Post-Adoption Assistance	11	10	13
Relative Caregiver Assistance	7	5	6
Foster Family	27	26	22
Adoption Assistance	6	6	7
Regional Center Services & Kincamp	6	4	4
Program Service Fees	7	8	7
Contributions, Special Events & Other	12	21	10
Total	100%	100%	100%

Source: Corporation Records.

A majority of the Corporation's operating revenues are derived from a combination of federal, state and local government programs. These programs include mental health services for children, targeted case management for relative caregivers, foster family agency program, and adoption agency program.

Mental Health Services

The Corporation is certified as a Medi-Cal Clinic. Funding under this program is provided by Short-Doyle Medi-Cal and is 50% state, local, and county and 50% federal.

Targeted Case Management for Relative Caregivers

Funding under this program is provided by Short-Doyle Medi-Cal and is 50% state and 50% federal.

Other Relative Caregiver Program Support

The Corporation has a contract with Monterey County to provide other services to relative caregivers. These services are funded through KSSP (Kinship Support Services Program), PSSF (Promoting Safe & Stable Families), County Child Welfare Funds, CBFRS/CAPIT (Child Abuse Prevention Funding) and AAA (Area Agency on Aging).

Foster Family Agency

The Corporation's Foster Family Agency program is funded through AFDC-FC. This system pays foster parents in whose home the children reside, the social work services provided by the Corporation and a fee for administration of the program.

Adoption Assistance

PAARP reimburses the Corporation for the pre-placement and post-finalization adoption social work activities for families adopting special needs children who do not pay any adoption fees.

Post-Adoption Assistance

The Corporation has contracts with Monterey and Santa Clara Counties to provide post-adoption services including wrap-around services to adoptive families.

LICENSURE, CERTIFICATIONS AND ASSOCIATIONS

The Corporation's foster family agency program is licensed for child placement services by the State Department of Social Services, Community Care Licensing Division. The Corporation's mental health clinics are certified by the Monterey County Department of Behavioral Health and the Orange County Health Care Agency.

The Corporation is accredited by the California Alliance of Child and Family Services. The Corporation is a member of the Child Welfare League of America, Voice for Adoption, North American Council on Adoptable Children, California Association of Adoption Agencies, and the California Alliance of Child and Family Services.

COMPETITION AND SERVICE AREA CHARACTERISTICS

Management of the Corporation defines its primary service area as Monterey and Orange Counties. The Corporation is one of the oldest, largest, and most comprehensive nonprofit provider of behavior health services to children and adolescents in Monterey County. There currently exist no mental health care providers in the Corporation's primary service area that are similar to the Corporation in terms of size, overall organizational structure, or service complement. However, there are various facilities in the Corporation's service area that offer one or more of the same services offered by the Corporation.

Increased competition from a wide variety of potential sources, including, but not limited to, group homes and out-patient behavioral health care facilities, clinics, behavioral healthcare professionals, and others, could adversely affect the utilization and/or revenues of the Corporation. Competition may, in the future, arise from new sources not currently anticipated or prevalent. Further competition for the Corporation's clients and funding sources may also arise as a result of changes in the funding mechanisms for behavioral health services, including managed care. For a further discussion of the possible effects of managed care initiatives on the Corporation's programs, see the "Bondholders' Risks -- Dependence Upon Government Funding and Federal and State, Local Legislation, Regulations, and Other Actions" in the body of this Official Statement.

INSURANCE CONSIDERATIONS

The Corporation currently carries professional, commercial, general and employee benefits liability insurance insuring all its employees, while acting within the scope of their duties, against professional malpractice and personal injury and property damages for losses up to $4,000,000 in the aggregate and $2,000,000 for each claim in the case of professional liability and $3,000,000 in the aggregate and $1,000,000 for each claim in the case of general liability. The insurance is contracted with United National Insurance Company. The current policy expires in December 2006. The Corporation also carries directors and officers liability insurance up to an annual aggregate limit of $1,000,000 through US Specialty Insurance Company. The Corporation does not carry earthquake insurance with coverage of its facilities.

The Corporation does not currently have pending any medical malpractice or professional liability claims or lawsuits for compensatory damages. In accordance with California law, any claims for exemplary damages are not covered by insurance. There are no medical malpractice or professional liability claims pending against the Corporation which seek exemplary damages.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CORPORATION

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Harrington Group
Certified Public Accountants, LLP

J. Joseph Harrington
Job M. Quesada
Sean E. Cain
Tonetta L. Conner

KINSHIP CENTER

FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE, and ADDITIONAL INFORMATION

JUNE 30, 2005

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CONTENTS

Harrington Group
Certified Public Accountants, LLP

J. Joseph Harrington
Job M. Quesada
Sean E. Cain
Tonetta L. Conner

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kinship Center

We have audited the accompanying Statement of Financial Position of Kinship Center (a nonprofit organization) as of June 30, 2005 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 Kinship Center's June 30, 2004 financial statements and, in our report dated August 20, 2004 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 Kinship Center as of June 30, 2005, 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 September 2, 2005 on our consideration of Kinship Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal and Nonfederal 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 Nonprofit 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 whole.

Signature on file

September 2, 2005

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KINSHIP CENTER

STATEMENT OF FINANCIAL POSITION
June 30, 2005
With comparative totals at June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005	2004
Assets					
Cash and cash equivalents (Note 2)	$ 142,601	$ 737,778	$ 3,150	**$ 883,529**	$ 1,664,202
Accounts receivable - net of allowance of $6,325	1,257,464			**1,257,464**	862,160
Pledges receivable (Note 3)		318,614		**318,614**	442,223
Prepaid expenses and deposits	188,158			**188,158**	173,909
Donated artwork	93,750			**93,750**	70,300
Investments (Note 4)	10,761			**10,761**	10,396
Property and equipment (Note 5)	6,263,541			**6,263,541**	6,424,003
Total assets	$ 7,956,275	$ 1,056,392	$ 3,150	**$ 9,015,817**	$ 9,647,193
Liabilities and net assets					
Liabilities					
Accounts payable	$ 302,814	$ -	$ -	**$ 302,814**	$ 353,548
Accrued liabilities (Note 6)	289,600			**289,600**	236,556
Deferred revenue (Note 7)	176,505			**176,505**	95,717
Line of credit (Note 8)	375,000			**375,000**	205,000
Notes payable (Note 9)	2,754,680			**2,754,680**	3,106,761
Total liabilities	3,898,599	-	-	**3,898,599**	3,997,582
Net assets					
Unrestricted - undesignated	4,007,318			**4,007,318**	3,889,764
Unrestricted - board designated (Note 2)	50,358			**50,358**	113,133
Temporarily restricted (Note 11)		1,056,392		**1,056,392**	1,643,614
Permanently restricted (Note 12)			3,150	**3,150**	3,100
Total net assets	4,057,676	1,056,392	3,150	**5,117,218**	5,649,611
Total liabilities and net assets	$ 7,956,275	$ 1,056,392	$ 3,150	**$ 9,015,817**	$ 9,647,193

The accompanying notes are an integral part of these financial statements.

KINSHIP CENTER

STATEMENT OF ACTIVITIES
For the year ended June 30, 2005
With comparative totals for the year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005	2004
Revenue and support					
Government contracts (Note 13)	$ 6,672,964	$ -	$ -	**$ 6,672,964**	$ 5,842,000
Program service fees (Note 14)	539,248			**539,248**	678,020
Contributions	106,427	358,416	50	**464,893**	1,317,214
Special events (net of expenses of $56,041)	119,091			**119,091**	138,507
Auxilliary and guild revenue	96,086			**96,086**	79,841
In-kind contributions	59,294	26,700		**85,994**	86,759
Other revenue	37,088			**37,088**	64,160
Change in carrying value of pledges receivable		17,809		**17,809**	(7,004)
Interest and dividends	7,002	3,122		**10,124**	17,471
Gain on investments	171	(160)		**11**	576
Loss on disposal of equipment				**-**	(3,063)
Net assets released from capital restrictions	633,800	(633,800)		**-**	-
Net assets released from program restrictions	359,309	(359,309)		**-**	-
Total revenue and support	8,630,480	(587,222)	50	**8,043,308**	8,214,481
Expenses					
Program services	8,120,456			**8,120,456**	7,203,114
Support services	455,245			**455,245**	384,662
Total expenses	8,575,701	-	-	**8,575,701**	7,587,776
Change in net assets	54,779	(587,222)	50	**(532,393)**	626,705
Net assets, beginning of year	4,002,897	1,643,614	3,100	**5,649,611**	5,022,906
Net assets, end of year	$ 4,057,676	$ 1,056,392	$ 3,150	**$ 5,117,218**	$ 5,649,611

The accompanying notes are an integral part of these financial statements.

KINSHIP CENTER

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2005
With comparative totals for the year ended June 30, 2004

	Program Services							Support Services			Total Expenses	
	Adoption	Foster Care	Medically Fragile Foster Care	Child Mental Health and Developmental Programs	Special Family Services	Education Institute and Student Support	Total Program Services	Management and General	Fundraising	Total Support Services	2005	2004
Salaries and benefits	$ 604,112	$ 669,562	$ 20,133	$ 1,485,925	$ 857,041	$ 259,185	$ 3,895,958	$ 666,172	$ 75,968	$ 742,140	**$ 4,638,098**	$ 4,093,511
Total personnel costs	604,112	669,562	20,133	1,485,925	857,041	259,185	3,895,958	666,172	75,968	742,140	**4,638,098**	4,093,511
Foster parent payments		759,872	79,507		63,804		903,183			-	**903,183**	974,502
Occupancy expenses	68,956	71,799	2,271	283,104	110,283	55,039	591,452	55,685	5,225	60,910	**652,362**	627,156
Professional services - program	114,689	26,010		203,224	4,467	82,706	431,096			-	**431,096**	367,118
Special client services	4,005	19,269	6,978	19,974	275,533	4,156	329,915			-	**329,915**	219,909
Equipment expenses, repairs, and leases	20,511	20,747	525	66,298	18,328	100,661	227,070	39,591	3,390	42,981	**270,051**	155,278
Depreciation	14,547	33,438	1,452	31,705	12,593	27,609	121,344	89,043	3,839	92,882	**214,226**	198,476
Professional services - admininstration				23,711	4,679	1,250	29,640	62,717	86,046	148,763	**178,403**	111,818
Travel and vehicle expense	26,123	38,317	1,045	23,916	49,741	13,324	152,466	15,053	1,062	16,115	**168,581**	160,414
Supplies, software, printing, and postage	21,725	18,911	416	34,305	25,002	32,454	132,813	6,358	5,873	12,231	**145,044**	143,455
Phone, internet, and cell phones	17,610	24,898	381	27,226	29,833	5,140	105,088	18,226	1,738	19,964	**125,052**	111,187
Other expenses	6,305	12,616	332	13,143	10,568	26,354	69,318	36,912	13,610	50,522	**119,840**	122,421
Insurance	19,567	22,858	423	21,192	19,456	3,943	87,439	26,363	1,625	27,988	**115,427**	106,806
Curriculum development						64,511	64,511			-	**64,511**	2,515
Fundraising expenses				228			228		48,939	48,939	**49,167**	36,994
Employee training and conference	1,175	4,452	23	5,624	8,453	9,556	29,283	22,353	2	22,355	**51,638**	35,587
Advertising	14,930	11,223	168	1,077	4,311	361	32,070	1,873	286	2,159	**34,229**	34,224
Interest							-	31,152		31,152	**31,152**	20,116
Parent recruitment		25,082					25,082			-	**25,082**	33,118
Memberships and licenses	306	1,708	13	40	62	22	2,151	17,847	151	17,998	**20,149**	17,770
Library and subscriptions	1,289	1,011	22	2,564	582	930	6,398	1,630	267	1,897	**8,295**	6,203
Education support and scholarships						200	200			-	**200**	9,198
Total expenses before allocation of management and general expenses	935,850	1,761,773	113,689	2,243,256	1,494,736	687,401	7,236,705	1,090,975	248,021	1,338,996	8,575,701	7,587,776
Allocation of management and general	139,349	235,937	13,365	269,620	161,964	63,516	883,751	(910,895)	27,144	(883,751)	-	-
Total 2005 functional expenses	**$ 1,075,199**	**$ 1,997,710**	**$ 127,054**	**$ 2,512,876**	**$ 1,656,700**	**$ 750,917**	**$ 8,120,456**	**$ 180,080**	**$ 275,165**	**$ 455,245**	**$ 8,575,701**	
Total 2004 functional expenses	$ 1,026,816	$ 2,254,642	$ 84,779	$ 1,836,728	$ 1,670,554	$ 329,595	$ 7,203,114	$ 222,816	$ 161,846	$ 384,662		$ 7,587,776

KINSHIP CENTER

STATEMENT OF CASH FLOWS

For the year ended June 30, 2005

With comparative totals for the year ended June 30, 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	$ (532,393)	$ 626,705
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	214,226	198,476
Loss on sale of property and equipment	-	3,063
Change in carrying value of pledges receivables	(17,809)	7,004
Change in value of allowance of doubtful account	(2,000)	-
(Gain) on investments	(11)	(576)
Reinvested investment income	(354)	-
Donated artwork	(23,450)	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(393,304)	157,800
(Increase) decrease in pledges receivable	141,418	(139,765)
(Increase) decrease in prepaid expenses	(14,249)	62,464
(Decrease) in accounts payable	(50,734)	(508,214)
Increase in accrued liabilities	53,044	74,806
Increase (decrease) in deferred revenue	80,788	(182,028)
Net cash provided (used) by operating activities	(544,828)	299,735
Cash flows from investing activities:		
Purchase of property and equipment	(53,764)	(283,397)
Net cash (used) by investing activities	(53,764)	(283,397)
Cash flows from financing activities:		
Proceeds from line of credit	1,605,000	845,000
Principal payments on lines of credit	(1,435,000)	(840,000)
Principal payments on notes payable	(364,437)	(379,989)
Proceeds from new borrowings on notes payable	12,356	504,857
Net cash provided (used) by financing activities	(182,081)	129,868
Net increase (decrease) in cash and cash equivalents	(780,673)	146,206
Cash and cash equivalents, beginning of year	1,664,202	1,517,996
Cash and cash equivalents, end of year	$ 883,529	$ 1,664,202
Supplemental disclosure:		
Operating activities reflects interest paid of:	$ 166,846	$ 156,218
Non-cash investing and financing transaction:		
Refinance of construction line of credit with note payable	$ -	$ 2,749,019

The accompanying notes are an integral part of these financial statements.

1. Organization

Kinship Center is a non-profit, community benefit organization incorporated in 1984, licensed statewide for child placement services by the California Department of Social Services, Community Care Licensing Division, licensed by Orange County Health Care Agency and Monterey County Health Department for delivery of mental health services, and accredited by the California Alliance of Children and Family Services. The mission of Kinship Center is to support the creation and preservation of foster, adoptive, and relative caregiver families for children who need them. Headquartered in Monterey County, Kinship Center is a multi-faceted organization with service sites in Monterey, Orange, Santa Clara, San Benito, San Bernardino, and Los Angeles Counties.

Kinship Center is dedicated to developing and supporting successful permanent families for foster children with identified special needs, such as medical, developmental, educational, and mental health challenges. Adoption placement programs are dedicated to adoptive parent recruitment, training, and support for California's foster children who are in need of permanent families. In addition to the special needs adoption programs, pregnancy counseling, infant adoption services, and international adoption services are provided.

Foster family child placement programs develop and support family-based care for children with identified special needs, such as medical, developmental, educational, and mental health challenges; sibling groups that need to be kept together; and adolescents who would otherwise be in group care. Permanence though adoption is often the ultimate goal, but transition to healthy adulthood may also be the outcome.

Services to regional center eligible children, such as those with medical or developmental disabilities, may include short or long-term family based care, guardianship, or adoption. Enhanced services are also available to this very special population.

Specialized clinic-based mental health services for adoptive children, children being raised by relatives, and their families are offered in Orange County and Monterey County. Therapy is family based and multidisciplinary.

Kinship Center operates the State pilot project for "wraparound" care for post-adoptive families in crisis in Santa Clara County. Beginning in October 2003, Kinship Center began offering "wraparound" care for post-adoptive families in Monterey County as well. These services are provided to families with children at risk of out-of-home placement, with the goal of keeping the family together.

In Monterey County, Kinship Center operates a contract program serving several hundred relative caregivers and their children. Referral to community resources, support groups, family recreation, emergency services, and case-management are among the services provided.

continued

1. **Organization**, continued

The Adoption Education Institute of Kinship Center develops and teaches basic and advanced educational programs for parents and clinicians in California. The Adoption Clinical Training curriculum is provided state-wide in California and has trained more than 1500 professionals, including county social workers, county mental health therapists, and clinicians in private practice. Educational conferences and seminars are offered on a regular basis for parents and professionals in child welfare. Kinship Center develops curricula and trains adoptive, foster, and relative foster parents for Orange County's public social services department.

Kinship Center has been successful in developing and sustaining a wide range of specialized programs that serve foster and adoptive families through public and private collaborations, foundation grants, fees for services, public agency contracts, community-based fundraising events, and corporate and individual donations.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Kinship Center are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted – Undesignated. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Unrestricted – Board Designated. These are comprised of revenues that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net asset accounting, these funds are included in unrestricted net assets. Unrestricted – Board Designated net assets at June 30, 2005 are $50,358.

continued

2. **Summary of Significant Accounting Policies**, continued

Temporarily Restricted. Kinship Center reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Kinship Center to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

Kinship Center has defined cash and cash equivalents as cash in banks, money market funds in a securities institution, and certificates of deposits with an original maturity of six months or less.

Contributions and Pledges Receivable

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenue in the period received. Kinship Center reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Accounts Receivable

Accounts receivable includes interest receivable and receivables from governmental agencies. Kinship Center uses the allowance method in order to reserve for potential uncollectible accounts receivable.

Investments

Kinship Center values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

continued

2. **Summary of Significant Accounting Policies**, continued

Concentration of Credit Risks

Kinship Center places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Kinship Center also places temporary cash investments in money market funds with securities institutions, which are not insured by the Federal Deposit Insurance Corporation. Kinship Center has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2005 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Kinship Center's receivables consist of earned fees from contract programs granted by governmental agencies.

Kinship Center holds investments in the form of pooled investments with a community foundation. The Board of Directors routinely reviews market values of such investments.

Donated Materials and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2005 donated materials and services were $83,128.

A number of unpaid volunteers have made significant contributions of their time to Kinship Center. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

Income Taxes

Kinship Center is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Functional Allocation of Expenses

Costs of providing Kinship Center's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Kinship Center uses salary expenses or total direct expenses to allocate indirect costs.

continued

2. **Summary of Significant Accounting Policies**, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Kinship Center's financial statements for the year ended June 30, 2004 from which the summarized information was derived.

3. **Pledges Receivable**

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at estimated fair value at June 30, 2005. The total amount of pledges receivable at June 30, 2005 of $318,614 is expected to be collected as follows:

Year ended June 30,	
2006	$274,207
2007	-
2008	50,000
	324,207
Less: unamortized discount on pledges receivable	(4,243)
Less: allowance for uncollectible pledges receivable	(1,350)
	$318,614

4. **Investments**

Investments at June 30, 2005 consist of pooled investments in the amount of $10,761.

continued

5. Property and Equipment

Property and equipment at June 30, 2005 consist of the following:

Land	$ 640,231
Land improvements	211,338
Buildings	5,030,229
Leasehold improvements	5,331
Furniture and equipment	884,453
Vehicles	142,128
	6,913,710
Less: accumulated depreciation	(650,169)
	$6,263,541

6. Accrued Liabilities

Accrued liabilities at June 30, 2005 consist of the following:

Accrued vacation	$207,348
Payroll and related expenses	68,131
Other accrued liabilities	14,121
	$289,600

7. Deferred Revenue and Advances

Deferred revenue and advances for the year ended June 30, 2005 consists of the following:

Wraparound income	$108,531
Other income and fees	67,974
	$176,505

8. Line of Credit

Kinship Center has a secured line of credit in the amount of $500,000 from a bank, with payments payable monthly on the outstanding balance at a variable interest rate, currently at 5.25%, due March 2006. The outstanding balance at June 30, 2005 is $375,000.

continued

9. Notes Payable

Notes payable at June 30, 2005 consists of the following:

Note payable to a bank, secured by real property, monthly payments of $16,919, including interest currently at 6.25%, due January 2014.	$2,501,568
Note payable to a bank, secured by real property, monthly payments of $1,259, including interest currently at 6.25%, due June 2011.	193,995
Note payable to a corporation, secured by a vehicle, monthly payments of $580, including interest at 1.90%, due June 2009.	26,285
Note payable to a corporation, secured by a vehicle, monthly payments of $551, including interest at 1.90%, due June 2008.	19,255
Note payable to a corporation, secured by a vehicle, monthly payments of $309, including interest at 4.25%, due June 2009.	13,577
	$2,754,680

Maturities for notes payable are as follows:

Year ended June 30,	
2006	$ 67,397
2007	70,997
2008	74,813
2009	70,939
2010	55,585
Thereafter	2,414,949
	$2,754,680

continued

10. Commitments and Contingencies

Obligations Under Operating Leases

Kinship Center leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year ended June 30,	
2006	$ 404,485
2007	350,009
2008	290,597
2009	171,327
	$1,216,418

Rent expense under operating leases for the year ended June 30, 2004 was $413,113.

Contracts

Kinship Center's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated, and accordingly, Kinship Center has no provisions for the possible disallowance of program costs on its financial statements.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2005 consist of the following:

Southern California clinic	$ 383,330
Capital campaign	382,925
Orange County Children and Families Commission - Clinic	72,210
Orange County Children and Families Commission - Seedling learning program	61,058
Wendy's Wonderful Kids Recruitment Grant	51,784
Other funds	35,577
River Road clinic	30,973
Art auction	26,700
Evaluation	11,835
	$1,056,392

continued

12. Permanently Restricted Net Assets

Permanently restricted net assets of $3,150 represent contributions where the donor has stipulated that the principal is to remain intact in perpetuity and only the income from it can be expended for the needs of the organization and children.

13. Government Contracts

Fees from government contracts for the year ended June 30, 2005 consist of the following:

Foster care	$1,771,352
Mental health and developmental services	2,295,818
Post adoption assistance	1,099,274
Relative caregiver support	421,763
Adoption assistance	555,000
Adoption education	169,046
Kincamp	151,713
Services to Regional Center Clients	208,998
	$6,672,964

14. Program Service Fees

Program service fees for the year ended June 30, 2005 consist of the following:

Adoption income	$396,302
Training and workshop fees	89,727
Mental health clinic fees	32,867
Mental health clinic insurance reimbursements	19,331
Other	1,021
	$539,248

SUPPLEMENTAL SCHEDULE

KINSHIP CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS

For the year ended June 30, 2005

	Federal CFDA Number	Federal	Nonfederal	Program Expenditures from Governmental Revenue
Federal awards				
Agency/Program Grant Title				
Major awards				
U.S. Department of Health and Human Services:				
Medical Assistance Program:				
Pass-through various counties	93.778	$ 1,248,410	$ 1,318,291	$ 2,566,701
Total major awards		1,248,410	1,318,291	2,566,701
Non-major awards				
U.S. Department of Health and Human Services:				
Adoption Assistance	93.659	857,705	755,972	1,613,677
Foster Care - Title IV-E	93.658	413,294	1,358,058	1,771,352
Promoting Safe and Stable Families	93.556	167,597	170,000	337,597
National Family Caregiver Support	93.052	22,926	-	22,926
Total non-major awards		1,461,522	2,284,030	3,745,552
Nonfederal awards				
County of Santa Clara				
Kincamp			151,713	151,713
San Andreas Regional Center				
Services to eligible children			208,998	208,998
Total nonfederal awards		-	360,711	360,711
Total federal and nonfederal awards		$ 2,709,932	$ 3,963,032	$ 6,672,964

Summary of Significant Accounting Policies

1. Basis of Accounting - The Schedule of Expenditures of Federal and Nonfederal Awards has been reported on the accrual basis of accounting.

2. Kinship is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

ADDITIONAL INFORMATION

Harrington Group
Certified Public Accountants, LLP

J. Joseph Harrington
Job M. Quesada
Sean E. Cain
Tonetta L. Conner

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*

To the Board of Directors
Kinship Center

We have audited the financial statements of Kinship Center as of and for the year ended June 30, 2004 and have issued our report thereon dated August 20, 2005. 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 Kinship Center'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 over financial reporting 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.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether Kinship Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Signature on file

September 2, 2005

2670 Mission Street, Suite 200, San Marino, California 91108
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Harrington Group
Certified Public Accountants, LLP

J. Joseph Harrington
Job M. Quesada
Sean E. Cain
Tonetta L. Conner

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
Kinship Center

Compliance. We have audited the compliance of Kinship Center 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, 2005. Kinship Center'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 Kinship Center's management. Our responsibility is to express an opinion on Kinship Center'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 and 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 Kinship Center'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 Kinship Center's compliance with those requirements.

In our opinion, Kinship Center 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, 2005.

Internal Control Over Compliance. The management of Kinship Center 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 Kinship Center'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 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 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 and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Signature on file

September 2, 2005

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KINSHIP CENTER
Schedule of Findings and Questioned Costs
For the year ended June 30, 2005

Section I – Summary of Auditor's Results

Financial Statements		
Type of auditor's report issued:	unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	____yes	__x__no
• Reportable condition(s) identified that are not considered to be material weaknesses?	____yes	__x__none reported
Noncompliance material to financial statements noted?	____yes	__x__no
Federal Awards		
Internal control over major programs:		
• Material weakness(es) identified?	____yes	__x__no
• Reportable condition(s) identified that are not considered to be material weaknesses?	____yes	__x__none reported
Type of auditor's report issued on compliance for major programs:	unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____yes	__x__no
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__x__yes	____no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.778	U.S. Department of Health and Human Services: Medical Assistant Program

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards.*

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

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

"*ALTA*" means American Land Title Association.

"*Authority*" means the ABAG Finance Authority for Nonprofit Corporations, a public instrumentality of the State, or its successors and assigns.

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

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

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

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

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

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

"*Bonds*" means the ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Kinship Center), 2006 Series A, issued under the Indenture.

"*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) $5,000 for the Fiscal Year commencing on January 1, 2006, and (b) thereafter shall be increased for the next Fiscal Year to the extent there was a percentage increase from the preceding year's Consumer Price Index, All Urban Consumers, All Items Monterey County, 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 January 1 and the Capital Replacement Amount shall then be determined by adding the resulting amount to the Capital Replacement Amount of such previous January 1; provided, that in no event shall the Capital Replacement Amount increase by more than ten percent (10%) in one year. Such amount shall be calculated by the Corporation in each year and certified to the Office.

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

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

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

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

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

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

"*Contract of Insurance*" means that contract of insurance entered into by and among the Corporation, the Office and the Authority dated as of March 1, 2006, as amended, modified and supplemented from time to time.

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

"*Costs of Issuance*" means all items of expense directly or indirectly payable by or reimbursable to the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to the upfront premium and certification and inspection fees payable to the Office on the Closing Date, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee and the Authority (including legal fees and charges of their respective counsel and the Authority's initial bond administration fee), 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 subsections (1), (2), (5) or (6) of the definition thereof (not callable by the issuer thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service.

"*Deed of Trust*" 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 for the benefit of the Owners, as beneficiaries, as amended, modified and supplemented from time to time.

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

"*Defeasance Obligations*" means (a) cash, (b) direct non-callable obligations of the United States of America, (c) securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, (d) Refcorp interest strips, (e) CATS, TIGRS, STRPS, and (f) defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing),

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

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

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

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

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

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

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

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

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

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

"*Facilities*" means

a. the real property described in, and all real property required to be added, from time to time, to this definition of Facilities 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 November 1 to October 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 its operation and possession of and pertaining to its properties,

b. proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement) to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and

c. rentals received from the lease of the Corporation's properties or space in its facilities.

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

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

"*Hazardous Materials*" means

a. any chemical, material or substance now or in the future defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," "infectious waste," "toxic pollutant" or "toxic substances" or any other term intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, "TCLP toxicity," "EP toxicity" or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including, without limitation, Environmental Laws,

b. any oil, petroleum or petroleum-derived substance,

c. any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources,

d. any flammable substances or explosives,

e. any radioactive materials,

f. asbestos in any form which is or could become friable,

g. urea formaldehyde foam insulation,

h. electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million,

i. pesticides, and

j. any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority as one that may or could pose a hazard to the health and safety of the owners, occupants or any persons in the vicinity of the Facilities.

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

"*Indebtedness*" means

a. any Guarantee, and

b. any indebtedness or obligation of the Corporation (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles.

Indebtedness shall not include Non-recourse Indebtedness.

"*Indenture*" means that certain Indenture, dated as of March 1, 2006, by and between the Authority and the Trustee, as amended, modified and supplemented from time to time.

"*Independent*," when referring to an Accountant, Counsel, Management Consultant or Person, means an Accountant, Counsel, Management Consultant or Person who

a. is independent of and not under the control of the Corporation,

b. does not have any substantial interest, direct or indirect, in the Corporation, and

c. in the case of an individual, is not connected, including through a spouse, with the Corporation as a director, officer or employee of the Corporation, and in the case of a firm, is not connected with the Corporation as a partner, director, officer or employee of the Corporation, but who may be regularly retained by the Corporation.

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

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

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

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

"*Interest Payment Date*" means March 1 and September 1 of each year, commencing September 1, 2006.

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

(a) cash or 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, and CATS and TGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, Government National Mortgage Association (GNMA), U.S. Maritime Administration, and U.S. Department of Housing and Urban Development;

(c) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker's acceptances with domestic commercial banks (including the Trustee or its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "A-l" or "A-l+" by S&P or "P-l" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase "A-l" or "A-l+" by S&P or "P-l" by Moody's and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P or a money market fund collateralized by securities listed in paragraph (a) of this definition including funds for which the Paying Agent, its affiliates or subsidiaries provide investment, advisory or other management or administrative services;

(f) pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based on the escrow, in the highest rating category of S&P or Moody's or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraph (i) of this definition, which fund may be described in clause (i) above, which fund may be applied only to the payment of such principal of and applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which fund is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) 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;

(h) repurchase agreements or investment agreements issued by banks, broker/dealers or other financial institutions fully secured by obligations listed in paragraphs (a), (b) or (c) of this definition having a market value at least equal to 103% of face amount of the agreement and possession of which obligations is held or controlled by the Trustee, the District or by a third party satisfactory to the Trustee or the District under arrangements satisfactory to the Trustee or the District, as the case may be; and

(i) the Local Agency Investment Fund of the State of California, created pursuant to section 16429.1 of the California Government Code.

"*Loan Agreement*" means that certain Loan Agreement, dated as of March 1, 2006, by and between the Authority and the Corporation, as amended, modified and supplemented from time to time.

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

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

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

"*Management Agent*" means that Person or those Persons with whom the Corporation has entered into a contract, 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 CEO/President, chief financial officer, chief operating officer, or other similar officers. In the event the Corporation does not have such officers, then "Management Agent" shall mean all of those Persons that manage or operate all or substantially all of the Facilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"*Permitted Encumbrances*" means and includes:

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

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

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

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

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

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

g. present or future valid zoning laws and ordinances;

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

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

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

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

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

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

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.

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

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

"*Principal Corporate Trust Office*" means, with respect to the Trustee, the office of the Trustee at One California Street, Suite 2100, San Francisco, CA 94111, or such other or additional offices as may be specified to the Authority by the Trustee except that, with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which at any particular time, its corporate trust agency shall be conducted, or such other office designated by the Trustee from time to time, or at such other or additional offices as may be specified by the Trustee in writing to the Authority.

"*Project*" means the refunding of an existing bank loan, currently outstanding in the approximate principal amount of $2,470,000, incurred for the purpose of constructing a 27,000 square foot facility to house the Corporation's administrative and business operation offices, a mental health clinic, and health related programs located at 124 River Road, Salinas, California, owned and operated by the Corporation in connection with the provision of its children's mental health clinics, services to relatives who are providing homes to children, adoptive family wrap-around services, foster family care and adoption placement services.

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

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

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

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

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

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

"*Regulatory Agreement*" means that certain Regulatory Agreement, dated as of March 1, 2006, among the Authority, the Office and the Corporation, as originally executed and as amended from time to time in accordance with its terms.

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

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

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

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

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

"*Securities Depositories*" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

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

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

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

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

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

"*State*" means the State of California.

"*Statement*" means a written certification, certificate or statement or other appropriate written instrument normally provided in the applicable circumstance where required by the Regulatory Agreement to be provided or delivered by the Accountant, counsel, insurance agent, the 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 Certificate and Agreement with respect to the Bonds executed and delivered by the Authority and the Corporation, as originally executed and as the same may be amended and supplemented from time to time in accordance with the terms thereof.

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

"*Trustee*" means U.S. Bank National Association, in its capacity as trustee, and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the Indenture.

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

LOAN AGREEMENT

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

Payment of Loan Repayments

In consideration of the loan of the proceeds of the Bonds to the Corporation, the Corporation agrees that, on or before the first day of each month and as long as any of the Bonds remain Outstanding, it will pay to the Trustee for deposit in the Revenue Fund such amount as is required by the Trustee to make the transfers and deposits required by the Indenture, including, without limitation, amounts required to replenish the Bond Reserve Account to the Bond Reserve Account Requirement in the event of deficiencies therein. Notwithstanding the foregoing, if five (5) Business Days prior to any interest or principal payment date with respect to the Bonds, the aggregate amount in the Revenue Fund (other than 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 must pay the amount of any such deficiency to the Trustee. Except as otherwise expressly provided therein, all amounts payable by the Corporation to the Authority are to be paid to the Trustee as assignee of the Authority and the Loan Agreement and all right, title and interest of the Authority in any such payments are assigned and pledged to the Trustee so long as any Bonds remain Outstanding.

Additional Payments

In addition to the Loan Repayments, the Corporation is required to also pay to the Authority or to the Trustee, as the case may be, "Additional Payments," as follows:

(a) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; *provided, however*, that the Corporation has the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation has the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(b) All reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture, as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust or the Indenture;

(d) The annual fee and reasonable fees and expenses of the Authority or any agency of the State, selected by the Authority to act on its behalf in connection with the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Bonds or the Indenture, including, without limitation, any and all expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds in connection with any litigation which may at any time be instituted involving the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Bonds or the Indenture;

(e) Any fees and other costs required to be incurred by the Authority and/or the Trustee to comply with the provisions of the Indenture relating to the payment of rebate, including but not limited to any expenses related to computations to determine if moneys are required to be rebated to the United States; and

(f) All other reasonable and necessary fees and expenses of the Authority attributable to the Loan Agreement.

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 pledges and, to the extent permitted by law, grants a security interest to the Trustee (as assignee of the Authority) and to the Office in, the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the payment of Loan Repayments and the performance by the Corporation of its other obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt. The Corporation agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, agrees to execute a deposit account control agreement with the Depository Bank with respect to the security interest granted under the Loan Agreement and agrees to execute and deliver such other documents (including, but not limited to, control agreements and continuation statements) as may be necessary or reasonably requested by the Authority, the Office or the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided below. 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 will 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 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 the withdrawn 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. The Corporation further agrees that a failure to comply with the terms of the Gross Revenue pledge 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 above.

Security for Corporation's Obligations

In consideration of the issuance of the Bonds and the loan of the proceeds thereof to the Corporation under the Loan Agreement and to secure the payment of Loan Repayments and the performance of the other obligations of the Corporation under the Loan Agreement, the Corporation pledges and grants a security interest (subject to Permitted Encumbrances) to the Office in the Facilities. The Corporation has entered into the Deed of Trust to further secure the Corporation's obligations under the Loan Agreement. The Corporation agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, and to execute and deliver such other documents (including, but not limited to, subordination agreements and continuation statements) as the Authority or the Office may reasonably require in order to perfect or maintain as perfected such security interest or give public notice thereof. The Deed of Trust, pursuant to its terms, may be amended and property released therefrom upon written notice to the Trustee with the consent of the Office without the necessity of obtaining the consent of the Authority, the Trustee or the Bondowners.

Obligations of the Corporation Unconditional; Net Contract

The obligations of the Corporation to make the Loan Repayments and Additional Payments required under the Loan Agreement and to perform and observe the other agreements on its part contained therein shall be absolute and unconditional, and shall not be abated, rebated, setoff, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Bonds remain Outstanding or any Additional Payments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Facilities, commercial frustration of purpose, any changes in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement or the Indenture. The Loan Agreement shall be deemed and constructed to be a "net contract," and the Corporation shall pay absolutely net the Loan Repayments, Additional Payments and all other payments required under the Loan Agreement, regardless of any rights of setoff, recoupment, abatement or counterclaim that the Corporation might otherwise have against the Authority or the Trustee or any other party or parties.

Prepayment

The Corporation shall have the right at any time or from time to time to prepay all or any part of the Loan Repayments and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered by the Corporation. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund established pursuant to the Indenture and used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture.

Operation and Maintenance of the Facilities

The Corporation shall operate the Facilities as "health care facilities" as defined in the Act and shall maintain or cause to be maintained, throughout the term of the Loan Agreement, the Facilities as specified in the Regulatory Agreement.

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

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

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

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

The Corporation shall maintain, as of the end of each Fiscal Year, commencing in the first Fiscal Year after the Closing Date, a current ratio (a ratio of current assets to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation's audited financial statements for such Fiscal Year) of at least 1.50:1.0.

The Corporation shall maintain, (1) as of the end of the Fiscal Year ending June 30, 2006, at least five (5) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, (2) as of the end of the Fiscal Year ending June 30, 2007, at least ten (10) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, (3) as of the end of the Fiscal Year ending June 30, 2008, at least fifteen (15) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, (4) as of the end of the Fiscal Year ending June 30, 2009, at least twenty (20) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, and, (5) as of the end of the Fiscal Year ending June 30, 2010, and each Fiscal Year thereafter, at least twenty-five (25) 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 (A) the Corporation's cash and cash equivalents as of the end of such Fiscal Year (not including any such cash and cash equivalents derived from a drawing on a line of credit) by (B) the quotient of dividing (i) the Corporation's operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (ii) the number of days in such Fiscal Year.

Within one hundred twenty (120) days after the end of each Fiscal Year (commencing with the first 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, the Trustee and the Office a Statement setting forth the results of such computation.

The Corporation further covenants and agrees that if, at the end of such Fiscal Year, (i) Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year, (ii) the current ratio shall have been less than as required above, or (iii) the Days Cash on Hand shall have been less than as required above, 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 1.25 times Maximum Aggregate Annual Debt Service in the current Fiscal Year, (y) a current ratio as required above in the current Fiscal Year and (z) Days Cash on Hand as required above in the current Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation 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, or the request to employ a Management Consultant has been waived in writing by the Office, the Corporation will be deemed to have complied with the covenants contained above 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 above; 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 this Regulatory Agreement or be construed as constituting a waiver of any other event of default under this Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

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

Limitation on Encumbrances

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

Limitation on Indebtedness

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

Limitations on Disposition of Property

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

Limitation on Acquisition of Property

The Corporation shall not acquire additional property, plant and equipment except as permitted by the Regulatory Agreement.

Accounting Records, Financial Statements and Budget

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

Licensing

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

Compliance with United States and California Constitutions

The Corporation shall not restrict, nor grant preferences in, admissions to its Facilities on racial or religious grounds. In each year on the date the Corporation is required to provide the Corporation's audited financial statements in accordance with the Regulatory Agreement, the Authority and its designees shall have the right to inspect the Facilities at all reasonable times for the purpose of verifying the foregoing Certificate of the Corporation and due compliance by the Corporation with the Constitutions of the United States and of the State. This covenant shall survive the payment in full or defeasance of the Bonds.

Tax Covenants

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

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

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

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

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

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

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

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

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

Prohibited Uses

No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used primarily for sectarian instruction or study or as a place for devotional activities or religious worship and the Corporation will not use the facilities financed or refinanced with the proceeds of the Bonds, during the useful life thereof (irrespective of whether the Bonds are at the time Outstanding) for any such purposes.

No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used by a Person that is not a 501(c)(3) Organization or a Governmental Unit or by a 501(c)(3) Organization (including the Corporation) in an Unrelated Trade or Business, in such manner or to such extent as would result in any of the Bonds being treated as an obligation not described in section 103(a) of the Code.

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 Bondowner 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 such obligations. For purposes of this paragraph, “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Insurance Required

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

Disposition of Insurance and Condemnation Proceeds

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

Nonliability of Authority

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

Indemnification

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

Loan Default Events

The following, among other things, will be "Loan Default Events" under the Loan Agreement: (1) failure to pay in full any payment required under the Loan Agreement when due; (2) failure to pay or cause to be paid any premiums required under the Contract of Insurance; (3) if any representation or warranty made by the Corporation in the Loan Agreement or in certain other documents in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; (4) failure by the Corporation to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement or Regulatory Agreement for a period of 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 attempts such remedy subject to directions and limitations of time established by the Trustee or the Office; (5) if the Corporation abandons the Facilities, or any substantial part thereof and such abandonment continues for a period of 30 days after written notice thereof has been given to the Corporation by the Authority or the Trustee; (6) if any default shall exist under any agreement respecting Long-Term Indebtedness (other than Parity Debt) and if, as a result thereof, Long-Term Indebtedness in an aggregate principal amount in excess of 10% of the Corporation's Adjusted Annual Operating Revenues are declared immediately due and payable or a proceeding for enforcement is brought, except if the Corporation establishes reserves or obtains a surety bond acceptable to the Office for the payment of such Long-Term Indebtedness which, in the opinion of the Office, are adequate; (7) if any default exists under any instrument pursuant to which Parity Debt was issued and is Outstanding and such default continues after the grace period; (8) certain incidents of bankruptcy, insolvency or similar conditions; and (9) any Event of Default under the Indenture.

Remedies on Default

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

INDENTURE

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

Establishment of Funds and Accounts

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

Costs of Issuance Fund

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

Project Fund

The moneys in the Project Fund shall be used and withdrawn by the Trustee, as directed by Requisitions of the Corporation, to pay the costs of the Project.

Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Trustee: (i) a Requisition of the Corporation stating (A) the item number of such payment; (B) the name of the Person to whom each such payment is due, which may be the Corporation in the case of reimbursement for costs of the Project theretofore paid by the Corporation; (C) the respective amounts to be paid; (D) the purpose by general classification for which each obligation to be paid was incurred; (E) that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid therefrom; (F) that there has not been filed with or served upon the Corporation notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law; and (G) that the balance remaining in the Project Fund after payment of such amounts, together with any investment income reasonably anticipated to be deposited in the Project Fund pursuant to this Indenture and any other funds reasonably anticipated to be available therefor, will be sufficient to pay the costs of completing the Project; (ii) an executed form OSH-CM-134 (or such other form(s) as may be adopted by the Office for such purpose) of the Office stating that such disbursements are authorized and the amounts so authorized; and (iii) unless amounts previously deposited in the Project Fund by the Corporation are available for such purpose, a check or checks payable to the Trustee for the portion of each such payment to be paid by the Corporation, as specified in said form OSH-CM-134 (or other form(s) adopted by the Office for such purpose).

Upon receipt of each such document, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Trustee may conclusively rely on the representations of the Corporation in any Requisitions delivered by the Corporation pursuant to the Indenture. The Trustee shall not make any such payment if, prior to making such payment, it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

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.

Pledge and Assignment

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, there are pledged to secure the payment of the principal of, Redemption Price and interest on the Bonds in accordance with their terms and the provisions of the Indenture, 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). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and other assets pledged in the Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for the right to receive, in all cases to the extent payable to the Authority or the Trustee, (i) any amounts paid by the Corporation pursuant to the Loan Agreement, and (ii) the right of the Authority to receive the Certificate of the Corporation required by the Loan Agreement), and (iii) the rights of the Authority under the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement. 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 this Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce 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.

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund," which the Trustee shall establish, maintain and hold in trust, except that all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Redemption Fund shall be promptly deposited in the Redemption Fund, which the Trustee shall establish, maintain and hold in trust, and that all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Bond Reserve Account shall be promptly deposited in such account. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

If by the fifth (5th) Business Day of any month the Trustee has not received Revenues sufficient to make the transfers required in such month, the Trustee shall immediately notify the Corporation and the Office of such insufficiency by telephone or facsimile and confirm such notification by written notice.

If thirty (30) calendar days prior to an Interest Payment Date or principal payment date there are insufficient amounts in the Revenue Fund, other than the Bond Reserve Account, to pay the interest or principal becoming due on such date, the Trustee shall immediately notify the Office by telephone or telegram and in writing. Such notice shall state:

(i) that available moneys held by the Trustee (other than in the Bond Reserve Account) will be insufficient to pay in full the next succeeding payment of principal and/or interest on the Bonds; and

(ii) the amount by which the obligation to make such payment exceeds the amount available therefor (the "Shortfall").

Said notice shall request the Office to deposit an amount equal to the Shortfall into the Principal Account and/or Interest Account at least five (5) Business Days prior to the date on which said payment is due. Said deposit may be made from the Bond Reserve Account upon notice to the Trustee by the Office by telegram or telex or other telecommunication device producing a written notice, or from the Health Facility Construction Loan Insurance Fund maintained by the Office, as provided in the Regulatory Agreement.

If the Office is required to make any payment by reason of nonpayment by the Corporation, the Office shall have the right to direct the investment of any such payments. Any amounts received from the investment of payments made by the Office or from payments subsequently made by the Corporation shall be remitted to the Office.

Allocation of Revenues

On or before the twenty-fifth (25th) 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 succeeding six months on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; *provided, however*, that from the date of delivery of the Bonds until the first interest payment date with respect to the Bonds (if less than six months), transfers to the Interest Account shall be sufficient on a monthly pro rata basis 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 said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; *provided, however*, 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 said account shall be less than the Bond Reserve Account Requirement due to valuation of the Investment Securities deposited therein, 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 amounts 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

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal or Mandatory Sinking Account Payments of the Bonds when due and payable.

Application of Redemption Fund

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

Application of Bond Reserve Account

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account (but, 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.

Rebate Fund

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

Investments

All moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by, and in the name of, the Trustee, upon the written direction of the Corporation, solely in Investment Securities. The Trustee shall acquire such Investment Securities upon the written direction of the Corporation at such prices and on such terms as directed by the Corporation. In the absence of written investment directions from the Corporation, the Trustee shall invest solely in Investment Securities set forth in clause (h) of the definition thereof. All Investment Securities shall be acquired subject to the limitations set forth in the Indenture, and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. The Corporation shall not direct the Trustee to invest in anything other than Investment Securities.

Moneys in all funds and accounts (other than the Bond Reserve Account and the Rebate Fund) shall be invested in Investment Securities maturing not later than the date on which it is estimated by the Corporation that such moneys will be required for the purposes specified in the Indenture. 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 (5) 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 (5) 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 under the Indenture) the corpus thereto at no less than the purchase price thereof without any loss in value. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Interest Account or the Bond Reserve Account shall be retained therein. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Indenture (i) prior to completion of the Project, shall be deposited when received in the Project Fund, and thereafter (ii) shall be transferred when received to the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (other than the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee or any of its affiliates may act as principal or agent in the making or disposing of any investment. The Trustee may sell in any commercially reasonable manner, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with provisions of the Indenture. The Trustee shall be entitled to assume, absent receipt by the Trustee of written notice to the contrary, that any investment which at the time of purchase is an Investment Security remains an Investment Security.

Tax Covenants

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

Rebate Requirement. The Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

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

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

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

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

Continuing Disclosure

Pursuant to the Loan Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and none of the Authority, the Trustee or the Dissemination Agent shall have any liability to the Owners of the Bonds or any other person with respect to S.E.C Rule 15c2-12. The Trustee covenants and agrees that it will comply with and carry out all of the provisions of the Loan Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Corporation or the Dissemination Agent to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall at the request of the Owners of at least 25% aggregate principal amount of Outstanding Bonds, to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys, or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement or to cause the Trustee to comply with its obligations under the Indenture. 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).

Events of Default; Remedies on Default

"Events of Default" under the Indenture include: (1) default in the due and punctual payment of the principal or Redemption Price of or interest on any Bond or any premium due to the Office under the Contract of Insurance; (2) default by the Authority to observe or perform any other covenants, agreement or conditions on its part contained in the Indenture or the Bonds, which failure shall have continued for a period of 30 days after written notice thereof to the Authority and the Corporation from the Trustee or to the Authority, the Corporation and the Trustee from the holders of not less than 25% in aggregate principal amount of the Outstanding Bonds; (3) a Loan Default Event; or (4) if the Corporation or its creditors file a petition alleging insolvency, requesting reorganization, or a composition of creditors, or for an assignment for the benefit of creditors, in any court, the Office shall have the right to vote in the place and stead of all Bondholders, so long as the Office provides to the Trustee ten (10) days or more before any such vote that the Contract of Insurance will remain in effect after such vote, on any plan of reorganization, agreement for a composition of creditors, and on any assignment for the benefit of creditors. See "LOAN AGREEMENT—Loan Default Events."

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

In addition, the Trustee in its discretion may, and upon written request of the Office or the holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding and the written consent of the Office, and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of such Bondholders under the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust or the Act or other law. No Bondholder has the right to institute any proceeding unless (1) such Bondholder shall have given written notice to the Trustee of the occurrence of an Event of Default, (2) the holders of not less than 25% in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to institute such proceedings in its own name, (3) such Bondholder or Bondholders shall have tendered to the Trustee reasonable indemnity against the expenses to be incurred in compliance with such request, (4) the Trustee shall have refused or omitted to comply with such request for a period of 30 days after receipt of such written notice and tender of indemnity; and (5) except as otherwise permitted under the Indenture, the Office has consented in writing.

Collection Upon Insurance

Upon the occurrence and continuance of an Event of Default, the Trustee shall proceed to take such steps as are necessary, in the reasonable judgment of the Trustee, to collect upon the insurance required by the Insurance Law. If the Office and the Treasurer of the State have notified the Trustee in writing that they elect to pay such insurance by means of debentures of the Office's Health Facility Construction Loan Insurance Fund, the Trustee shall as soon as practicable provide notice to each Owner of the exchange of such debentures for the

Bonds then Outstanding in the same manner as for notice of redemption, and shall deliver to each Owner, as soon as practicable after surrender of such Owner's Bonds, debentures received from the Office in a principal amount equal to the principal amount of such Bonds plus accrued interest thereon and having maturities the same as such Bonds, bearing interest at such rate or rates equal to the rates on the respective Bonds. Bonds not delivered for exchange are no longer entitled to payment and become evidence of only the right to receive the related debenture, Bonds shall be delivered to the Office as required by the Act, and upon redelivery to the Trustee by the Office in accordance with the provisions of the Contract of Insurance, Bonds shall be cancelled and destroyed by the Trustee.

Amendment of Indenture

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

Defeasance

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

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

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

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

If the Authority shall pay all Outstanding Bonds and shall also pay all other sums payable under the Indenture by the Authority, then at the election of the Authority the Indenture and the pledge of the Revenues and other assets and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied except that thereafter, Bondholders shall he 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 a Deed of Trust upon the Facilities until such time as such purchase money obligation is paid in

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

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

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

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

CONTRACT OF INSURANCE

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

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; Current Ratio; Debt Coverage; 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 in each Fiscal Year to produce and, as of the end of each Fiscal Year shall produce, Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year.

B. The Corporation shall maintain, as of the end of each Fiscal Year, commencing in the first Fiscal Year after the Closing Date, a current ratio (a ratio of current assets to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation's audited financial statements for such Fiscal Year) of at least 1.50:1.0.

C. The Corporation shall maintain, (i) as of the end of the Fiscal Year ending June 30, 2006, at least five (5) 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 ending June 30, 2007, at least ten (10) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, (iii) as of the end of the Fiscal Year ending June 30, 2008, at least fifteen (15) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, (iv) as of the end of the Fiscal Year ending June 30, 2009, at least twenty (20) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year, and, (v) as of the end of the Fiscal Year ending June 30, 2010, and each Fiscal Year thereafter, at least twenty-five (25) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year. For purposes of this requirement, "Days Cash on Hand" shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Corporation's cash and cash equivalents as of the end of such Fiscal Year (not including any such cash and cash equivalents derived from a drawing on a line of credit) 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 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, the Trustee and the Office a Statement setting forth the results of such computation.

The Corporation further covenants and agrees that if, at the end of such Fiscal Year, (i) Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year, (ii) the current ratio shall have been less than as required by B above, or (iii) the Days Cash on Hand shall have been less than as required by C above, 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 1.25 times Maximum Aggregate Annual Debt Service in the current Fiscal Year, (y) a current ratio as required by B above in the current Fiscal Year and (z) Days Cash on Hand as required by C above in the current Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation 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, or the requirement to employ a Management Consultant has been waived in writing by the Office, the Corporation will be deemed to have complied with the covenants contained above 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 A, B or C above; 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 this Regulatory Agreement or be construed as constituting a waiver of any other event of default under this 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 this 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; provided that no amount of Short-Term Indebtedness shall be outstanding for a period of thirty (30) consecutive days during each Fiscal Year and provided further that the aggregate amount incurred by the Corporation under this paragraph shall not exceed at the time of incurrence fifteen percent (15%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

4. Liabilities for contributions to self-insurance programs;

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

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

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

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

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

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

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

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

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

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

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

8. Long-Term Indebtedness (excluding Parity Debt) with the prior written consent of the Office; provided that the aggregate amount incurred by the Corporation under this paragraph 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 paragraph 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.

The aggregate amount incurred and outstanding by the Corporation under paragraphs 3, 8 and 9 above shall not, in the aggregate, exceed fifteen percent (15%) of the Corporation's Adjusted Annual Operating Revenue for the latest Fiscal Year for which audited financial statements are available.

Limitations on Disposition of Property

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

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

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

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

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

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

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

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

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

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

Limitation on Acquisition of Property, Plant and Equipment

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

Parity Debt

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

1. The Trustee shall act as trustee for the Parity Debt;

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

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

c. Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, this 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; and

d. The payment dates of principal and interest with respect to Parity Debt shall be the same as such dates are established for the Bonds.

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. Unless waived by the Office, 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, it may be issued with the consent of the Office.

Insurance

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

1. **Property Insurance**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disposition of Insurance and Condemnation Proceeds

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

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

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

Remedies Upon Default

A. Notice and Declaration of a Default under the Regulatory Agreement. Upon a violation of any of the provisions of the Regulatory Agreement by the Corporation, the Office may give written notice thereof to the Corporation by registered or certified mail, addressed to the address stated in the Regulatory Agreement, or such other address as may subsequently, upon appropriate written notice thereof to the Office, be designated by the

Corporation as its legal business address. If such violation is not corrected to the satisfaction of the Office within thirty (30) days, or in the event the default is the result of the failure of the Corporation to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Corporation, then five (5) days, after the date such notice is mailed or within such further time as the Office determines in the Office's sole discretion is necessary to correct the violation, without further notice the Office may declare a default under the Regulatory Agreement effective on the date of such declaration of default.

B. Office Directives to the Corporation. Upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture, or the Loan Agreement, the Office may conduct an evaluation of, and direct the Corporation with respect to, the management and operation of the Facilities and the expenses of the Office or any consultants associated with such evaluation and direction shall be reimbursed by the Corporation. The Corporation shall follow all such directives, which may at the option of the Office include immediately terminating and replacing the existing Management Agent with a new Management Agent selected by the Office at the expense of the Corporation. In the event of any such termination, the Management Agent shall not be entitled to compensation for more than thirty (30) days from the date of such termination. The Office may retain attorneys and consultants to assist in such evaluation and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any other expenses incurred by the Office in that connection. These remedies are in addition to those provided under Insurance Law Section 129173. The Office reserves its rights to exercise all its remedies under Insurance Law Section 129173, including, but not limited to, subsection (b) wherein the Office may remove and appoint members of the governing body of the Corporation sufficient such that the new members constitute a voting majority of the governing body.

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

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

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

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

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

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

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

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

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

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

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

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

D. Issuance of Debentures.

1. In any case in which

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Replacement Fund

A. The Corporation shall establish a separate fund designated as the "Capital Replacement Fund." For each of the Corporation's Fiscal Years beginning with the Corporation's Fiscal Year commencing on July 1, 2005, the Corporation shall deposit on a quarterly basis (i.e. on January 1, April 1, July 1 and October 1) one quarter of the Capital Replacement Amount for the respective Fiscal Year; provided that if the Corporation has received grants, or has expended sums for any expenditures set forth in subsection B.1. through B.3. hereof, such grants 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 total expenditures of the Corporation for the previous Fiscal Years for any expenditures set forth in subsection B.1. through B.3. hereof in excess of the total Capital Replacement Amount due for that period. 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 subsection C below:

1. the amount of such expenditure(s),

2. the election of the Corporation to have the amount of the expenditure(s) credited against the then currently payable Capital Replacement Fund deposit,

3. with respect to donated or acquired equipment, that the equipment acquired is depreciable in accordance with generally accepted accounting principles and has been included as part of the Facilities, and

4. such amount of expenditure(s) has not previously been paid from the Capital Replacement Fund or used as a Capital Replacement Fund deposit credit.

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

1. For the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property which has a useful life of one year or more.

2. For the performance of major repairs with respect to the Facilities which are of an extraordinary and nonrecurring nature.

3. For the construction of capital additions to, or capital improvements, extensions, enlargements, renovations, major repairs, or remodeling of the Facilities.

4. To provide working capital for the payment of current expenses if the Corporation shall undertake in writing to repay the amount withdrawn for such purpose within fifty-two (52) weeks, provided that no such borrowing pursuant to this clause shall be outstanding for a period of at least thirty (30) consecutive days during each period of thirteen (13) consecutive months beginning with the first deposit to the Capital Replacement Fund.

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

C. The Corporation, on or prior to July 1 in each year, commencing July 1, 2006, shall calculate the Capital Replacement Amount or Capital Replacement Fund credit and send written certification of such amount to the Office.

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

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

2. the Gross Revenue Fund is transferred to the name and credit of the Trustee pursuant to Section 4.3(b) of the Loan Agreement.

Debt Coverage Ratio Reporting

Within forty-five (45) days after each March 31, June 30, September 30 and December 31 (each three-month period ending on each such date being referred to herein as a "Fiscal Quarter") commencing with the Fiscal Quarter ending June 30, 2006, 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 such Fiscal Quarter the Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for such 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 for such Fiscal Quarter. 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.

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APPENDIX D

FORM OF FINAL OPINION OF BOND COUNSEL

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date}

ABAG Finance Authority for Nonprofit Corporations
101 Eighth Street
Oakland, CA 94607-4756

OPINION: $2,910,000 ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Kinship Center), 2006 Series A

Members of the Authority:

We have acted as bond counsel in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of $2,910,000 Insured Revenue Bonds (Kinship Center), 2006 Series A (the "Bonds"), pursuant to Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), an Indenture of Trust, dated as of March 1, 2006, by and between the Authority and U.S. Bank National Association, as trustee (the "Indenture"), and a resolution adopted by the Authority on February 17, 2006. The Bonds have been issued by the Authority to provide funds to refinance the acquisition, construction, installation, improvement and equipping of certain facilities owned by Kinship Center, a California nonprofit public benefit corporation (the "Corporation"), to be loaned to the Corporation, pursuant to a Loan Agreement, dated as of March 1, 2006, by and between the Authority and the Corporation (the "Loan Agreement"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture, of the Corporation contained in the Loan Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

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

1. The Authority is duly created and validly existing as a public body with the power to enter into the Indenture and the Loan Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture and the Loan Agreement have been duly approved by the Authority and constitute valid and binding special obligations of the Authority enforceable against the Authority in accordance with their respective terms.

3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to no prior lien granted under the Law.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

5. Subject to the Authority's and the Corporation's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Code but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Authority and the Corporation to comply with one or more of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Code for federal income tax purposes retroactively to the date of issuance of the Bonds. In rendering our opinion on the excludability from gross income of interest on the Bonds, we have relied on the opinion of DeLay & Laredo, counsel to the Corporation, that the Corporation is a 501(c)(3) organization and certain other matters.

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

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority, the Corporation and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed by KINSHIP CENTER, a California nonprofit public benefit corporation (the "Corporation"), in connection with the issuance of $2,910,000 ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Kinship Center), 2006 Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of March 1, 2006 (the "Indenture"), by and between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee"). The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of March 1, 2006, by and between the Authority and the Corporation (the "Loan Agreement"). Pursuant to Section 6.10 of the Indenture and Section 5.14 of the Loan Agreement, the Corporation covenants and agree as follows:

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

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

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

"*Dissemination Agent*" shall mean the Corporation, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Corporation, the Authority and the Trustee a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

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

Section 3. <u>Provision of Annual</u>. The Corporation shall, or shall cause the Dissemination Agent to, after such materials are available, commencing for the fiscal year ending June 30, 2006, provide to any person who requests it an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee. An Annual Report shall consist of the most recently available documents of the type to be included in the Annual Report (see Section 4) at the time the request is received.

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

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

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

Section 5. Reporting of Significant Events.

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

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

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

(c) If the Corporation determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Corporation shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository, with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

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

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

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

(a) if the amendment or waiver relates to the provisions of Section 3, 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Corporation to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Corporation shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Loan Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Corporation to comply with this Disclosure Certificate shall be an action to compel performance.

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

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

Date: [Closing Date]

KINSHIP CENTER

By ____

Name ______________________________________

Title _______________________________________

APPENDIX F

FEASIBILITY STUDY

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Harrington Group
Certified Public Accountants, LLP

J. Joseph Harrington
Job M. Quesada
Sean E. Cain
Tonetta L. Conner

KINSHIP CENTER

FINANCIAL FEASIBILITY STUDY

December 27, 2005

2670 Mission Street, Suite 200, San Marino, California 91108
Tel: 626.403.6801 • Fax: 626.403.6866

851 Irwin Street, Suite 302 • San Rafael, California 94901
Tel: 415.259.0112 • Fax: 415.259.0114

CONTENTS

Harrington Group
Certified Public Accountants, LLP

J. Joseph Harrington
Job M. Quesada
Sean E. Cain
Tonetta L. Conner

To the Board of Directors
Kinship Center
124 River Road
Salinas, CA 93908

Dear Ladies and Gentlemen:

We have examined the accompanying projected statements of financial position, statements of activities, cash flows, and debt coverage of Kinship Center as of June 30, 2006, 2007, 2008, 2009, and 2010 and for the years then ending. Kinship Center's management is responsible for the projection, which was prepared to evaluate the ability of Kinship Center to meet its operating expenses, capital expenditure needs, and the debt service requirements associated with the proposed $3,005,000 tax exempt borrowings. Our responsibility is to express an opinion on the projection based on our examination. The prior year summarized comparative information has been derived from Kinship Center's June 30, 2005, 2004, and 2003 financial statements and, in our reports dated September 2, 2005, August 20, 2004, and October 10, 2003, we expressed an unqualified opinion on those financial statements.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the projection. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying projection is presented in conformity with guidelines for presentation of a projection established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection assuming a tax exempt borrowing of $3,005,000. However, even if this borrowing occurs, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying projection and this report are intended solely for the use of Kinship Center and the potential financing organization and are not intended to be and should not be used by anyone other than these specified parties.

Signature on file

HARRINGTON GROUP
Certified Public Accountants, LLP

December 27, 2005

2670 Mission Street, Suite 200, San Marino, California 91108
Tel: 626.403.6801 • Fax: 626.403.6866

851 Irwin Street, Suite 302 • San Rafael, California 94901
Tel: 415.259.0112 • Fax: 415.259.0114

Kinship Center
Statements of Financial Position and Related Financial Ratios
As of June 30,

Historical Year Ended June 30,			Description	Projection Year Ended June 30,				
2003	2004	2005		2006	2007	2008	2009	2010
			ASSETS					
			Current Assets					
$ 1,517,996	$ 1,664,202	$ 883,529	Cash	$ 1,097,230	$ 1,250,364	$ 1,326,722	$ 1,640,224	$ 1,794,966
1,019,960	862,160	1,257,464	Accounts receivable	1,547,089	1,748,294	1,895,722	1,953,822	2,005,981
309,462	442,223	318,614	Pledges receivable	50,000	50,000	-	-	-
243,116	184,305	198,919	Other current assets	201,250	201,250	201,250	201,250	201,250
3,090,534	3,152,890	2,658,526	Total Current Assets	2,895,570	3,249,908	3,423,694	3,795,296	4,002,197
6,342,471	6,424,003	6,263,541	Fixed Assets, Net	6,066,960	5,868,804	5,725,648	5,582,492	5,439,336
			Other Assets					
73,050	70,300	93,750	Donated Artwork	93,750	93,750	93,750	93,750	93,750
-	-		Issuance Costs - Net of Amortization	157,988	151,545	145,102	138,659	132,216
			Gross Bond Insurance Premium	223,560	214,436	205,312	196,188	187,064
-	-		Financing Reserves	206,046	206,046	206,046	206,046	206,046
73,050	70,300	93,750	Total Other Assets	681,344	665,777	650,210	634,643	619,076
$ 9,506,055	$ 9,647,193	$ 9,015,817	**Total Assets**	$ 9,643,874	$ 9,784,489	$ 9,799,552	$10,012,431	$ 10,060,609
			LIABILITIES AND NET ASSETS					
			Current Liabilities					
$ 1,023,512	$ 590,104	$ 592,414	Accounts payable and accrued expenses	$ 672,787	$ 745,259	$ 799,061	$ 824,123	$ 846,021
			Accrued interest	43,640	130,920	128,284	127,077	124,460
277,745	95,717	176,505	Deferred revenue	211,505	246,505	271,505	281,505	281,505
2,949,019	205,000	375,000	Line of credit	375,000	200,000	-	-	-
14,040	118,500	67,397	Notes payable	19,867	95,394	88,020	260,474	80,000
4,264,316	1,009,321	1,211,316	Total Current Liabilities	1,322,799	1,418,078	1,286,870	1,493,179	1,331,986
			Long-Term Liabilities					
218,833	2,988,261	2687283	Notes and bonds payable	3,198,969	3,103,575	3,016,351	2,756,673	2,677,469
218,833	2,988,261	2687283	Total Long-Term Liabilities	3,198,969	3,103,575	3,016,351	2,756,673	2,677,469
			Net Assets					
3,401,398	4,002,897	4,057,676	Unrestricted	4,062,564	4,198,295	4,421,789	4,668,037	4,906,612
1,618,408	1,643,614	1,056,392	Temporarily restricted	1,056,392	1,056,392	1,056,392	1,056,392	1,056,392
3,100	3,100	3,150	Permanently restricted	3,150	8,150	18,150	38,150	88,150
5,022,906	5,649,611	5,117,218	Total Net Assets	5,122,106	5,262,837	5,496,331	5,762,579	6,051,154
$ 9,506,055	$ 9,647,193	$ 9,015,817	**Total Liabilities and Net Assets**	$ 9,643,874	$ 9,784,489	$ 9,799,552	$10,012,431	$ 10,060,609

2003	2004	2005	**Financial Ratios**	2006	2007	2008	2009	2010
80.74	80.05	37.60	Days of cash on hand	42.52	35.42	48.86	68.36	93.46
0.60	2.50	1.77	Quick ratio	1.90	2.44	2.83	2.94	4.04
0.74	3.19	2.27	Current ratio	2.15	2.74	3.07	3.15	4.27
$ (1,100,732)	$ 2,213,869	$ 1,540,960	Working capital	$ 1,524,007	$ 1,348,805	$ 2,061,927	$ 2,208,545	$ 2,537,451
61.79	48.26	63.64	Days receivable	63.51	63.51	63.51	63.50	63.52
5.91	7.56	5.74	Accounts receivable turnover	5.75	5.75	5.75	5.75	5.75
54.44	28.39	25.21	Days payables and accrued expenses	25.19	25.19	25.19	25.19	25.19
0.02	0.31	0.30	Long-term debt to assets	0.32	0.31	0.29	0.25	0.22
0.53	0.59	0.57	Equity to assets	0.54	0.57	0.59	0.62	0.65
2.12	2.41	2.31	Assets to debt	2.15	2.31	2.43	2.60	2.97

See accompanying significant accounting policies and significant forecast assumptions

Kinship Center
Statements of Activities and Related Financial Ratios
For the Years Ending June 30,

Historical Year Ended June 30, 2003	2004	2005	Description	Projection Year Ended June 30, 2006	2007	2008	2009	2010
			Revenue					
$ 5,526,640	$ 5,842,000	$ 6,672,964	Government Contracts	$ 8,103,168	$ 9,210,915	$ 10,021,328	$ 10,317,850	$ 10,579,711
498,002	678,020	539,248	Program Service Fees	788,150	836,750	873,628	911,012	948,918
567,001	1,535,562	680,070	Contributions, Auxiliary & Special Events	703,000	721,000	736,000	775,000	795,000
147,749	158,899	151,026	Other revenue and support	161,101	172,914	183,131	206,194	226,114
6,739,392	8,214,481	8,043,308	Total Revenue	9,755,419	10,941,579	11,814,086	12,210,056	12,549,744
			Expenses					
3,848,729	4,093,507	4,638,098	Salaries	5,430,106	6,214,083	6,819,678	7,072,518	7,284,693
2,016,706	2,161,818	2,653,348	Supplies and Services	2,983,416	3,223,614	3,375,189	3,462,605	3,556,500
871,849	974,502	903,183	Parent Payments	937,200	996,000	1,055,940	1,080,598	1,105,996
96,034	198,476	214,226	Depreciation	196,581	198,156	173,156	173,156	173,156
29,234	159,469	166,846	Interest	195,444	153,429	141,062	139,364	125,256
			Amortization	7,783	15,567	15,567	15,567	15,567
6,862,552	7,587,772	8,575,701	Total Expenses	9,750,531	10,800,848	11,580,592	11,943,808	12,261,168
(123,160)	626,709	(532,393)	**Change in net assets**	4,888	140,731	233,495	266,248	288,575
5,146,066	5,022,906	5,649,615	**Net assets, beginning of year**	5,117,222	5,122,110	5,262,841	5,496,335	5,762,583
$ 5,022,906	$ 5,649,615	$ 5,117,222		$ 5,122,110	$ 5,262,841	$ 5,496,335	$ 5,762,583	$ 6,051,158
			Financial Ratios/Percentages					
$ 18,464	$ 22,505	$ 22,036	Daily net operating revenue	$ 26,727	$ 29,977	$ 32,367	$ 33,452	$ 34,383
$ 10,544	$ 11,215	$ 12,707	Daily salaries and related cost	$ 14,877	$ 17,025	$ 18,684	$ 19,377	$ 19,958
$ 5,525	$ 5,923	$ 7,269	Daily supplies and services	$ 8,174	$ 8,832	$ 9,247	$ 9,487	$ 9,744
-1.83%	7.63%	-6.62%	Income to gross revenue	0.05%	1.29%	1.98%	2.18%	2.30%
			Net return to net assets					
			Average Annual Percentage Increase (Decrease)					
13.18%	21.89%	-2.08%	Total revenue	21.29%	12.16%	7.97%	3.35%	2.78%
13.12%	6.36%	13.30%	Salaries and benefits	17.08%	14.44%	9.75%	3.71%	3.00%
31.83%	7.20%	22.74%	Supplies and services	12.44%	8.05%	4.70%	2.59%	2.71%
20.43%	106.67%	7.94%	Depreciation	-8.24%	0.80%	-12.62%	0.00%	0.00%
103.18%	445.49%	4.63%	Interest	17.14%	-21.50%	-8.06%	-1.20%	-10.12%

See accompanying significant accounting policies and significant forecast assumptions

Kinship Center
Statements of Cash Flows
For the Years Ending June 30,

Historical Year Ended June 30,			Description	Projection Year Ended June 30,				
2003	2004	2005		2006	2007	2008	2009	2010
			Cash flows from operating activities:					
$ (123,160)	$ 626,705	$ (532,393)	Change in net assets	$ 4,888	$ 140,731	$ 233,495	$ 266,248	$ 288,575
			Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
96,034	198,476	214,226	Depreciation	196,581	198,156	173,156	173,156	173,156
			Amortization	7,783	15,567	16,363	16,363	16,363
9,706	3,063	-	Loss on sale of property and equipment					
(18,159)	7,004	(17,809)	Change in carrying value of pledges receivable					
		(2,000)	Change in value of allowance for doubtful accounts					
217	(576)	(11)	(Gain) loss on investments					
		(354)	Reinvested investment income					
		(23,450)	Donated artwork					
			Changes in operating assets & liabilities:					
(125,311)	157,800	(393,304)	(Increase) decrease in accounts receivable	(289,625)	(201,204)	(147,429)	(58,100)	(52,160)
450,840	(139,765)	141,418	(Increase) decrease in pledges receivable	268,614	-	50,000	-	-
(102,794)	62,464	(14,249)	(Increase) decrease in other current assets	(2,331)	-	-	-	-
260,142	(508,214)	(50,734)	Increase (decrease) in accounts payable	80,373	72,472	53,802	25,062	21,898
(20,971)	74,806	53,044	Increase (decrease) in accrued interest	43,640	87,280	(2,636)	(1,207)	(2,617)
(171,342)	(182,028)	80,788	(Decrease) in deferred revenue	35,000	35,000	25,000	10,000	-
255,202	299,735	(544,828)	**Net cash provided (used) by operating activities**	344,922	348,001	401,751	431,522	445,216
			Cash flows from investing activities:					
(3,415,509)	(283,397)	(53,764)	Purchase of property and equipment			(30,000)	(30,000)	(30,000)
200	-	-	Proceeds from sale of property and equipment					
2,750	-	-	Proceeds from sale of donated artwork					
			Issuance costs	(161,211)				
			Gross bond insurance premimum	(228,121)				
			Financing reserves	(206,046)				
(3,412,559)	(283,397)	(53,764)	**Net cash (used) by investing activities**	(595,378)	-	(30,000)	(30,000)	(30,000)
			Cash flows from financing activities:					
3,131,919	845,000	1,605,000	Proceeds from line of credit					
(182,900)	(840,000)	(1,435,000)	Principal payments on lines of credit		(175,000)	(200,000)		
(3,488)	(379,989)	(364,437)	Principal payments on notes payable	(2,520,924)	(19,867)	(95,394)	(88,020)	(260,474)
-	504,857	12,356	Proceeds from new borrowings	2,985,081				
2,945,531	129,868	(182,081)	**Net cash (used) provided by financing activities**	464,157	(194,867)	(295,394)	(88,020)	(260,474)
(211,826)	146,206	(780,673)	**Net increase (decrease) in cash and cash equivalents**	213,701	153,134	76,357	313,502	154,742
1,729,822	1,517,996	1,664,202	**Cash and cash equivalents, beginning of year**	883,529	1,097,230	1,250,364	1,326,722	1,640,224
$ 1,517,996	$1,664,202	$ 883,529	**Cash and cash equivalents, end of year**	$ 1,097,230	$1,250,364	$1,326,722	$ 1,640,224	$ 1,794,966

See accompanying significant accounting policies and significant forecast assumptions

Kinship Center
Schedule of Debt Coverage
For the Years Ending June 30,

Historical Year Ended June 30, 2003	2004	2005	Description	Projection Year Ended June 30, 2006	2007	2008	2009	2010
$ (123,160)	$ 626,705	$ (532,393)	Change in Net Assets	$ 4,888	$ 140,731	$ 233,495	$ 266,248	$ 288,575
96,034	198,476	214,226	Depreciation and Amortization	204,364	213,723	188,723	188,723	188,723
29,234	159,469	166,846	Interest Expense	195,444	153,429	141,062	139,364	125,256
$ 2,108	$ 984,650	$ (151,321)	**Net Income Available for Debt Service**	$ 404,696	$ 507,883	$ 563,280	$ 594,335	$ 602,554
$ 29,234	$ 159,469	$ 166,846	Interest	$ 195,444	$ 153,429	$ 141,062	$ 139,364	$ 125,256
3,488	379,989	364,437	Principal	30,924	19,867	95,394	88,020	80,000
$ 32,722	$ 539,458	$ 531,283	Debt Service	$ 226,368	$ 173,296	$ 236,456	$ 227,384	$ 385,730
0.06	1.83	(0.28)	Debt Service Coverage	1.79	2.93	2.38	2.61	2.94

See accompanying significant accounting policies and significant forecast assumptions

Kinship Center
Project Description

This project is to refinance the mortgage with Community Bank of Southern California, which carries interest at Wall Street Journal Prime, currently at 7.25%, has a maturity date of January 19, 2014, but is callable at any time. The refinance is desired in order to achieve the following objectives:

- Remove the exposure of a variable interest rate
- Reduce the interest rate
- Remove the exposure of the demand clause
- Extend the repayment term from eight years to twenty-five years which is more in line with the useful life of the building

Kinship Center
Sources and Uses of Funds

Sources of Funds	
Par amount of Bonds	$3,005,000
Additional required Equity contribution	101,298
Total sources	$3,105,298

Uses of Funds	
Bank Refinance	$2,490,000
Deposit to Debt Service Reserve Fund (DSRF)	206,046
Gross Bond Insurance Premium (440.0bp)	228,122
Costs of Issuance	160,000
Original Issue Discount (OID)	19,919
Rounding Amount	1,211
Total uses	$3,105,298

Kinship Center
Background

Founded in 1984, Kinship Center has a 21-year history of providing innovative, adoption and family permanency competent services throughout the state of California through children's mental health clinics, services to relatives who are providing permanent homes to children who would otherwise be in foster care, adoptive family wraparound services, foster family care, and adoption placement programs. Headquartered in Salinas, and licensed statewide in California, Kinship Center is on the Internal Revenue Service (IRS) list of tax-exempt organizations, described in Section 501(c)(3), July 2005 at www.IRS.gov/app. The agency's EIN number is 77-0037578. The California Association of Child and Family Services accredits Kinship Center. The agency is a member of Child Welfare League of America and California Association of Adoption Agencies. The agency has a workforce of approximately 120 staff members, and has a governing Board of Directors consisting of seventeen volunteer members.

Kinship Center
Description of Services

Kinship Center has developed a comprehensive array of adoption and permanency competent services:

- Adoption programs operate in Monterey, Orange, San Bernardino, Los Angeles, and San Benito counties.
- Kinship Center operates California's first licensed permanency specialty child mental health clinics in Monterey and Orange Counties, California, serving more than 400 children annually. The clinic model is featured in a publication of Georgetown University, Center for Child and Human Development, as a model for the provision of managed care mental health services to adoptive and relative caregivers.[1]
- The agency operates one of California's eleven Relative Caregiver Support Programs, in Monterey County, with an average enrollment of more than 400 children living in approximately 300 relative caregiver families.
- *After Adoption*, California's Adoptive Family Wraparound pilot program operates programs in Monterey and Santa Clara Counties, California.
- The Education Institute provides pre- and post-placement education and support programs to adoptive families and/or permanent relative caregivers in Monterey, San Bernardino, Los Angeles, Santa Clara, and Orange Counties.
- The Education Institute provides *Adoption Clinical Training (ACT)*. More than 3,500 participants in California have completed the eight-day intensive curriculum and licensed clinicians received continuing education credits from the California Board of Behavioral Sciences Examiners. In 2005, Kinship Center produced a Facilitator's Guide and educational video series that enables ACT graduates to train other adoption professionals.
- Excellences in Adoption awards were given for Support to Adoptive Families from HHS-ACF in 2000, 2002, and 2005. The Executive Director received a Congressional Angels in Adoption Award for 2005 through nomination by Congressman Sam Farr, who represents Monterey County.
- *Camp PAKK* is an annual in-residence therapeutic camp and education experience for special needs adoptive families from Santa Clara County, using expert faculty and is featured in a professional video production by Courter Films (2002).
- Kinship Center adoption programs are prominently featured in the Dave Thomas Foundation video, *Finding Forever Families – Making the Case for Child-Specific Recruitment.*
- Treatment foster family care programs provide permanency planning and safe emancipation planning for foster youth, and includes specialized care for those with developmental disabilities and medical conditions.
- Kinship Center has for eighteen years provided mentoring and post-secondary financial assistance to emancipated foster youth. More than thirty former foster youth have completed vocational or college programs.

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1. Entitled *Promising Approaches, A View from the Child Welfare System* (2003). (See ucdc.Georgetown.edu.)

Kinship Center
Philosophy

Kinship Center's mission is the creation and preservation of foster, adoptive and relative families for children who need them. All of the agency's services and programs are dedicated to preparing and sustaining families so that children are safe in a permanent family setting. In order to recruit, educate, support, and sustain permanent families for foster children, a variety of health and mental health programs are necessary to meet their ongoing needs. Children who do not have safety of a committed family will suffer emotional, developmental, intellectual and physical challenges that will disrupt their childhood and adult outcomes. Families who receive a child, who has already suffered abuse, neglect, and abandonment require a variety of supportive services and mental health resources to promote the child's healthy attachment, normal development, intellectual growth, and social well being. In order to provide a comprehensive array of services needed by the children and their families, Kinship Center has established a variety of funding sources (government contracts, mental health and health funding sources, community and major donor development, foundation support, and fee for services).

Our expected outcomes are that:

1. Children will have permanency and stability in their living situations.

2. The continuity of family relationship and connections is preserved for children.

3. Supportive educational, health, and mental health services will be continuously available for families who need them.

Kinship Center
Location and Occupancy

Kinship Center began in Monterey County in May 1984. In the first ten years of operations, the agency had several office locations in the county as growth fostered movement into larger facilities. In 1999, the Board of Directors determined that it was in the best interest of the organization to own its headquarters facility and launched a capital campaign. After looking at the available commercial buildings for sale, it was determined that a construction project was in the best interest of the organization. Monterey County suffers from a shortage of commercial lease space appropriate for the many activities and of a size needed by Kinship Center. Properties available for sale did not meet the organization's needs. Upon launching of the capital campaign, the Board successfully raised $3.5 million toward the construction of a new site at 124 River Road, Salinas. Increases in the program size and statewide growth caused the Board to increase the square footage of the building to be constructed. As a result, the facility's final cost exceeded the original estimate and successful campaign for the original goal. Additionally, county imposed changes added expenses for handicapped access, required construction of a turn lane, additional landscaping and land drainage projects, and required a basement level to be added to the construction plan. The amounts to be financed by Cal Mortgage, essentially are the additional costs beyond the original project design.

Other occupancy statewide: Kinship Center's statewide growth has led to occupancy in commercial lease spaces in Santa Ana, Hollister, Pasadena, San Jose, and Redlands. A total of 18,000 sq ft is leased statewide for program service offices in these locations. A small sub-office has existed in Hollister since 1998. Leased space has been secured in Orange County (Santa Ana) since 1995. The Redlands office opened in 2000. The San Jose offices have been in operation since 2001. The Pasadena office was opened in 2001. The agency anticipates growth in Santa Clara, Los Angeles, San Bernardino, Riverside, and San Luis Obispo counties in the next two years that will cause additional leased spaces to be secured funded by county contracts for mental health services and adoption programs.

Kinship Center
Demand and Market Analysis

Children's Mental Health Services: Monterey County has identified children's mental health services as a part of the Mental Health Services Act ("MHSA") county plan. Post-adoption therapeutic support and family preservation programs are among those expected to be addressed through the new funding opportunities. Kinship Center operates the only private mental health clinic programs in the county that are focused on permanency for foster children and youth. The clinic in Monterey County is growing and expected to add new components, expanding the contract and budget over the next five years in response to the need and to the MHSA plan.

San Luis Obispo County is interested in bringing Kinship Center's children's mental health clinic to their county. While final negotiations are not complete, Kinship Center has the start-up funds for such a clinic through a $409,000 grant from The California Endowment. A final plan is expected in early 2006, with an expected opening of a clinic in San Luis Obispo by July 2006.

Foster Family Care: The consequences of the lack of permanency and number of youth in need of permanency mandates that innovative and increased efforts be made on their behalf to assure that they connect with committed, caring adults who will help them transition into adulthood with the necessary skills to lead healthy and successful lives. The often life-long struggles that youth who emancipate or "age out" from the foster care system without a permanent family encounter include: economic instability, educational disadvantages (many youth do not complete their high school education), criminal activities, higher likelihood of victimization (physical and sexual abuse), homelessness, health problems, substance abuse, and early parenthood.[2] Of these youth, "many transfer from one dependency system to another, including public aid, food stamps, housing subsidies, and other social supports."[3]

On average, California is home to 16% of the nation's foster children. As of July 1, 2004, 84,500 children were in child welfare supervised foster care. Of those, youths ages 11 – 19+ numbered 40,296 or approximately 48% of all children in the State's care.[4] According to the California Permanency for Youth Project (CPYP) 3,500 youth emancipate from foster care in California each year.

The foster care statistics in California indicate consistently over several years that 26% of the children in child welfare supervised foster care were placed in foster family agencies, like Kinship Center. This trend is expected to continue. Monterey County has experienced an increase in children in foster care and a need for additional foster families, with over 500 children being enrolled in November 2005.[5]

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2 Avery, R., & Freundlich, M. *Deleterious Consequences of Aging Out of Foster Care.* National Convening on Youth Permanency Report, 2003. Retrieved on July 20, 2005, from www.cpyp.org.

3 Mech, E.V. (2003). *Uncertain futures: Foster youth in transition to adulthood.* Washington, D.C.: CWLA, p. xix.

4 Needell, B., Webster,D., Cuccaro-Alamin, S., Armijo, M., Lee, S., Lery, B., Shaw, T., Sawson, w., Piccus, W., Magruder, J. & Kim, H. (2004). *Child Welfare Services Reports for California.* Retrieved July 21, 2005, from University of California at Berkeley Center for Social Services Research website. URL: <http://cssr.berkeley.edu/CWSCMSreports/>.

5 DSES public announcement to the media.

National statistics indicate that as of September 30, 2003 there were 523,000 children in foster care. Of those, youths ages 11 – 19+ numbered 258,470, or approximately half of all children in care. Over 12,000 of these youth were waiting for permanency through adoption.

California began statewide efforts to insure permanency in a family for every child in the early 1990's. Statewide initiatives launched by two prior California governors from both major parties continued over a ten-year period. Federal adoption preservation and support legislation incorporated many of the principles being initiated in California. As a result of state and federal efforts, progress is occurring to reduce the number of children entering foster care; to reduce the number of children who languish in foster, group, or residential care; to provide appropriate health and mental health services to foster youth; and to support the relative caregivers that keep children out of the foster care system. Kinship Center has established programs that model all of these goals. Kinship Center's model programs that exist statewide have and continue to inform social policy and best practices in child welfare and permanency for children and youth. While some agencies whose programs are dependent upon temporary congregate care of children and youth are diminishing their services, Kinship Center's array of programs and services continues to experience growth and development because of their long-term focus on family based permanency.

Kinship Center
Competition

Agencies that provide support to permanent families are scarce in California. There are but a few skilled private agencies that have demonstrated effective programming for permanent families. Kinship Center is the recognized leader in this small group for their innovative programs, successful outcomes, and skilled use of multiple funding streams to create a comprehensive array of services that support foster, adoptive, and relative families.

In Monterey County there are no other private adoption agencies that challenge the market stance of Kinship Center. There are several other local agencies that provide foster care and wraparound, but none are significant competitors for business. The local need is great and the county health and social services public agencies use Kinship Center for a broad array of contracts: health, mental health, wraparound, adoption, and foster family care.

Statewide there are other agencies operating in all of the counties where Kinship Center has a presence. Kinship Center's specialty programs are not offered by other agencies that would be considered competitors. In those few instances where similar services are available through other agencies, the demand is greater than the existing agencies can supply.

Mental Health Clinics

Kinship Center operates the state's only two permanency specialty children's mental health clinics, a model developed by the agency, research conducted by Claremont McKenna College, Berger Institute, for almost six years, and cited as the 'promising practice' in children's mental health care for children in the foster care system.

This clinic model will soon be certified as 'evidence based practice' and will be of strong interest to other California counties. Start-up funding for a third clinic has been funded by The California Endowment. Kinship Center has been invited by San Luis Obispo County and has begun contract negotiations with the county to start a combined mental health clinic and relative caregiver program in July 2006. There is no competition for Kinship Center's outpatient mental health services in any of the counties served or elsewhere in California at this time.

These types of specialty mental health services have previously not been available prior to the development of the Kinship Center model, even though the services are an entitlement for qualified children under EPSDT – Medi-Cal funding sources. In fact, the major counties in California have been seeking to access appropriate mental health services for foster, adoptive, and relative children in the Child Welfare System. A frequently cited need by adoptive parents has been access to qualified mental health services for their children adopted from the foster care system[6].

Regarding current and scheduled mental health clinic services:

- Monterey County – The current capacity of 80 children per month in Kinship Center's clinic represents only 50% of the need countywide for these specialty services. Expansion of the services to the Southern part of the County over the next two to five years is already in discussion, following the successful outcomes of the local clinic.
- Orange County – The current capacity of 230 children per month in Kinship Center's clinic represents 50% of the local need for adoptive family services and 25% of the local child development services provided by the current clinic.
- San Luis Obispo County – The next clinic planned to be opened in July 2006, with a capacity for about 80 children represents about 30% of the countywide need for outpatient mental health services for child welfare clients in a county that has no child specialty clinics.

[6] Orange County survey of adoptive parents receiving Aid to Adoption assistance and having access to full scope Medi-Cal services, 1997.

Adoption Services

Adoption of Children From the Foster Care System:

In Monterey County, there are no other private adoption agencies that challenge the market stance of Kinship Center. There are several other local agencies that provide foster care and wraparound, but none are significant competitors for business. The local need is great and the county health and social services public agencies use Kinship Center for a broad array of contracts: health, mental health, wraparound, adoption, and foster family care.

Statewide, there are other agencies operating in all of the counties where Kinship Center has a presence. Kinship Center's specialty programs are not offered by other agencies that would be considered competitors. In those few instances where similar services are available through other agencies, the demand is greater than the existing agencies can supply.

Adoption services do not have county borders for placement decisions. Adoptive children are placed statewide; therefore, the statistics of counties in which the agency has offices is only somewhat relevant to the analysis of demand and supply for adoption placement activities. Consequently,

- Adoptive children placed in Monterey County come from Monterey and surrounding Central Coast Counties (Santa Cruz, San Benito, San Luis Obispo), South Bay Counties (Santa Clara and San Mateo) and Bay Area Counties (Alameda, San Francisco, Contra Costa, and Marin). Kinship Center maintains relationships with all of the above named counties for adoptive placement opportunities for families that mostly reside in Monterey, Santa Cruz, San Benito, and South Santa Clara County communities. From its Salinas office, Kinship Center approves approximately 30 families annually and places children with them for the purposes of adoption.

- Adoptive children placed through the Southern California offices in Pasadena, Redlands, and Santa Ana (Los Angeles, San Bernardino, and Orange Counties) are primarily from the Southern California area, mostly from the three counties in which offices exist, but also from Riverside and San Diego Counties. From its Southern California offices, Kinship Center approves approximately 30 families annually and places children with them for the purposes of adoption.

- In smaller numbers, placements are made from state adoptions offices in rural areas of the state where there are no county adoption agencies.

Regarding demand for adoption services, Kinship Center has room for expansion of the number of families approved, because the number of referrals from the counties seeking placements far exceeds the number of waiting families. The agency is unable to match the number of children requested with approved families. Further, the counties, in accordance with federal guidelines, are placing their major focus on having children settled permanently into families at the earliest possible date following entrance to foster care, with diminishing reliance on group and residential care prior to adoption, even when the children have significant behavioral and mental health needs to be addressed.

Current adoption statististics and trends show that statewide, while the number of children in foster care has declined, the percentage of children in foster care through Foster Family Agencies like Kinship Center has increased by 2% from October 2002 (19%) through April 2005 (21%).[7] The counties continue to utilize foster family agencies as an effective way of keeping children in family based care, while making the journey towards permanence through adoption.

Adoptive Family Services to California Counties: Kinship Center provides adoptive family studies for multiple counties to assist the overburdened county agencies. The number of family study services has increased by 152% in the past five years, with a projection of work on behalf of 165 children in 2005/2006. The agency is reimbursed $5,000 for the work we do on behalf of each child who achieves permanence through adoption from the Private Agency Adoption Reimbursement Program (PAARP), with a current revenue source of $827,500. It is the goal of each county to increase the number of foster parent and relative caregiver adoptions. The PAARP program provides the least expensive and most reliable way for county agencies to meet these objectives. Kinship Center is a preferred agency for counties to use because of the quality of the family education and evaluations offered. Starting at the end of 2004/2005, San Luis Obispo, Santa Clara, Monterey, Orange, and San Bernardino counties have requested that Kinship Center increase its family study services and complete significantly more of these studies. Kinship Center has already contracted with several social workers in those counties to prepare these additional studies. This significant increase will occur through 2006/07, and then level off. Additionally, Kinship Center receives PAARP reimbursement for the work with children in its foster care program who are successfully placed for adoption. These funds assist in the costs incurred for these children before and after their foster care placement.

Relinquishment and Independent Adoption Programs: Kinship Center is a full service adoption agency, allowing it to provide services to families adopting infants who are relinquished by their birth families to the agency. Kinship Center has full authority to take infants into agency custody for the purpose of adoptive placement. The infant adoption program serves families adopting through the agency as well as those families who are working with adoption attorneys for independent-of - agency adoptions. This program has grown by approximately 185% in the past five years and will continue to grow, especially in Southern California, where there is a large population base and a community need for the services.

[7] **Caseload Trends in Child Welfare, California Alliance of Child and Family Services.**

The demand for relinquishment and independent adoption services, and a continuing interest in families to adopt infants, keeps this an enduring service need. Kinship Center also works closely with attorneys associated with the California Association of Adoption Attorneys, who constantly refer both adoptive families and birth families for pre and post-placement services that are fee-based to the adoptive family.

Foster Family Services

Kinship Center provides treatment foster care services for older youth and adolescents who may previously have been in group or residential care in Monterey County, or for those whose only other alternative would be congregate care. The agency is committed to permanency in a family for these youth and the county social services agency relies upon Kinship Center to develop a permanent family and to assist the older youth into completion of secondary and post-secondary education through our Cypress Education scholarship assistance program that is privately funded. With the trend away from congregate care placements, the demand for continuing foster care assistance from Kinship Center is assured.

The agency is one of three private agencies in California that specializes in the foster care of children with serious developmental and medically fragile conditions. The program has been in existence in Monterey County for ten years and is starting in Orange County in 2006. This program is a scarce and valued resource for county agencies seeking safe and permanent family-based care for exceptionally challenged children. Kinship Center also assists the county agencies by developing permanent adoptive or guardianship families for these children, thereby achieving permanency rather than institutionalization. This program is a rare commodity for county child welfare agencies and will continue to be in demand. The number of placements are small (less than ten children per year in Monterey and probably not to exceed twenty in Orange). This program benefits from expanded rates of care that allow for extra payments to the foster family, specialized services to the child, and smaller caseloads for intensive services, while providing revenues that support the program and its share of agency administrative costs.

Relative Caregiver Support Programs

Monterey County is one of eleven in California that provide support to relative caregivers, primarily grandparents. In Monterey County 85% of the children served would otherwise be in the foster care system. Kinship Center is one of two agencies that has successfully worked with local counties to expand funding resources beyond the State Kinship Support Services Program (KSSP) funding. It is expected that the State fund that supports relative care programs will double in 2006, allowing other counties, like San Luis Obispo, to make use of these funds, combined with Targeted Case Management health funds, and Title IV-E funds to create and/or sustain relative programs. The value of the Monterey County program is the immediate cost savings to the county for not bringing these children into the foster care system. The value for every county is to preserve and support relative families.

Kinship Center has provided services to 753 children in Monterey County in the past two years, with the result that only four children entered or re-entered the foster care system. The 753 children were all located in the Northern region of the county and there is strong interest to expand the program to the Southern communities in Monterey County. The efficacy of such outcomes is being noticed and considered by other counties. San Luis Obispo is working with Kinship Center to establish a relative caregiver program in 2006, in conjunction with the planned child mental health clinic that will open there. San Luis Obispo currently places 56% of its children in the foster care system with relatives who need services and has a goal of increasing these relative placements to 70% within the next two years.

Kinship Center's particular experience and expertise in administering and conducting this specialized program, places the agency in a particularly good situation to consult and/or develop similar programs in other counties that do not now have relative caregiver services.

Adoptive Family Wraparound Programs:

Kinship Center operates the State's two pilot programs for adoptive family wraparound services. Wraparound is an evidence-based program widely used for other families in the child welfare system, but the adoptive family wraparound program is unique and operated exclusively by Kinship Center.

The pilot project was developed and continues in Santa Clara County. The funding for adoptive families is from a federal entitlement program Aid to Adoption Program (AAP). It is the most readily available source for post-adoptive services to families who have adopted children with a variety of special needs from the foster care system.

The particular value of this program is that it keeps children in their families when the only other alternative would be group or residential care for a child or adolescent with extreme behavioral or emotional challenges. The demonstrated success ratio of 90% has established the efficacy of the program and, therefore, it is being considered in a number of California counties.

Following the success of the Santa Clara program, Monterey established an AAP wraparound program through Kinship Center. The Monterey program has had similar successful outcomes and the county is committed to its continued use.

San Mateo County has contacted Kinship Center to notify it that a similar program will be established there and inviting the agency to bid to operate it.

Wraparound provides flexible funding for a group of families for whom the extent of specialized services needs vary in intensity. Both pilot programs have been able to reinvest unused special services funding in agency child welfare services on occasion.

Education Institute

Kinship Center has an established Education Institute for training, consultation, curricula development, and education product publication. The Institute is in its formative stages, however, the interest in and demand for products and services is increasing. For example:

- More than 3,500 professionals have completed the Adoption Clinical Training eight-day curriculum. Four ACT classes have been scheduled for California locations in 2005.
- The agency has a private contract for consultation and training with a nationwide boarding school chain that has many adoptive children in residence.
- Orange County Families and Children Commission has funded curricula development, videoconference training, and web-based learning site for 2005/2006.
- Thirty-five trainers of ACT have been certified to train nationally and Kinship Center will have income from each class taught in any location.
- Specialized curricula for advanced courses in adoption, foster care, and relative care have been created and are to be marketed in 2006 to county and private agencies in the U.S. and Canada.
- The agency has a professional filming studio in its basement in the Salinas office that is being used regularly for production of lecture series, panel interviews, and expert interviews. These products are to be used as educational aids in classes and as stand alone training videos by county agency training staff, private agencies, and university settings where social work is being taught.

The Education Institute is a developing program that has excellent promise as an income center and as a source of high quality product for existing agency educational programs. It is the intent of the agency to use the income from this Institute to strengthen the general funds of Kinship Center.

Kinship Center
Overall Conclusion Regarding Demand and Market Analysis

The following factors are apparent from the studies presented:

- The agency's strength base is in the diversity of specialized programs that support the work that county agencies seek but cannot provide on their own.

- Permanency specialty child mental health clinics are among the few evidence based programs for adoptive, guardianship, and relative caregiver families and the existing clinics have waiting lists for service from families with full scope Medi-Cal eligibility for payment.

- Child placement programs will remain stable, even as the foster care population in California is declining because of the array of specialized supports and programs that other agencies do not offer – demand will continue steadily.

- Relative caregiver expertise is a rare commodity at a time where there is a growing shift toward relative placement and few existing services with expertise and evidence-based experience to supply the need. It is anticipated that this program will expand to at least one other county and that the agency will provide consultation and training to other counties who are developing such programs.

- Adoptive family wraparound is the only alternative for group or residential placement of children with serious behavioral and emotional needs and the program is funded through an entitlement program.

- Family based foster care for highly specialized populations (older youth/teens and medically fragile children) differ from the generic foster care provided by most FFAs. The foster care baseline has remained stable and within the desired program size determined by the agency. This population will grow with the addition of the medically fragile program in Orange County.

- The Education Institute provides a growing opportunity for income, as well as being a respected source for curricula development and training that is not equaled by any other similar institution.

The combination of factors described above supports the revenue assumptions contained in this study. Kinship Center has positioned itself to meet the needs of the counties for services to children and families. Therefore, there will continue to be a strong demand for the services of Kinship Center out into the future.

Kinship Center
Management Staff Profiles

Carol Biddle, MSW

Founding CEO of Kinship Center. With her leadership, Kinship Center has grown to provide permanency-related services to over 1,200 children each year. The agency she leads has received two national awards for excellence and the agency's innovative mental health programs have been the subject of journal articles and other national publications. Carol's career spans several decades and includes being a therapist, an adoption social worker, and administrator of a state developmental disabilities program, all leading her to the creation of a family-focused agency that is licensed statewide in California. She was awarded the Congressional Angels in Adoption Award in 2005. She is President-Elect for the California Association of Child and Family Services.

Carol Bishop, MFT

Co-founder and Assistant Director of Kinship Center, Carol is a Licensed Marriage and Family Therapist. She developed the adoption and foster care placement programs for Kinship Center, and has oversight of special family programs, which include support to relative caregivers who are raising their relative children, and the model adoption wraparound program in California. Carol has worked in the field of child welfare, in both public and private agencies. Her work has been in adoption and foster care as a social worker, therapist, supervisor, program administrator, and now a statewide agency administrator. She serves on several statewide committees and is an officer of the California Association of Adoption Agencies.

Deborah N. Silverstein, LCSW

Associate Director of Kinship Center, Deborah has been a licensed clinical social worker for over twenty years. She is an adoption author, co-developer of the *Adoption Clinical Training* and expert national trainer, as well as an adoptive parent of four special needs children. Deborah specializes in program design, development, and evaluation. Along with Sharon Roszia, Deborah began the Southern California programs of Kinship Center.

Ann F. Hasselbach, CPA

Director of Finance of Kinship Center, Ann has been a certified public account for over twenty-five years, and has specialized in non-profit accounting for the last twenty years. She has oversight of all finance and human resources activity of the agency.

Olivia Yates, Ed.D., CFRE

Director of Development and Community Relations for Kinship Center, Olivia has more than fifteen years of professional fundraising and grants management experience with educational institutions and the non-profit sector. She is also a nationally published journalist, columnist, and editor, and is a frequent faculty member and lecturer on fundraising, public relations, marketing and volunteer management.

Del Stewart, LCSW

Director of Mental Health Services for Kinship Center and Director of the Children's Mental Health Clinic in Santa Ana, Del has worked with adopted children and their families for twenty-five years. In addition, she has been an affiliate professor at universities and colleges, training and supervising graduate students and mental health interns.

Kinship Center
Management Staff Profiles, continued

Laura Ornelas, LCSW, MSW

Director of the D'Arrigo Children's Clinic in Salinas, Laura has an impressive vitae in child and family therapy, as an adoption program director, and a foster family agency program director. She is a skilled clinical educator and trainer in the field of adoption and foster care and in cross-cultural competence.

Sharon Kaplan Roszia, MS

Program Director of Special Needs Adoptions in Kinship Center's Southern California offices, Sharon is an acknowledged expert in the field of foster care and adoption, in public and private agencies, as well as in private practice. Sharon lectures all over the world; has produced audio and video training tapes on the issues of adoption; and is the author of many articles and two books. She is also an adoptive parent.

Melissa Dodson, MSW

Program Director of Infant Adoptions in Kinship Center's Southern California offices, Melissa has managed adoption programs for over twenty years. She specializes in infant adoptions, birth parent work, international adoptions, and conversion home studies.

Nancy M. Murphy, MA

Nancy Murphy, Program Director for the Adoptions and Foster care programs in Salinas has been a member of the Kinship Center team for twenty years. During that time, Nancy has worked as a social worker for the Infant Adoptions Program, for the Special Needs Adoption Program, and for the Foster Care Program placing children, supervising placements, studying families for adoptive and foster placements, as well as being part of the education team, training families for the placement of children. Nancy has served as a peer reviewer for the California Alliance of Child and Family Services.

Graham Wright, M. Phil., MSW

Founder and director of Kinship Center's adoption wraparound program, Adoptive Family Therapeutic and Educational Resources (AFTER), Graham has over twenty years of experience in the child welfare field. Graham served on the Governor's Child Welfare Services Stakeholder Group, charged with redesigning California's entire child welfare system and is past president of California's Association of Adoption Agencies and an experienced legislative advocate. Graham is the Principle Director of Placenet.net, L.L.C., a company that provides web site services to child welfare agencies.

Charles Chambers

Directs the relative caregiver program in Salinas. His career in child welfare includes leadership in several programs that specialize in meeting the health, mental health, and social needs of relative caregivers for children who would otherwise be in foster care. He is a board member of the newly formed California Family Resource Association.

Temple A. Smolen, MBA

Director of Kinship Center's Education Institute, Temple has an extensive background in the development of training curriculum and on-line educational tools. She is developing a marketing plan for the training products and classes of the institute and manages the development of all of Kinship Center's educational materials.

Kinship Center
Board of Directors

President — **Amanda Gourley**
Carmel, CA
(Commercial Interior Designer)

President Elect — **Geoffrey LePlastrier**
Irvine, CA
(Developer)

Vice President — **Nicholas Pasculli**
Salinas, CA
(Public Relations)

Immediate Past-President — **Vacant**

Secretary & Treasurer — **Richard Murnighan**
Salinas, CA
(Community Leader)

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Hon. Marla Osborne Anderson
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(Finance Consultant)

Judith Profeta
Carmel, CA
(Real Estate Broker)

Robin Voet
San Juan Capistrano, CA
(Community Leader)

John Wilkinson
Salinas, CA
(Agribusiness Owner)

Kinship Center
Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Kinship Center are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted – Undesignated. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Unrestricted – Board Designated. These are comprised of revenues that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net asset accounting, these funds are included in unrestricted net assets.

Temporarily Restricted. Kinship Center reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Kinship Center to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

Kinship Center has defined cash and cash equivalents as cash in banks, money market funds in a securities institution, and certificates of deposits with an original maturity of six months or less.

Contributions and Pledges Receivable

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenue in the period received. Kinship Center reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Accounts Receivable

Accounts receivable includes interest receivable and receivables from governmental agencies. Kinship Center uses the allowance method in order to reserve for potential uncollectible accounts receivable.

Investments

Kinship Center values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

Concentration of Credit Risks

Kinship Center places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Kinship Center also places temporary cash investments in money market funds with securities institutions which are not insured by the Federal Deposit Insurance Corporation. Kinship Center has not incurred losses related to these investments.

The primary receivable balance consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Kinship Center's receivables consist of earned fees from contract programs granted by governmental agencies.

Kinship Center holds investments in the form of pooled investments with a community foundation. The Board of Directors routinely reviews market values of such investments.

Donated Materials and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to Kinship Center. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

Income Taxes

Kinship Center is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Functional Allocation of Expenses

Costs of providing Kinship Center's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Kinship Center uses salary expenses or total direct expenses to allocate indirect costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented.

Kinship Center
Significant Forecast Assumptions, Assets

Accounts Receivable

Accounts receivable consist of outstanding billings to various government agencies under contracts and fees for service agreements. As the majority of accounts receivable consist of the prior month's services, it is anticipated that accounts receivable will increase commensurate with increases in revenues and the number of days revenue in receivables will remain stable at approximately 63 days receivable.

Pledges Receivable

Pledges receivable were incurred in connection with the capital campaign that concluded in 2004. The projected collections are based on the scheduled pledge payment dates. No other significant pledges are expected to occur in the future.

Other Current Assets

Other current assets consist of prepaid expenses and deposits. Other current assets are not expected to change significantly.

Property and Equipment

Kinship Center's current capitalization policy is to capitalize items costing over $5,000 each, which is in accordance with the A-122 regulations. Thus, most computers and office equipment and furnishings are not capitalized but expensed during the year of purchase. Kinship Center intends to lease space required for program expansion. Property and equipment includes purchases and dispositions of vehicles during 2008, 2009, and 2010. Following is the schedule of Property and Equipment.

Historical Year Ended June 30,			Description	Projection Year Ended June 30,				
2003	2004	2005		2006	2007	2008	2009	2010
			Cost					
$ 640,231	$ 640,231	$ 640,231	Land	$ 640,231	$ 640,231	$ 640,231	$ 640,231	$ 640,231
-	211,338	211,338	Land improvements	211,338	211,338	211,338	211,338	211,338
4,989,363	5,026,029	5,030,229	Buildings	5,030,229	5,030,229	5,030,229	5,030,229	5,030,229
9,120	5,331	5,331	Leasehold improvements	5,331	5,331	5,331	5,331	5,331
862,674	873,889	884,453	Furniture and equipment	884,453	884,453	884,453	884,453	884,453
58,629	103,128	142,128	Vehicles	142,128	142,128	143,748	143,499	143,920
21,717	-	-	Construction in progress	-	-	-	-	-
$ 6,581,734	$ 6,859,946	$ 6,913,710	Total Fixed Assets	$ 6,913,710	$ 6,913,710	$ 6,915,330	$ 6,915,081	$ 6,915,502
			Accumulated Depreciation					
$ 233,113	$ 239,263	$ 435,943	Beginning balance	$ 650,169	$ 846,750	$ 1,044,906	$ 1,189,682	$ 1,332,589
96,034	198,476	214,226	Annual depreciation	196,581	198,156	173,156	173,156	173,156
89,884	1,796	-	Dispositions	-	-	(28,380)	(30,249)	(29,579)
239,263	435,943	650,169	Ending Balance	846,750	1,044,906	1,189,682	1,332,589	1,476,166
$ 6,342,471	$ 6,424,003	$ 6,263,541	Fixed Assets, Net	$ 6,066,960	$ 5,868,804	$ 5,725,648	$ 5,582,492	$ 5,439,336

Kinship Center
Significant Forecast Assumptions, Liabilities

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include accrued vacation and various trade and vendor liabilities for supplies and services. Average days for these items remain stable at twenty-five throughout the forecast period.

Kinship Center
Significant Forecast Assumptions, Liabilities, continued

Notes and Bonds Payable

The proposed tax-exempt debt of $3,005,000 is assumed to have a true rate of 4.60% and a twenty-five year term. Funding is assumed on March 1, 2006. The following is a summary of notes and bonds payable.

	Community Bank	Community Bank	Victory Toyota	Victory Toyota	Victory Toyota	Cal Mortgage	
Balance 7/1/05	$ 2,501,568	$ 193,995	$ 19,255	$ 13,576	$ 26,285		$ 2,754,679
Addition						3,005,000	3,005,000
Original Issue Discount						(19,919)	(19,919)
Payments	2,501,568	3,070	6,297	3,475	6,514		2,520,924
Balance 6/30/06		190,925	12,958	10,101	19,771	2,985,081	3,218,836
Addition							
Payments		3,268	6,418	3,542	6,639		19,867
Balance 6/30/07		187,657	6,540	6,559	13,132	2,985,081	3,198,969
Addition							-
OID						796	796
Payments		3,478	6,540	3,610	6,766	75,000	95,394
Balance 6/30/08		184,179	-	2,949	6,366	2,910,877	3,104,371
Addition							-
OID						796	796
Payments		3,705		2,949	6,366	75,000	88,020
Balance 6/30/09		180,474		-	-	2,836,673	3,017,147
Addition							-
OID						796	796
Payments		180,474				80,000	260,474
Balance 6/30/10	$ -	$ -	$ -	$ -	$ -	$ 2,757,469	$ 2,757,469

Year Ended	Interest Expense	Accrued Interest	Other Interest	OID	Interest Expense
June 30, 2006	$ 43,640	$ 43,640	$ 151,804	$ -	$ 195,444
June 30, 2007	130,920	76,370	22,509	-	153,429
June 30, 2008	128,284	74,970	11,982	796	141,062
June 30, 2009	127,077	73,526	11,491	796	139,364
June 30, 2010	124,460	71,940	-	796	125,256

Kinship Center
Significant Forecast Assumptions, Revenue

Historical Year Ended June 30,			Description	Projection Year Ended June 30,				
2003	2004	2005		2006	2007	2008	2009	2010
			Government Contracts					
$ 1,826,761	$ 2,176,604	$ 1,771,352	Foster Care	$ 1,897,200	$ 1,938,000	$ 1,996,140	$ 2,056,024	$ 2,117,705
1,462,910	1,581,894	2,295,818	Mental Health and Developmental Services	2,937,913	3,612,583	4,102,863	4,286,221	4,412,723
440,900	470,600	555,000	Adoption Assistance	800,000	900,000	920,000	945,000	970,000
730,919	785,089	1,099,274	Post Adoption Assistance	1,279,348	1,533,708	1,661,308	1,676,308	1,711,308
485,281	433,803	421,763	Relative Caregiver Support	394,763	429,763	442,656	455,936	469,614
151,085	173,415	151,713	Kincamp	150,000	150,000	150,000	150,000	150,000
278,723	127,192	208,998	Services to Regional Center Clients	203,000	304,500	406,000	406,000	406,000
146,568	93,403	169,046	Education	440,944	342,361	342,361	342,361	342,361
3,493	-	-	Other	-	-	-	-	-
5,526,640	5,842,000	6,672,964	Subtotal	8,103,168	9,210,915	10,021,328	10,317,850	10,579,711
			Program Service Fees					
337,730	504,985	396,302	Adoption Income	525,000	542,000	558,260	575,008	592,258
126,319	96,778	89,728	Training and Consulting Fees	197,000	213,000	213,000	213,000	213,000
31,858	15,072	19,331	Adoption Clinic Fees	20,000	20,600	21,218	21,855	22,510
-	25,000	-	Recruitment Services	-	-	-	-	-
-	35,347	32,867	Mental Health Clinic	45,000	60,000	80,000	100,000	120,000
2,095	838	1,020	Other	1,150	1,150	1,150	1,150	1,150
498,002	678,020	539,248	Subtotal	788,150	836,750	873,628	911,012	948,918
			Contributions and Fund Raising Events					
199,069	268,470	321,604	Unrestricted	553,000	566,000	576,000	605,000	595,000
366,832	1,267,092	358,416	Temporarily Restricted	150,000	150,000	150,000	150,000	150,000
1,100	-	50	Permanently Restricted	-	5,000	10,000	20,000	50,000
567,001	1,535,562	680,070	Subtotal	703,000	721,000	736,000	775,000	795,000
			Other Revenue and Support					
1,170	702	6,409	Education institute summary worksheet	27,000	30,000	37,000	47,000	62,000
7,000	11,225	31,795	Special family services summary worksheet	30,000	30,000	30,000	35,000	35,000
10,568	10,103	14,780	Foster care program worksheet	16,000	17,200	17,200	17,200	17,200
129,011	136,869	98,042	Other revenue worksheet	88,101	95,714	98,931	106,994	111,914
147,749	158,899	151,026	**Subtotal**	161,101	172,914	183,131	206,194	226,114
$ 6,739,392	**$ 8,214,481**	**$ 8,043,308**	**Total**	**$ 9,755,419**	**$ 10,941,579**	**$ 11,814,086**	**$ 12,210,056**	**$ 12,549,744**

Kinship Center
Significant Forecast Assumptions, Expenses, continued

Salaries

Historical Year Ended June 30, 2003	2004	2005	Description	Projection Year Ended June 30, 2006	2007	2008	2009	2010
			Program Services					
$ 535,661	$ 563,350	$ 604,112	Adoption	$ 634,112	$ 713,135	$ 755,923	$ 778,601	$ 801,959
687,136	641,870	669,562	Foster Care	694,562	715,399	758,323	781,072	804,505
45,206	15,008	20,133	Services to Regional Center Clients	20,133	50,737	53,781	55,395	57,056
1,083,263	1,128,464	1,485,925	Child Mental Health and Developmental Programs	1,795,381	2,139,159	2,500,259	2,623,517	2,702,222
699,146	798,944	857,041	Special Family Services	923,157	1,090,852	1,156,303	1,190,992	1,226,722
300,599	261,445	259,185	Education Institute and Student Support	491,821	457,732	485,196	499,752	514,744
3,351,011	3,409,081	3,895,958	Total program services	4,559,166	5,167,014	5,709,785	5,929,329	6,107,209
			Support Services					
404,504	612,736	666,172	Management and General	716,172	847,657	898,517	925,472	953,236
93,214	71,690	75,968	Fundraising	154,768	199,411	211,376	217,717	224,248
497,718	684,426	742,140	Total support services	870,940	1,047,068	1,109,892	1,143,189	1,177,485
$ 3,848,729	$ 4,093,507	$ 4,638,098	**Total expenses**	$ 5,430,106	$ 6,214,083	$ 6,819,678	$ 7,072,518	$ 7,284,693

Kinship Center
Significant Forecast Assumptions, Expenses, continued

Changes in Salary Expenses

The following schedules show the projected changes in salary and benefit expenses through fiscal year ending 2010. The summary schedule shows, by major program group, the FTE changes, COLA increases and new benefits per year. The FTE schedule shows the details of projected changes in staffing for each major program group.

The salary and benefits totals for each program for each year are shown on the forecast assumptions for each program and major program group.

Kinship Center
Significant Forecast Assumptions, Expenses, continued

Supporting Schedule of Salaries and Benefits

		Adoption	Foster Care	Services to Regional Center Clients	Child Mental Health & Developmental Programs	Special Family Services	Education Institute & Student Support	Management & General	Fundraising
Salaries/benefits 2004/05		**$604,112**	**$ 669,562**	**$ 20,133**	**$ 1,485,925**	**$ 857,041**	**$ 259,185**	**$ 666,172**	**$ 75,968**
Changes for 2005/06:									
FTE changes	See Schedule	30,000	25,000	-	309,456	66,116	191,705	50,000	78,800
Salaries/benefits 2005/06		**634,112**	**694,562**	**20,133**	**1,795,381**	**923,157**	**450,890**	**716,172**	**154,768**
Changes for 2006/07:									
COLA	3%	19,023	20,837	604	53,861	27,695	13,527	21,485	4,643
FTE changes	See Schedule	60,000	-	30,000	289,917	140,000	4,512	110,000	40,000
Salaries/benefits 2006/07		**713,135**	**715,399**	**50,737**	**2,139,159**	**1,090,852**	**468,929**	**847,657**	**199,411**
Changes for 2007/08:									
COLA	3%	21,394	21,462	1,522	64,175	32,726	14,068	25,430	5,982
Addition of retirement plan	3%	21,394	21,462	1,522	64,175	32,726	14,068	25,430	5,982
FTE changes	See Schedule				232,750				
Salaries/benefits 2007/08		**755,923**	**758,323**	**53,781**	**2,500,259**	**1,156,303**	**497,064**	**898,517**	**211,376**
Changes for 2008/09									
COLA	3%	22,678	22,750	1,613	75,008	34,689	14,912	26,955	6,341
FTE changes	See Schedule				48,250				
Salaries/benefits 2008/09		**778,601**	**781,072**	**55,395**	**2,623,517**	**1,190,992**	**511,976**	**925,472**	**217,717**
Changes for 2009/2010									
COLA	3%	23,358	23,432	1,662	78,706	35,730	15,359	27,764	6,532
Salaries/benefits 2009/2010		**$801,959**	**$ 804,505**	**$ 57,056**	**$ 2,702,222**	**$1,226,722**	**$ 527,336**	**$ 953,236**	**$ 224,248**

Kinship Center
Significant Forecast Assumptions, Expenses, continued

FTE Changes

		FTE Salary & Benefits	FTE	Salary/ Benefits at Actual FTE	Start Date	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Adoptions										
Social Worker	handle increases in adoptions	$ 60,000	1.0	$ 60,000	1/1/2006	$ 30,000	$ 30,000			
Social Worker	handle increases in adoptions	60,000	.5	30,000	7/1/2006		30,000			
	Total Adoptions					30,000	60,000			
Foster Care										
Recruiter	New grant funded positon as of 1/1/05 - therefore only 1/2 of year in 2004/2005- other half is new for 2005/2006	50,000	1.0	50,000	1/1/2005	25,000				
	Total Foster Care					25,000	-			
Services to Regional Center Clients										
Social Worker	For new Southern California program	60,000	.5	30,000	7/1/2006		30,000			
	Total Svcs to Regional Center Clnts						30,000			
Mental Health and Developmental Services										
Orange County Medi-Cal Clinic:										
	no new positions - but in 2004/2005 there were significant staff turnover and staff on unpaid leave which caused the salaries/benefits to be lower than budgeted. The goal is to have all positions filled all year in 2005/2006 which will result in increased salary/benefits	n/a	n/a	n/a	n/a	63,500				
	Total Orange County M-C Clinic					63,500				
Monterey County Medi-Cal clinic										
Therapist	complete clinic phase-in	60,000	1.0	60,000	1/1/2005	30,000				
Therapist	complete clinic phase-in	60,000	1.0	60,000	4/1/2005	45,000				
Therapist	complete clinic phase-in	60,000	1.0	60,000	7/1/2005	60,000				
Therapist	complete clinic phase-in	60,000	1.0	60,000	9/1/2005	45,000	15,000			
Support Staff	complete clinic phase-in	39,000	1.0	39,000	9/1/2005	29,250	9,750			
TBS worker	complete clinic phase-in	39,000	.5	19,500	1/1/2006	9,750	9,750			
Case Manager	complete clinic phase-in	55,000	.5	27,500	1/1/2006	13,750	13,750			
	Total Mty Cty M-C Clinic					232,750	48,250			
New Medi-Cal Clinic										
Clinic Director	New Clinic	82,000	1.0	82,000	5/1/2006	13,667	68,333			
Therapist	New Clinic	60,000	1.0	60,000	6/1/2006	5,000	55,000			
Therapist	New Clinic	60,000	1.0	60,000	1/1/2007		30,000	30,000		
Therapist	New Clinic	60,000	1.0	60,000	4/1/2007		15,000	45,000		
Quality Assurance	New Clinic	49,000	1.0	49,000	5/1/2006	8,167	40,833			
Support Staff	New Clinic	39,000	1.0	39,000	5/1/2006	6,500	32,500			
Therapist	complete clinic phase-in	60,000	1.0	60,000	7/1/2007			60,000		
Therapist	complete clinic phase-in	60,000	1.0	60,000	9/1/2007			45,000	15,000	
Support Staff	complete clinic phase-in	39,000	1.0	39,000	9/1/2007			29,250	9,750	
TBS worker	New Clinic	39,000	.5	19,500	1/1/2008			9,750	9,750	
Case Manager	complete clinic phase-in	55,000	.5	27,500	1/1/2008			13,750	13,750	
	Total New M-C Clinic					33,333	241,667	232,750	48,250	
Other Mental Health Programs										
Program terminated 6/04-reduce salaries										
	Total Other Mental Health Prog.					(20,127)				
	GRAND TOTAL MENTAL HEALTH					$ 309,456	$ 289,917	$ 232,750	$ 48,250	

Kinship Center
Significant Forecast Assumptions, Expenses, continued

FTE Changes, continued

		FTE Salary & Benefits	FTE	Salary/ Benefits at Actual FTE	Start Date	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Special Family Services										
Wraparound										
Facilitator-Monterey		$ 60,000	1.0	$ 60,000	7/1/2005	$ 60,000	$ -			
Family Assistants-Santa Clara & Monterey		40,000	2.0	80,000	1/1/2006	40,000	40,000			
Facilitator - New San Mateo Program		60,000	1.0	60,000	7/1/2006		60,000			
Family Assistant - New San Mateo Program		40,000	1.0	40,000	7/1/2006		40,000			
Total Special Family Services						100,000	140,000			
Monterey County Post Adoption Services Contract										
Contract not renewed-position eliminated						(33,884)				
Total Mty Cty Post Ad contract						(33,884)				
GRAND TOTAL SPECIAL FAM SVCS						$ 66,116	$ 140,000			
Education Institute										
General Education Institute										
Support Staff		31,200	.5	15,600	7/1/2006		15,600			
Graphic Designer		50,000	.5	25,000	7/1/2006		25,000			
Total General Ed. Institute							40,600			
Seedlings Learning Project										
All Staff	Increase in staff fte's during last year of project for 05-06-then project ended					27,258	(47,421)			
Total Seedlings Learning Project						27,258	(47,421)			
Orange County Bridge Builders										
Counselor	New Position per new contract	55,000	.65	35,750	7/1/2006	35,750				
Admin Assistant	Increase in FTE fm .15 to .25	40,300	.1	4,030	7/1/2006	4,030				
Total Orange County Bridge Builders						39,780				
APSS Bridge Builders-LA (new 2005/06)										
Supervising Group Educator		62,500	.75	46,875	8/1/2005	42,969	3,906			
Reception/Scheduler/Data Entry		50,875	.75	38,156	8/1/2005	34,977	3,180			
Group leader / educator --bilingual		60,625	.75	45,469	8/1/2005	41,680	3,789			
Program Consultant-design,content & implementaion		55,000	.1	5,500	8/1/2005	5,042	458			
Total APSS Bridge Builders						124,667	11,333			
GRAND TOTAL ED. INSTITUTE						$ 191,705	$ 4,512			
Management & General										
Executive Administrative Assistant		35,000	1.0	35,000	7/1/2005	35,000				
HR Assistant		30,000	.5	15,000	7/1/2005	15,000				
HR Assistant		30,000	.5	15,000	7/1/2006		15,000			
Accountant		60,000	1.0	60,000	7/1/2006		60,000			
Exec. Admin. Assistant & HR support-So Cal		35,000	1.0	35,000	7/1/2006		35,000			
Total Management & General						50,000	110,000			
Fundraising										
Development Director	position vacant 10/1/04-7/11/05	100,000	1.0	100,000	7/1/2005	100,000				
	Less 7/1/04-9/30/04					(21,200)				
Development Assistant		40,000	1.0	40,000	7/1/2006		40,000			
Total Fundraising						$ 78,800	$ 40,000			

Kinship Center
Significant Forecast Assumptions, Expenses

Supplies and Services

Historical Year Ended June 30, 2003	2004	2005	Description	Projection Year Ended June 30, 2006	2007	2008	2009	2010
			Program Services					
$ 221,578	$ 291,880	$ 307,652	Adoption	$ 316,882	$ 332,726	$ 342,707	$ 352,989	$ 363,578
313,015	321,701	276,292	Foster Care	284,581	293,118	301,912	310,969	320,298
33,742	11,213	11,358	Services to Regional Center Clients	18,511	33,033	40,995	41,385	41,787
422,434	509,872	691,981	Child Mental Health and Developmental Programs	992,533	1,169,944	1,225,742	1,263,754	1,306,764
443,741	465,840	554,134	Special Family Services	531,037	606,969	625,178	643,933	663,251
231,330	218,824	372,878	Education Institute and Student Support	436,592	340,609	328,024	323,624	319,093
			Support Services					
260,525	279,641	274,243	Management and General	282,470	302,243	361,311	372,150	383,314
90,341	62,847	164,810	Fundraising	120,810	144,972	149,321	153,801	158,415
$ 2,016,706	$ 2,161,818	$ 2,653,348	**Total Expenses**	$ 2,983,416	$ 3,223,614	$ 3,375,189	$ 3,462,605	$ 3,556,500

Kinship Center
Significant Forecast Assumptions, General

Presentation:

Kinship Center is a very complex organization with many programs, each of which may have more than one funding source. The Significant Forecast Assumptions have been presented by major program groups:

Child Mental Health and Developmental Programs
Foster Care
Adoptions
Services to Regional Center Clients
Special Family Services
Education Institute and Student Support

Along with the support services categories:

Management and General, and
Fund Raising

Some of these program groups have several distinct programs or contracts. These have their own worksheets, with a summary sheet to show the totals of the different line items on the detailed schedules.

The information on the summary sheets is then accumulated in a detailed statement showing the program source for each line item on the forecast assumption worksheets.

Between 2003 and 2005, there were some changes in the program grouping of a few individual programs. In order to show the program activity in the same schedule, the programs are included in the program group they belonged to in 2005. Thus there are some differences in the program groupings in the schedules here compared to the audited statements, but the totals are the same.

Accounting for and Presentation of Restricted Donations

The main difference between accounting for for-profit entities and non-profit organizations such as Kinship Center is in the area of restricted donations. Please refer to the Statement of Activities in the Audit reports included. There are three columns in this statement, unrestricted, temporarily restricted, and permanently restricted.

The unrestricted column is essentially the general operating fund of the agency. Non-donation revenue (contracts, etc.) and donations that do not have any donor restrictions are recorded as unrestricted. All expenses are recorded as unrestricted. If a grantee (a Foundation or an individual) makes a donation to Kinship Center but restricts the use of the grant to a specific purpose or program, that donation is recorded as temporarily restricted income. If the funds are not used in the same fiscal year as when they were received, this temporarily restricted income does not affect the unrestricted column but contributes to the net income of the organization in the year received. In the following year when the funds are used, the expenses are recorded as unrestricted expenses, and the grant dollars used are deducted from the temporarily restricted funds and added to the unrestricted funds. This allows the unrestricted operating column to match the grant funds used to the expenses incurred.

The June 30, 2003 statement of activities shows a $123,160 net loss. In the audited Statement of Activities, the unrestricted operating column shows $547,657 of net income, but the temporarily restricted column shows a $671,917 loss because more restricted funds were used than were received in that year. The June 30, 2005 statement shows a similar situation – $54,779 of unrestricted net income offset by a temporarily restricted "loss" of $587,222.

Kinship Center
Significant Forecast Assumptions, Foster Care

Foster Care

Foster care rates have never been high enough to fully support the foster care program, and the problem has worsened because of the failure of the state to raise foster care rates for several years. Kinship Center actively seeks grant funding to directly support this program and relies on general fund raising for the difference.

Most of the children, for whom Kinship Center receives foster care funds from various counties, are in homes where the goal is to proceed to adoption in that family. Because the emphasis of the counties is permanency, Kinship Center expects the counties to increase their placements with Kinship Center families during 2005/2006. Additionally, Kinship Center is working directly with Santa Clara, San Bernardino, and Los Angeles counties to encourage increased placement of their children in Kinship Center families.

Because most of the foster children are in the adoption process, there is significant turnover of foster children during the year as adoptions become finalized, creating highs and lows in the monthly and annual numbers. In 2003/2004 there was an unusually high number of children in care, causing the social workers to have less time to recruit, study, and train families and match them with children. Therefore, in 2004/2005, when many of those children's adoptions were finalized (two months each had seventeen children finalize), there were not as many new families ready to have children placed in their homes. This caused the average number of children for the year to drop from the previous year.

In the first quarter of 2005/2006, the number of children in foster care through our Salinas office has increased over 25% from the last quarter of 2004/2005. The number of children in foster care through our Southern California offices has decreased by eleven children from June 2005 to September 2005 due to finalized adoptions. However, those offices have over thirteen families with approved home studies in the matching process and another fifteen families being studied. Over 50% of the foster families accept sibling groups, so the number of children placed in Southern California in the next few months is expected to be over forty. Kinship Center is projecting ninety-three children in foster care between the Northern and Southern California programs for 2005/2006, and ninety-five for the four years following through 2010. The State has not raised the foster care payment amounts in five years. We are conservatively projecting no increase until fiscal year 2008/2009 when we expect a 3% rate increase. Since the inception of the current system for setting rates, the average annual rate increase has approximated 2%.

Part of the foster care program is family recruitment. Besides the two family recruiters in place (one in Northern California, one in Southern California), Kinship Center received a grant in the amount of $80,000 for calendar year 2004 from the Dave Thomas Foundation in January 2004 for an additional recruiter to help place children from Los Angeles County. The amount of the grant used between January 2004 and June 2004 was only $28,216 due to the start-up required. We expect to utilize the grant funds at the rate of $40,000 for the last six months of 2005. This grant has been renewed at the current level for 2006, and is expected to be renewed each year though 2010. We expect to fully utilize the grant each year in 2006 through 2010. The recruiter for this project was hired in January 2004, so only half of the salary expense was included in 2004/2005. The other half is shown as additional salary in 2005/2006.

Kinship Center
Significant Forecast Assumptions, Foster Care, continued

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Revenue								
Government contracts								
Foster care payments	$ 1,826,761	$ 2,176,604	$ 1,771,352	$ 1,897,200	$ 1,938,000	$ 1,996,140	$ 2,056,024	$ 2,117,705
Program service fees								
Recruitment contract		25,000						
Total recruitment services inc.	**-**	**25,000**	**-**	**-**	**-**	**-**	**-**	**-**
Other		88	120	150	150	150	150	150
Total other service fees	**-**	**88**	**120**	**150**	**150**	**150**	**150**	**150**
Other income								
In-kind donations	10,368	10,103	7,080	8,000	9,000	9,000	9,000	9,000
Foster care certification fees	-	-	7,700	8,000	8,200	8,200	8,200	8,200
Other income	200	-	-	-	-	-	-	-
Total other income	**10,568**	**10,103**	**14,780**	**16,000**	**17,200**	**17,200**	**17,200**	**17,200**
Donations restricted for foster care program								
Recruitment grant	-	-	28,216	80,000	80,000	80,000	80,000	80,000
Others	70,351	21,872	16,466	17000	18,000	18,000	18,000	18,000
Total restricted donations	**70,351**	**21,872**	**44,682**	**97,000**	**98,000**	**98,000**	**98,000**	**98,000**
Total revenue	**1,907,680**	**2,233,667**	**1,830,934**	**2,010,350**	**2,053,350**	**2,111,490**	**2,171,374**	**2,233,055**
Expenses								
Salaries and benefits	687,136	641,870	669,562	694,562	715,399	758,323	781,072	804,505
Services and supplies	313,015	321,701	276,292	284,581	293,118	301,912	310,969	320,298
Foster parent payments	773,440	928,247	759,872	781,200	798,000	821,940	846,598	871,996
Depreciation	21,834	35,627	33,438	31,235	31,485	27,513	27,513	27,513
Interest		36,294	22,609	23,000	23,000	23,000	23,000	23,000
Indirect	195,634	292,099	235,937	217,749	204,710	212,596	218,807	225,204
Total expenses	**1,991,059**	**2,255,838**	**1,997,710**	**2,032,327**	**2,065,712**	**2,145,283**	**2,207,960**	**2,272,516**
Net	**$ (83,379)**	**$ (22,171)**	**$ (166,776)**	**$ (21,977)**	**$ (12,362)**	**$ (33,793)**	**$ (36,585)**	**$ (39,461)**
Average no. of children per month	91	108	86	93	95	95	95	95
Average monthly rate per child	1,663	1,665	1,707	1,700	1,700	1,751	1,804	1,858

Assume state 3% increase 2007/08

Kinship Center
Significant Forecast Assumptions, Adoptions

Adoptions

Kinship Center's adoption program has two main funding sources, State Private Adoption Agency Reimbursement Program Funds for special needs children, and client fees for adoption services for healthy newborns.

Kinship Center receives State Private Adoption Agency Reimbursement Program Funds (PAARP) for two types of adoption work –adoptive family studies for special needs children who have been adopted through Kinship Center's foster care program, and adoptive family studies for County families who are converting from foster care to adoption. The studies for Kinship Center's foster/adoptive families are projected to remain stable (see foster care program). San Luis Obispo, Santa Clara, Monterey, Orange, and San Bernardino Counties have specifically asked Kinship Center to significantly increase the number of family studies for these counties in the next two years. From July 1 through November 2005, we already have twenty-five more studies completed or in process from these counties than we had at the same point last year and the requests for these services are increasing. Among the counties, we project an increase of permanence for forty-nine children at the State determined rate of $5,000 each in 2005/2006 and an additional increase of permanence for fifteen children in 2006/2007. After that, we expect the numbers to increase only slightly.

For services started July 1, 2005, Kinship Center instituted a 15% increase in adoption fees for healthy infant adoptions, pre- and post-placement services for attorney-assisted adoptions, international agency adoptions, and interstate independent adoptions. Demand for Kinship Center's adoption services also is increasing; the number of cases has increased 12% from July 2005 through October 2005 over the same period last year. Adoption fee income in 2004/2005 was over $425,000; however a thorough review of outstanding adoption fee billings in 2004/2005 required over $25,000 of write-offs of incorrectly billed or uncollectible fees. These billings are being monitored much more closely and future write-offs of that magnitude are not expected. Kinship Center expects to increase its adoption fees an average of 5% each year from now on.

To handle the increases in adoption work, an additional 1.0 FTE social worker is scheduled to start in January 2006.

Kinship Center
Significant Forecast Assumptions, Adoptions, continued

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Revenue								
Government contracts								
Adoption assistance	$ 440,900	$ 470,600	$ 555,000	$ 800,000	$ 900,000	$ 920,000	$ 945,000	$ 970,000
Program service fees								
Adoption fees	337,730	504,985	396,302	525,000	542,000	558,260	575,008	592,258
Donations restricted for adoptions program	16,667	8,950	8,750	-	-	-	-	-
Total revenue	795,297	984,535	960,052	1,325,000	1,442,000	1,478,260	1,520,008	1,562,258
Expenses								
Salaries and benefits	535,661	563,350	604,112	634,112	713,135	755,923	778,601	801,959
Services and supplies	221,578	291,880	307,652	316,882	332,726	342,707	352,989	363,578
Depreciation	11,695	18,120	14,547	14,028	14,140	12,356	12,356	12,356
Interest	-	17,338	9,539	9,600	9,600	9,600	9,600	9,600
Indirect	90,947	136,128	139,349	126,701	128,352	123,265	126,890	130,624
Total expenses	859,881	1,026,816	1,075,199	1,101,322	1,197,953	1,243,851	1,280,436	1,318,118
Net	$ (64,584)	$ (42,281)	$(115,147)	$ 223,678	$ 244,047	$ 234,409	$ 239,572	$ 244,140

Kinship Center
Significant Forecast Assumptions, Services to Regional Center Clients

Services to Regional Center Clients

Kinship Center is vendorized by the San Andreas Regional Center in Northern California to provide foster homes for children with serious developmental and medically fragile conditions. Kinship Center receives a regional center rate for these children (currently $4,228 per month) and has maintained an average of four children in this program.

Kinship Center is in negotiations with Orange County to establish a similar program there starting in 2006/2007. We are projecting two children in care in 2006/2007, and four from 2007/2008 through 2010. The expense increases in 2006/2007 reflect this new program.

Kinship Center
Significant Forecast Assumptions, Services to Regional Center Clients, continued

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Revenue								
Government contracts								
Regional center rate payments	$ 278,723	$ 127,192	$ 208,998	$ 203,000	$ 304,500	$ 406,000	$ 406,000	$ 406,000
Expenses								
Salaries and benefits	45,206	15,008	20,133	20,133	50,737	53,781	55,395	57,056
Services and supplies								
Children's special needs	19,524	6,744	6,978	14,000	21,000	28,000	28,000	28,000
Other	14,218	4,469	4,380	4,511	12,033	12,995	13,385	13,787
Total services and supplies	**33,742**	**11,213**	**11,358**	**18,511**	**33,033**	**40,995**	**41,385**	**41,787**
Foster parent payments	98,409	46,255	79,507	72,000	108,000	144,000	144,000	144,000
Depreciation	1,071	1,100	1,452	1,403	1,414	1,236	1,236	1,236
Interest	-	1,552	1,239	1,240	1,240	1,240	1,240	1,240
Indirect	17,429	9,651	13,365	15,816	27,295	33,870	34,157	34,453
Total expenses	**195,857**	**84,779**	**127,054**	**129,103**	**221,718**	**275,122**	**277,413**	**279,772**
Net	**$ 82,866**	**$ 42,413**	**$ 81,944**	**$ 73,897**	**$ 82,782**	**$ 130,878**	**$ 128,587**	**$ 126,228**
Average number of children per month								
Northern California	5.5	2.5	4.0	4	4	4	4	4
Southern California	0	0	0.0	0	2	4	4	4
Average monthly rate per child	$ 4,228	$ 4,228	$ 4,228	$ 4,228	$ 4,228	$ 4,228	$ 4,228	$ 4,228

Note: Services and supplies includes the payments for the special needs of the children. In 2003/2004 and 2004/2005, these expenditures have been unusually low ($2,400 per year per child in 2003/2004 and $1,750 per year per child in 2005/2006) compared to the more typical $3,500 per year in 2003/2004. Besides the normal increases in services and supplies due to COLA increases, we are projecting $3,500 special needs expense per child per year.

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Actual special needs cost (rounded)	$ 19,500	$ 6,000	$ 7,000					
Average number of children	5.5	2.5	4					
Average cost per child	$ 3,545	$ 2,400	$ 1,750					
Projected cost per child				$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500
Average number of children				4	6	8	8	8
Total cost				$ 14,000	$ 21,000	$ 28,000	$ 28,000	$ 28,000

Kinship Center
Significant Forecast Assumptions, Mental Health and Developmental Services

Mental Health Services Summary

Kinship Center's mental health services include three Medi-Cal clinics (one that has been operating in Orange County since 2000, one that opened in Monterey County in July 2004, and one that is expected to open in San Luis Obispo County in July 2006), and a fee-for-service clinic that has been operating in Orange County since July 2003.

The Medi-Cal clinics are cost reimbursement contracts. Revenue is based on minutes of service times maximum allowable rates for the different services; however, the revenue is limited to costs incurred.

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Government Revenues								
Orange County Medi-Cal clinic	$1,455,712	$ 1,569,949	$ 1,795,977	$ 1,884,317	$ 1,940,847	$ 2,040,455	$ 2,101,668	$ 2,164,718
Other mental health programs	7,198	5,080	6,689	-	-	-	-	-
Monterey County Medi-Cal clinic		6,865	493,152	1,053,596	1,149,673	1,196,861	1,230,683	1,265,520
New Medi-Cal clinic					522,064	865,547	953,870	982,486
Total	1,462,910	1,581,894	2,295,818	2,937,913	3,612,583	4,102,863	4,286,221	4,412,723
Program Service Fees								
Adoption clinic fees								
Orange County clinic-private insurance	31,858	15,072	19,331	20,000	20,600	21,218	21,855	22,510
Mental health clinic								
Orange County fee-for-service clinic fees	-	35,347	32,867	45,000	60,000	80,000	100,000	120,000
Other								
Orange Cty fee-for-service clinic-parent ed fees	-	-	525	-	-	-	-	-
Salary/Benefit Expense								
Orange County Medi-Cal clinic	1,082,598	1,050,274	1,132,250	1,195,750	1,231,623	1,305,520	1,344,685	1,385,026
Other mental health programs	665	-	20,127	-	-	-	-	-
Monterey County Medi-Cal clinic	-	14,143	274,371	507,121	570,585	604,820	622,964	641,653
Orange County fee-for-service clinics	-	64,047	59,177	59,177	60,952	64,609	66,548	68,544
New Medi-Cal clinic	-	-	-	33,333	276,000	525,310	589,319	606,999
Total	1,083,263	1,128,464	1,485,925	1,795,381	2,139,159	2,500,259	2,623,517	2,702,222
Services and Supplies Expense								
Orange County Medi-Cal clinic	422,407	445,286	489,838	504,533	519,669	535,259	551,317	567,856
Other mental health programs	27	3,563	4,593	-	-	-	-	-
Monterey County Medi-Cal clinic	-	12,489	163,380	368,000	390,080	401,782	413,836	426,251
Orange County fee-for-service clinics	-	48,534	34,170	40,000	35,195	41,200	36,251	42,436
New Medi-Cal clinic	-	-	-	80,000	225,000	247,500	262,350	270,221
Total	422,434	509,872	691,981	992,533	1,169,944	1,225,742	1,263,754	1,306,764
Depreciation Expense								
Orange County Medi-Cal clinic	-	-	28	-	-	-	-	-
Monterey County Medi-Cal clinic	-	-	31,677	29,926	30,165	26,360	26,360	26,360
Total	-	-	31,705	29,926	30,165	26,360	26,360	26,360
Mortgage Interest								
Monterey County Medi-Cal clinic	-	-	33,645	35,664	35,664	35,664	35,664	35,664
Total	$ -	$ -	$ 33,645	$ 35,664	$ 35,664	$ 35,664	$ 35,664	$ 35,664

Orange County Medi-Cal Clinic

In fiscal year 2002/2003, Kinship Center's mental health program was primarily one adoption specialty Medi-Cal clinic in Orange County, the first in the State of California, serving approximately 200 children per year. In fiscal year 2002/2003 and fiscal year 2003/2004 the clinic was partially supported by a grant from the Orange County Children and Families Commission until the State Medi-Cal payments reached their maximum. This funding has not been needed starting in fiscal year 2004/2005. This clinic continues to successfully operate and Kinship Center expects its annual contract with Orange County Health Care Agency to be renewed each year for the foreseeable future. There are no plans to increase the size of the clinic through 2010.

Orange County Medi-Cal Clinic, continued

	2002/2003 actual			2003/2004 actual			2004/2005 actual		
	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.
Potential Revenue									
Mental health services	760,523	$ 2.28	$ 1,733,992	543,514	$ 2.36	$ 1,282,693	673,043	$ 2.44	$ 1,642,225
Medication support	23,487	4.23	99,350	35,118	4.37	153,466	45,513	4.51	205,264
Crisis	1,120	3.41	3,819	791	3.52	2,784	355	3.63	1,289
Case management	152,476	1.77	269,883	215,542	1.83	394,442	231,054	1.89	436,692
Total potential revenue	937,606		2,107,044	794,965		1,833,385	949,965		2,285,469
Note: Revenue limited to costs incurred									
Costs									
Salaries/benefits			$ 1,082,598			$ 1,050,274			$ 1,132,250
Service and supplies			422,407			445,286			489,838
Depreciation			-			-			28
Indirect cost allocation			105,345			179,428			194,653
Total costs			1,610,350			1,674,988			1,816,768
Revenue									
Government Funds									
Medi-Cal			1,319,957			1,569,949			1,795,977
Orange County Children and Families Commission grant			135,755			-			-
Total government funding			1,455,712			1,569,949			1,795,977
Patient insurance			31,858			15,072			19,331
Use of temporarily restricted									
Grant from Orange County Children and families Commission			122,780			89,967			1,460
Total revenue			$ 1,610,350			$ 1,674,988			$ 1,816,768

Notes:
This contract is a cost reimbursement contract, so even though the billable minutes times the maximum allowable rate is more than the costs incurred, the total revenue for Kinship Center is limited to the costs incurred. If the costs were ever to be more than the maximum allowable reimbursement then Kinship Center would only receive the maximum allowable amount. However, in each year, the maximum reimbursement is significantly higher than the costs. We expect that trend to continue so that all of our costs including an allocation of indirect costs will be funded.

Billable minutes were lower than expected in 2003/2004 and 2004/2005 due to unusually high staff vacancies due to turnover and extended medical leaves. The minutes projected for 2005/2006 are reflect full staffing. As of October 31, 2005 the billable minutes are already more than 1/3 of the projected total.

Because we do not anticipate any increase in the size of the clinic (and therefore the size of the staff) through 2010, we are not projecting any increase in the billable minutes after 2005/2006. The maximum allowable rates are projected to increase by 3% per year as they have in the three prior years.

Because of stable staffing, services and supplies are expected to increase by 3% per year.

There is no building depreciation or mortgage interest because this clinic operates in leased space. There is no equipment depreciation because only items costing over $5,000 are capitalized and there are no such equipment in this program.

Kinship Center
Significant Forecast Assumptions, Mental Health and Developmental Services, continued

Orange County Medi-Cal Clinic, continued

	2005/2006 projected			2006/2007 projected			2007/2008 projected		
	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.
Potential Revenue									
Mental health services	800,000	$ 2.51	$ 2,010,560	800,000	$ 2.59	$ 2,070,877	800,000	$ 2.67	$ 2,133,003
Medication support	50,000	4.65	232,265	50,000	4.78	239,233	50,000	4.93	246,410
Crisis	300	3.74	1,122	300	3.85	1,155	300	3.97	1,190
Case management	250,000	1.95	486,675	250,000	2.01	501,275	250,000	2.07	516,314
Total potential revenue	**1,100,300**		**2,730,622**	**1,100,300**		**2,812,540**	**1,100,300**		**2,896,917**

Note: Revenue limited to costs incurred

	2005/2006 projected	2006/2007 projected	2007/2008 projected
Costs			
Salaries/benefits	$ 1,195,750	$ 1,231,623	$ 1,305,520
Service and supplies	504,533	519,669	535,259
Depreciation	-	-	-
Indirect cost allocation	204,034	210,155	220,893
Total costs	**1,904,317**	**1,961,447**	**2,061,673**
Revenue			
Government Funds			
Medi-Cal	1,884,317	1,940,847	2,040,455
Orange County Children and Families Commission grant	-	-	-
Total government funding	**1,884,317**	**1,940,847**	**2,040,455**
Patient insurance	**20,000**	**20,600**	**21,218**
Use of temporarily restricted			
Grant from Orange County Children and families Commission	-	-	-
Total revenue	**$ 1,904,317**	**$ 1,961,447**	**$ 2,061,673**

Orange County Medi-Cal Clinic, continued

	2008/2009 projected			2009/2010 projected		
	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.	Minutes	Maximum Allowable rate	Maximum Allowable Medi-Cal reimb.
Potential Revenue						
Mental health services	800,000	$ 2.75	$ 2,196,993	800,000	$ 2.83	$ 2,262,903
Medication support	50,000	5.08	253,802	50,000	5.23	261,416
Crisis	300	4.09	1,226	300	4.21	1,262
Case management	250,000	2.13	531,803	250,000	2.19	547,757
Total potential revenue	**1,100,300**		**2,983,824**	**1,100,300**		**3,073,339**

Note: Revenue limited to costs incurred

	2008/2009 projected	2009/2010 projected
Costs		
Salaries/benefits	$ 1,344,685	$ 1,385,026
Service and supplies	551,317	567,856
Depreciation	-	-
Indirect cost allocation	227,520	234,346
Total costs	**2,123,523**	**2,187,228**
Revenue		
Government Funds		
Medi-Cal	2,101,668	2,164,718
Orange County Children and Families Commission grant	-	-
Total government funding	**2,101,668**	**2,164,718**
Patient insurance	**21,855**	**22,510**
Use of temporarily restricted		
Grant from Orange County Children and families Commission	-	-
Total revenue	**$ 2,123,523**	**$ 2,187,228**

Orange County Fee-For-Service Clinic

Because the clinic described above is funded by State and Federal Medi-Cal, it can only serve children who have full-scope Medi-Cal eligibility in Orange County. Other families who have adopted children who have Medi-Cal from another county, or who were adopted internationally and thus do not have Medi-Cal eligibility, cannot be seen in the clinic. To serve these children and their families, as well as adult adoptees, in 2003/2004 Kinship Center started a fee-for-service adoption specialty clinic in Orange County with start-up assistance from a grant from the Orange County Children and Families Commission. A concerted advertising campaign being started in 2005/2006 will increase the utilization of the clinic in the next five years.

Orange County Fee-For-Service Clinic, continued:

	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Costs							
Salaries/benefits	$ 64,047	$ 59,177	$ 59,177	$ 60,952	$ 64,609	$ 66,548	$ 68,544
Service and supplies	48,534	34,170	40,000	35,195	41,200	36,251	42,436
Indirect cost allocation	18,388	13,672	11,901	11,538	12,697	12,336	13,318
Total costs	**130,969**	**107,019**	**111,078**	**107,685**	**118,507**	**115,135**	**124,298**
Revenue							
Mental health clinic - patient fees	35,347	32,867	45,000	60,000	80,000	100,000	120,000
Training fees - parent education classes	-	525	-	-	-	-	-
Use of Temporarily Restricted Grant							
From Orange County Children and Families Commission and other funders	102,379	76,689	66,078	47,685	38,507	15,135	4,298
Total revenue	**$ 137,726**	**$ 110,081**	**$ 111,078**	**$ 107,685**	**$ 118,507**	**$ 115,135**	**$ 124,298**

Notes:
The number of clients seen in 2003/2004 was 35, in 2004/2005 was 53.

In 2003/2004, there were 282 billable hours of service @ $125, in 2004/2005 there were 338, but the fee income was reduced by sliding scale adjustments of $2230 and $1187 of fees were deemed to be uncollectable.

In 2005/2006 almost 1/3 of the services/supplies budget is for an advertising campaign that includes fees were reduced by sliding scale media advertising, a promotional video about the clinic, etc.

The program director/head therapist has been devoting over half of her time to promoting this program. As the advertising/promotion produces more clients, she will spend more time in direct client services, so there need not be staff increases to handle the increased client load.

There is no building depreciation or mortgage interest because this clinic operates in leased space.

There is no equipment depreciation because only items costing over $5,000 are capitalized and there are no such equipment in this program.

Monterey County Medi-Cal Clinic

On July 1, 2004, Kinship Center opened a second adoption specialty Medi-Cal clinic in the River Road headquarters facility in Monterey County. Start-up activities in May and June of 2004 were funded through a combination of previously deferred mental health revenue from Monterey County and grant funds awarded specifically for clinic start-up costs. In 2004/2005, the clinic was phasing in operations, going from 3,125 billable minutes in July 2004, to 25,383 in June 2005 at which time it was seeing approximately 65 children per week. The clinic will continue to expand in 2005/2006, reaching full operations at the River Road site and serving 90–100 children per week there by June 2006. The ongoing expansion in 2005/2006 will require additional staff and increases in services and supplies. (See the following worksheets for details.) Kinship Center expects its annual contract with Monterey County Behavioral Health Department to be renewed each year for the foreseeable future. Additionally, Monterey County has expressed interest in Kinship Center establishing a smaller clinic in south Monterey County in the next year. These discussions are not yet firm enough to include in the income and expense projections.

Monterey County Medi-Cal Clinic, continued

	2003/2004 Actual Startup - no billing			2004/2005 Actual (see below for monthly figures)			2005/2006 Projected		
	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.
Potential Revenue									
Mental health services		$ 2.36	$ -	170,645	$ 2.44	$ 416,374	380,000	$ 2.51	$ 955,016
Medication support		4.37	-	7,707	4.51	34,759	18,000	4.65	83,615
Case management		1.83	-	23,384	1.89	44,196	40,000	1.95	77,868
Total potential revenue	0		-	201,736		495,328	438,000		1,116,499
Costs									
Salaries/benefits			$ 14,143			$ 274,371			$ 507,121
Service and supplies			12,489			161,829			368,000
Depreciation			-			31,677			29,926
Mortgage interest						33,645			35,664
Indirect cost allocation			574			57,906			112,885
Total costs			27,206			559,428			1,053,596
Revenue									
Government Funds									
Medi-Cal			-			493,152			1,053,596
Previously deferred monterey county mental health funds			6,865						
Total government funding			6,865			493,152			1,053,596
Use of restricted donations received for start-up of clinic			20,341			66,276			-
Total revenue			$ 27,206			$ 559,428			$ 1,053,596

2004/05 (first year of clinic) billable minutes by month:

	Mental Health Services	Medication Support	Case Management
July 2004	2,725	-	400
August 2004	10,190	450	422
September 2004	11,378	270	1,589
October 2004	11,212	235	1,194
November 2004	12,702	425	955
December 2004	12,964	1,065	1,044
January 2005	13,054	815	2,451
February 2005	15,672	480	2,412
March 2005	20,410	830	4,532
April 2005	18,921	1,015	3,389
May 2005	19,466	1,038	2,648
June 2005	21,951	1,084	2,348
Total	170,645	7,707	23,384

Notes:
This contract is a cost reimbursement contract, so even though the billable minutes times the maximum allowable rate is more than the costs incurred, the total revenue for Kinship Center is limited to the costs incurred. If the costs were ever to be more than the maximum allowable reimbursement then Kinship Center would only receive the maximum allowable amount. However, after the first start-up year, the maximum reimbursement is projected to be significantly higher than the costs so that all of our costs including an allocation of indirect costs will be funded.

The billable minutes for 2004/2005 increased as staffing and referrals increased. Therapists were added during the year as referrals increased and a waiting list developed, and as qualified staff could be located. Because of the specialty nature of the clinic, it is more difficult to find staff who have permanency related experience.
Since July 1, 2005, two new therapists have been hired, and another will be hired within the next month.
This increased staff will generate the increase in billable minutes shown above.

With the increase in staffing for 2005/2006 and 2006/2007, services and supplies will increase significantly in 2005/2006 and more than the typical 3% in 2007/2008.
After that time, with stable staffing, we expect services and supplies to increase 3% per year.

Because this program is located in the owned headquarters building, it incurs its share of the building depreciation and mortgage interest.

Kinship Center
Significant Forecast Assumptions, Mental Health and Developmental Services, continued

Monterey County Medi-Cal Clinic, continued

	2006/2007 Projected			2007/2008 Projected		
	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.
Potential Revenue						
Mental health services	430,000	$ 2.59	$ 1,113,096	430,000	$ 2.67	$ 1,146,489
Medication support	18,000	4.78	86,124	18,000	4.93	88,708
Case management	55,000	2.01	110,281	55,000	2.07	113,589
Total potential revenue	**503,000**		**1,309,501**	**503,000**		**1,348,786**
Costs						
Salaries/benefits			$ 570,585			$ 604,820
Service and supplies			390,080			401,782
Depreciation			30,165			26,360
Mortgage interest			35,664			35,664
Indirect cost allocation			123,179			128,235
Total costs			**1,149,673**			**1,196,861**
Revenue						
Government Funds						
Medi-Cal			1,149,673			1,196,861
Previously deferred monterey county mental health funds						
Total government funding			**1,149,673**			**1,196,861**
Use of restricted donations received for start-up of clinic						-
Total revenue			**$ 1,149,673**			**$ 1,196,861**

Monterey County Medi-Cal Clinic, continued

	2008/2009 Projected			2009/2010 Projected		
	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.
Potential Revenue						
Mental health services	430,000	$ 2.75	$ 1,180,884	430,000	$ 2.83	$ 1,216,310
Medication support	18,000	5.08	91,369	18,000	5.23	94,110
Case management	55,000	2.13	116,997	55,000	2.19	120,507
Total potential revenue	**503,000**		**1,389,249**	**503,000**		**1,430,927**
Costs						
Salaries/benefits			$ 622,964			$ 641,653
Service and supplies			413,836			426,251
Depreciation			26,360			26,360
Mortgage interest			35,664			35,664
Indirect cost allocation			131,859			135,591
Total costs			**1,230,683**			**1,265,520**
Revenue						
Government Funds						
Medi-Cal			1,230,683			1,265,520
Previously deferred monterey county mental health funds						
Total government funding			**1,230,683**			**1,265,520**
Use of restricted donations received for start-up of clinic			-			-
Total revenue			**$ 1,230,683**			**$ 1,265,520**

Kinship Center
Significant Forecast Assumptions, Mental Health and Developmental Services, continued

New Medi-Cal Clinic

In July of 2006, Kinship Center expects to open a new adoption specialty Medi-Cal clinic in San Luis Obispo County that will serve approximately the same number of children as the Monterey County clinic. Kinship Center has been invited by the County to negotiate a contract for the new clinic and the negotiations are underway. There will be start-up costs in 2005/2006 funded by a grant that has already been received from the California Endowment. We expect this clinic to develop very similarly to the Monterey County clinic.

Kinship Center
Significant Forecast Assumptions, Mental Health and Developmental Services, continued

New Medi-Cal Clinic, continued

	2005/06 Projected Startup - no billing			2006/2007 Projected			2007/08 Projected		
	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.
Potential Revenue									
Mental health services		$ 2.36	$ -	170,000	$ 2.59	$ 440,061	380,000	$ 2.67	$ 1,013,176
Medication support		4.37	-	7,500	4.78	35,885	18,000	4.93	88,708
Case management		1.83	-	23,000	2.01	46,117	40,000	2.07	82,610
Total potential revenue	0		-	200,500		522,064	438,000		1,184,494
Costs									
Salaries/benefits			$ 33,333			$ 276,000			$ 525,310
Service and supplies			80,000			225,000			247,500
Depreciation			-			-			
Mortgage interest									-
Indirect cost allocation			13,600			60,120			92,737
Total costs			126,933			561,120			865,547
Revenue									
Government Funds									
Medi-Cal			-			522,064			865,547
Total Govt Funding			-			522,064			865,547
Use of restricted donations received for start-up of clinic			126,933			39,056			-
Total revenue			$ 126,933			$ 561,120			$ 865,547

Notes:

This contract is a cost reimbursement contract, so even though the billable minutes times the maximum allowable rate is more than the costs incurred, the total revenue for Kinship Center is limited to the costs incurred. If the costs were ever to be more than the maximum allowable reimbursement then Kinship Center would only receive the maximum allowable amount. However, after the first ramp-up year, the maximum reimbursement is projected to be significantly higher than the costs so that all of our costs including an allocation of indirect costs will be funded.

The projection for billable minutes is based on the experience with the similarly sized Monterey clinic. As staffing increases over the first three years, billable minutes are projected to increase. After staffing is stable, the minutes are not projected to change.

The services and supplies budget is significantly higher than the Monterey clinic because this program will operate in leased space instead of the owned headquarters building and therefore building lease expense is included in services and supplies. Additionally, all furnishings must be purchased or leased for this program, unlike the Monterey Clinic where the basic furnishings were already in place when the clinic was started.

The 2005/2006 two or three months start-up with no billing AND the excess of expenditures over income in 2006/2007, the first year of operations, will be funded by the already received grant from the California Endowment that is specifically for this purpose.

There is no building depreciation or mortgage interest because this clinic operates in leased space. There is no equipment depreciation because only items costing over $5,000 are capitalized and there is no such equipment in this program.

Kinship Center

Significant Forecast Assumptions, Mental Health and Developmental Services, continued

New Medi-Cal Clinic, continued

	2008/2009 Projected			2009/2010 Projected		
	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.	Minutes	Maximum Allowable Rate	Maximum Allowable Medi-Cal Reimb.
Potential Revenue						
Mental health services	430,000	$ 2.75	$ 1,180,884	430,000	$ 2.83	$ 1,216,310
Medication support	18,000	5.08	91,369	18,000	5.23	94,110
Case management	55,000	2.13	116,997	55,000	2.19	120,507
Total potential revenue	**503,000**		**1,389,249**	**503,000**		**1,430,927**
Costs						
Salaries/benefits			$ 589,319			$ 606,999
Service and supplies			262,350			270,221
Depreciation						
Mortgage interest						
Indirect cost allocation			102,200			105,266
Total costs			**953,870**			**982,486**
Revenue						
Government Funds						
Medi-Cal			953,870			982,486
Total Govt Funding			**953,870**			**982,486**
Use of restricted donations received for start-up of clinic						-
Total revenue			**$ 953,870**			**$ 982,486**

Kinship Center
Significant Forecast Assumptions, Special Family Services

Special Family Services

Kinship Center's Special Family Services program group consists of a relative caregiver program and post adoption programs including wrap-around and a short-term post-adoption services contract with Monterey County.

Summary

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Government Revenues								
Post Adoption Assistance								
Wrap-around	$ 730,919	$ 742,729	$ 1,058,677	$ 1,279,348	$ 1,533,708	$ 1,661,308	$ 1,676,308	$ 1,711,308
Mty Cty post adoption	-	42,360	40,597	-	-	-	-	-
Total	**730,919**	**785,089**	**1,099,274**	**1,279,348**	**1,533,708**	**1,661,308**	**1,676,308**	**1,711,308**
Relative Caregiver								
Relative caregiver	485,281	433,803	421,763	394,763	429,763	442,656	455,936	469,614
Total	**485,281**	**433,803**	**421,763**	**394,763**	**429,763**	**442,656**	**455,936**	**469,614**
Other government contract	3,493							
Total	**1,219,693**	**1,218,892**	**1,521,037**	**1,674,111**	**1,963,471**	**2,103,964**	**2,132,244**	**2,180,922**
Program Service Fees								
Relative caregiver	**645**	-	-	-	-	-	-	-
Other Revenue								
Relative caregiver	7,000	7,610	31,795	30,000	30,000	30,000	35,000	35,000
Wrap-around	-	3,615	-	-	-	-	-	-
Total	**7,000**	**11,225**	**31,795**	**30,000**	**30,000**	**30,000**	**35,000**	**35,000**
Salary/Benefit Expense								
Wrap-around	334,474	433,446	502,392	602,392	760,464	806,092	830,274	855,183
Mty Cty post adoption	-	36,287	33,884	-	-	-	-	-
Relative caregiver	350,642	317,175	310,225	310,225	319,532	338,704	348,865	359,331
Other	14,030	12,036	10,540	10,540	10,856	11,508	11,853	12,208
Total	**699,146**	**798,944**	**857,041**	**923,157**	**1,090,852**	**1,156,303**	**1,190,992**	**1,226,722**
Services & Supplies Expense								
Wrap-around	199,333	221,141	316,928	332,774	402,758	414,840	427,286	440,104
Mty Cty post adoption	-	564	5,324	-	-	-	-	-
Relative caregiver	222,507	190,438	222,063	195,063	200,915	206,942	213,151	219,545
Other	21,901	53,697	9,819	3,200	3,296	3,395	3,497	3,602
Total	**443,741**	**465,840**	**554,134**	**531,037**	**606,969**	**625,178**	**643,933**	**663,251**
Depreciation Expense								
Wrap-around	-	1,213	7,227	6,829	6,882	6,013	6,013	6,013
Mty Cty post adoption	-	-	112	-	-	-	-	-
Relative caregiver	-	-	4,647	-	-	-	-	-
Other	306	581	607	565	572	500	500	500
Total	**306**	**1,794**	**12,593**	**7,394**	**7,454**	**6,513**	**6,513**	**6,513**
Mortgage Interest								
Wrap-around		1,804	4,304	4,300	4,300	4,300	4,300	4,300
Mty Cty post adoption	-	-	-	-	-	-	-	-
Relative caregiver			2,316	-	-	-	-	-
Other	-	748	544	544	544	544	544	544
Total	**-**	**2,552**	**7,164**	**4,844**	**4,844**	**4,844**	**4,844**	**4,844**
Family Monthly Payments								
Wrap-around	**$ -**	**$ -**	**$ 63,804**	**$ 84,000**	**$ 90,000**	**$ 90,000**	**$ 90,000**	**$ 90,000**

Kinship Center
Significant Forecast Assumptions, Special Family Services, continued

Wrap-Around Programs

Kinship Center has three post-adoption AAP wraparound contracts – one with Santa Clara County, one with Monterey County, and an individual per-child contract with another County. The Santa Clara County wraparound program started in January 2001 with four children. At the end of June 2005, it had eleven children, and it is expected to maintain that level. The Monterey County wraparound program started in November 2003 with one child and slowly increased to nine children by June 2005. It is expected to consistently serve ten children each year in 2005/2006 and on. The increase from 2004/2005 to 2005/2006 reflects the full operation of both programs as described above. (See the salary worksheet for increases in positions.)

Kinship Center has had discussions with San Mateo County about starting a wraparound program there and has been advised that a request for proposal will be issued in 2005/2006 with a starting date in July of 2006. The 2006/2007 increase in projected revenue reflects that new program. From 2007/2008 on, we expect the programs to be stable and the minor revenue increase is only COLA increases.

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ 334,474	$ 433,446	$ 502,392	$ 602,392	$ 760,464	$ 806,092	$ 830,274	$ 855,183
Service and supplies	199,333	221,141	316,928	332,774	402,758	414,840	427,286	440,104
Depreciation	-	1,213	7,227	6,829	6,882	6,013	6,013	6,013
Mortgage interest	-	1,804	4,304	4,300	4,300	4,300	4,300	4,300
Family payments	-	-	63,804	84,000	90,000	90,000	90,000	90,000
Indirect cost allocation	53,381	92,113	110,907	123,635	151,728	158,549	162,945	167,472
Total expenses	**587,188**	**749,717**	**1,005,562**	**1,153,931**	**1,416,132**	**1,479,794**	**1,520,818**	**1,563,072**
Revenue								
Government Funds								
Santa Clara Wrap contract	730,919	602,837	542,547	626,800	626,800	636,800	646,800	646,800
Monterey Wrap contract		139,892	500,362	603,240	647,400	647,400	652,400	662,400
Other counties-per child agmt			15,768	49,308	49,308	49,308	49,308	49,308
New county contract				-	210,200	327,800	327,800	352,800
Total govt funding	**730,919**	**742,729**	**1,058,677**	**1,279,348**	**1,533,708**	**1,661,308**	**1,676,308**	**1,711,308**
Other Income		**3,615**						
Use of grant restricted for Wrap program	**53,412**							
Total revenue	**784,331**	**746,344**	**1,058,677**	**1,279,348**	**1,533,708**	**1,661,308**	**1,676,308**	**1,711,308**
Net Income	**$ 197,143**	**$ (3,373)**	**$ 53,115**	**$ 125,417**	**$ 117,576**	**$ 181,514**	**$ 155,490**	**$ 148,236**

Relative Caregiver Support Program

The relative caregiver support program serves grandparents, aunts and uncles, siblings and other relatives who are caring for their grandchildren, nieces and nephews, etc. It has multiple funding sources through Monterey County, foundation grants, and restricted donations. The amount of County funding has decreased each year; however Kinship Center has been advised by Monterey County of the likelihood of a small funding increase in 2006/2007. We are not projecting any additional County funding increases after that. Kinship Center is constantly researching other funding sources, and expects to be awarded a three year, $75,000/year grant for this program in January. In the demand for services discussion, it was mentioned that San Luis Obispo County is interested in a relative caregiver program in addition to a mental health clinic. As San Luis Obispo County does not yet have relative caregiver funding, we do not consider the initial conversations about a relative caregiver program to be certain enough to include in this projection.

Kinship Center
Significant Forecast Assumptions, Special Family Services, continued

Relative Caregiver Support Program, continued

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ 350,642	$ 317,175	$ 310,225	$ 310,225	$ 319,532	$ 338,704	$ 348,865	$ 359,331
Service and supplies	222,507	190,438	222,063	195,063	200,915	206,942	213,151	219,545
Depreciation	-	-	4,647	-	-	-	-	-
Mortgage interest	-	-	2,316	-	-	-	-	-
Indirect cost allocation	45,015	39,992	43,039	40,423	41,636	43,652	44,961	46,310
Total expenses	**618,164**	**547,605**	**582,290**	**545,711**	**562,082**	**589,298**	**606,977**	**625,186**
Revenue								
Government Funds								
Monterey County contracts	485,281	433,803	421,763	394,763	429,763	442,656	455,936	469,614
Total govt funding	**485,281**	**433,803**	**421,763**	**394,763**	**429,763**	**442,656**	**455,936**	**469,614**
Program Service Fees	**645**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Income								
In-kind donations (expenses included in S&S above)	7,000	7,610	31,795	30,000	30,000	30,000	35,000	35,000
Use of restricted donations received for relative caregiver program	125,238	84,192	58,655	75,000	75,000	75,000	75,000	75,000
Insurance reimb for flooding	-	-	10,982	-	-	-	-	-
Total revenue	**618,164**	**525,605**	**523,195**	**499,763**	**534,763**	**547,656**	**565,936**	**579,614**
Net Income	$ -	$ (22,000)	$ (59,095)	$ (45,948)	$ (27,319)	$ (41,642)	$ (41,041)	$ (45,572)

Kinship Center
Significant Forecast Assumptions, Special Family Services, continued

Post Adoption Assistance:

Kinship Center and Monterey County had a small contract to provide post-adoption services to Monterey County adoptive families which was in place only for 2003/2004 and 2004/2005.

	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses							
Salaries/benefits	$ 36,287	$ 33,884	$ -	$ -	$ -	$ -	$ -
Service and supplies	564	5,324	-	-	-	-	-
Depreciation	-	112					
Indirect cost allocation	5,509	5,817	-	-	-	-	-
Total expenss	**42,360**	**45,137**	**-**	**-**	**-**	**-**	**-**
Revenue							
Monterey County Post Adoption contract	**42,360**	**40,597**	**-**	**-**	**-**	**-**	**-**
Total revenue	**42,360**	**40,597**	**-**	**-**	**-**	**-**	**-**
Net Income	**$ -**	**$ (4,540)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Notes:
Contract not renewed for 2005/2006.

Kinship Center
Significant Forecast Assumptions, Education Institute and Student Support

Education Institute and Student Support

The Education and Student Support program group contains the Education Institute's parent and professional training and educational materials activities, adoptive parent education contracts with Orange County and Los Angeles County, an educational materials development contract with the Orange County Children and Families Commission, a contract with Santa Clara County for an annual adoptive families camp, and scholarship programs for emancipated foster youth.

Kinship Center
Significant Forecast Assumptions, Education Institute and Student Support, continued

Education Institute Summary

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Government Revenues								
Education								
Orange County Bridge Builders	$ 146,568	$ 93,403	$ 94,913	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000
Orange County Seedlings Learning Project	-	-	74,133	98,583	-	-	-	-
Los Angeles County APSS	-	-	-	192,361	192,361	192,361	192,361	192,361
Total education	**146,568**	**93,403**	**169,046**	**440,944**	**342,361**	**342,361**	**342,361**	**342,361**
Kincamp								
Santa Clara County Kincamp	151,085	173,415	151,713	150,000	150,000	150,000	150,000	150,000
Total kincamp	**151,085**	**173,415**	**151,713**	**150,000**	**150,000**	**150,000**	**150,000**	**150,000**
Total government revenues	**297,653**	**266,818**	**320,759**	**590,944**	**492,361**	**492,361**	**492,361**	**492,361**
Program Service Fees								
Training and Consulting Income								
Education Institute general	126,319	96,778	88,363	197,000	213,000	213,000	213,000	213,000
Student support	-	-	840	-	-	-	-	-
Total training and consulting income	**126,319**	**96,778**	**89,203**	**197,000**	**213,000**	**213,000**	**213,000**	**213,000**
Other Service Fees								
Kincamp family fees	1,450	750	900	1,000	1,000	1,000	1,000	1,000
Total other service fees	**1,450**	**750**	**900**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Total program service fees	**127,769**	**97,528**	**90,103**	**198,000**	**214,000**	**214,000**	**214,000**	**214,000**
Other Income								
Orange County Bridge Builders	50	42	-	-	-	-	-	-
Education Institute general	1,120	660	6,409	27,000	30,000	37,000	47,000	62,000
Total other income	**1,170**	**702**	**6,409**	**27,000**	**30,000**	**37,000**	**47,000**	**62,000**
Salary/Benefit Expense								
Education Institute	157,952	144,697	126,689	167,289	172,308	182,646	188,126	193,769
Orange County Bridge Builders	106,659	65,230	64,255	104,035	107,156	113,585	116,993	120,503
Orange County Seedlings Learning Project	-	-	20,163	47,421	0	0	0	0
Los Angeles County APSS	-	-	-	124,998	128,748	136,473	140,567	144,784
Santa Clara County Kincamp	35,988	51,518	48,078	48,078	49,520	52,492	54,066	55,688
Total	**300,599**	**261,445**	**259,185**	**491,821**	**457,732**	**485,196**	**499,752**	**514,744**
Services and Supplies Expense								
Education Institute	71,062	80,127	142,662	146,942	151,350	155,891	160,567	165,384
Student support	9,591	11,336	6,820	6,000	6,000	6,000	6,000	6,000
Orange County Bridge Builders	39,959	28,215	30,658	45,965	42,844	36,415	33,007	29,497
Orange County Seedlings Learning Project	-	-	94,492	92,078	-	-	-	-
Los Angeles County APSS	-	-	-	49,876	46,126	38,401	34,307	30,090
Santa Clara County Kincamp	110,718	99,146	98,246	95,731	94,289	91,318	89,743	88,121
Total	**231,330**	**218,824**	**372,878**	**436,592**	**340,609**	**328,024**	**323,624**	**319,093**
Depreciation Expense								
Education Institute	4,832	22,933	27,609	25,811	26,018	22,735	22,735	22,735
Total	**-**	**-**	**27,609**	**25,811**	**26,018**	**22,735**	**22,735**	**22,735**
Mortgage Interest								
Education Institute	-	35,756	27,729	27,730	27,730	27,730	27,730	27,730
Total	**$ -**	**$ 35,756**	**$ 27,729**	**$ 27,730**	**$ 27,730**	**$ 27,730**	**$ 27,730**	**$ 27,730**

Education Institute Training and Materials:

Kinship Center has been very innovative in developing state-of-the-art programs to support permanency for children including the state pilot children's permanency focused mental health clinics and the state pilot adoptive family wrap-around programs. Kinship Center is committed to the dissemination of its expertise both to other professionals in the field and to parents who are providing families for children. The Education Institute as a vehicle for this dissemination has been slowly developing over the last ten years with focused attention to its growth in the last two years. In September 2005, as part of Kinship Center's commitment to the growth of the Institute, a new director of the Institute was hired who has an impressive background in marketing and promotion, as well as curriculum development. One of her main goals for her first year is to develop a comprehensive marketing plan for Kinship Center's products and training programs.

Even in its start-up years, the Institute has generated significant training and consulting income (between $86,000 to $126,000 each year from 2003 through 2005). The short-term goals of the Institute are to increase the frequency and size of its training programs and consulting services. We have conservatively projected training income to be $150,000 to $160,000 per year and training income to be $35,000 to $50,000 per year for the next five years. In 2005/2006, Kinship Center already has an $80,000 contract to provide adoption clinical training for the entire staff of a private school, is conducting an adoption clinical training for professionals in its Salinas headquarters, has another scheduled in Southern California for the spring of 2006, and has an agreement with Los Angeles County to provide advanced training to over 100 professionals in the Spring of 2006 for a fee of $80,000.

The Education Institute has already developed an extensive Adoption Clinical Training Curriculum and has held "train the facilitator" classes to qualify others to be trainers. These trainers must purchase the participant manuals from Kinship Center. Already in 2005/2006, Kinship Center has sold over $20,000 worth of these manuals. Additionally, the Institute is developing other training materials, DVDs, and tapes. These will be marketed as they are developed. We expect these materials to generate $25,000 to $60,000 per year for the next five years.

Because the research necessary to develop the marketing plan has not yet been completed, the forecast assumptions are based on the accomplishments of the past three years with very modest growth projected. These projections show a net loss each year. It is intended that the Institute will become profitable within the next three years, but without the completion of the marketing plan and a history of operating under such a plan, the most conservative scenario has been presented here.

Education Institute Training and Materials:

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ 157,952	$ 144,697	$ 126,689	$ 167,289	$ 172,308	$ 182,646	$ 188,126	$ 193,769
Service and supplies	71,062	80,127	142,662	146,942	151,350	155,891	160,567	165,384
Depreciation	4,832	22,933	27,609	25,811	26,018	22,735	22,735	22,735
Mortgage interest	-	35,756	27,729	27,730	27,730	27,730	27,730	27,730
Indirect cost allocation	22,691	36,882	38,655	40,455	41,515	42,790	43,907	45,058
Total expenses	**256,537**	**320,395**	**363,344**	**408,227**	**418,920**	**431,792**	**443,065**	**454,677**
Revenue								
Program Service Fees								
Training and Consulting Fees								
Training and workshop fees	122,642	96,257	35,268	150,000	160,000	160,000	160,000	160,000
Consulting income		-	50,000	35,000	50,000	50,000	50,000	50,000
Travel reimbursements	3,677	521	3,095	12,000	3,000	3,000	3,000	3,000
Total government funding	**126,319**	**96,778**	**88,363**	**197,000**	**213,000**	**213,000**	**213,000**	**213,000**
Other Income								
CEU fees	1,120	660	1,015	2,000	2,000	2,000	2,000	2,000
Product sales	-	-	120	25,000	28,000	35,000	45,000	60,000
In-kind donations	-	-	5,274	-	-	-	-	-
Total other income	**1,120**	**660**	**6,409**	**27,000**	**30,000**	**37,000**	**47,000**	**62,000**
Donations restricted for Education Institute	**104,120**	**100,971**	**83,671**	**50,000**	**50,000**	**50,000**	**50,000**	**50,000**
Total revenue	**231,559**	**198,409**	**178,443**	**274,000**	**293,000**	**300,000**	**310,000**	**325,000**
Net Income	**$ (24,978)**	**$ (121,986)**	**$ (184,901)**	**$ (134,227)**	**$ (125,920)**	**$ (131,792)**	**$ (133,065)**	**$ (129,677)**

Training and Curriculum Development Contracts With Governmental Agencies:

Kinship Center currently has three such contracts.

There is a contract with Orange County for adoptive parent education and support (Orange County Bridge Builders). This contract is now in its seventh year. It was for a maximum of $150,000 through 2002/2003, was reduced to $100,000 for 2003/2004 and 2004/2005, and was increased to $150,000 in 2005/2006. It is expected to remain at this level for the next several years.

Additionally, Kinship Center is a subcontractor in an adoption services contract between another agency (Five Acres) and Los Angeles County that began in August 2005 (LA APSS Bridge Builders). The subcontract is for $177,000 for three years and is expected to be renewed at that time at the same level. Kinship Center's role is to provide similar services to the Orange County contract.

Finally, Kinship Center has funding from the Orange County Children and Families Commission to create adoption-related educational materials including two web-based learning programs, DVDs, and conferences concentrating on issues of children from zero to five year of age (Seedlings Learning Project). This generated $74,000 of income in 2004/2005 and the remaining $175,000 is scheduled to be earned in 2005/2006. That will be the final year of the grant. Part of this funding is a contract that must be billed against as services are performed – that is the government funding piece. The other part of this project is the use of previously received funding from the Commission for another project that was successfully completed with funds remaining. The Commission authorized using these restricted funds for this purpose.

Orange County Bridge Builders

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses:								
Salaries/benefits	$ 106,659	$ 65,230	$ 64,255	$ 104,035	$ 107,156	$ 113,585	$ 116,993	$ 120,503
Service and supplies	39,959	28,215	30,658	45,965	42,844	36,415	33,007	29,497
Total expenses	**146,618**	**93,445**	**94,913**	**150,000**	**150,000**	**150,000**	**150,000**	**150,000**
Revenue								
Government Contracts								
Orange County Bridge Builders contract	146,568	93,403	94,913	150,000	150,000	150,000	150,000	150,000
Total government contract	**146,568**	**93,403**	**94,913**	**150,000**	**150,000**	**150,000**	**150,000**	**150,000**
Other Income								
Book sales		42						
In-kind donations	50							
Total other income	**50**	**42**	**-**	**-**	**-**	**-**	**-**	**-**
Total revenue	**146,618**	**93,445**	**94,913**	**150,000**	**150,000**	**150,000**	**150,000**	**150,000**
Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Kinship Center
Significant Forecast Assumptions, Education Institute and Student Support, continued

LA APSS Bridge Builders

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ -	$ -	$ -	$ 124,998	$ 128,748	$ 136,473	$ 140,567	$ 144,784
Service and supplies	-	-	-	49,876	46,126	38,401	34,307	30,090
Depreciation	-	-	-	-	-	-	-	-
Indirect cost allocation	-	-	-	17,487	17,487	17,487	17,487	17,487
Total expenses	**-**	**-**	**-**	**192,361**	**192,361**	**192,361**	**192,361**	**192,361**
Revenue								
Los Angeles Adoption Services contract (subcontract through 5 Acres)				**192,361**	**192,361**	**192,361**	**192,361**	**192,361**
Total revenue	**-**	**-**	**-**	**192,361**	**192,361**	**192,361**	**192,361**	**192,361**
Net Income	**$ -**	**$ -**	**$ -**	**$ (0)**	**$ (0)**	**$ (0)**	**$ (0)**	**$ (0)**

Kinship Center
Significant Forecast Assumptions, Education Institute and Student Support, continued

Seedlings Learning Project

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ -	$ -	$ 20,163	$ 47,421	$ -	$ -	$ -	$ -
Service and supplies	-	-	94,492	92,078	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-
Mortgage interest	-	-	-	-	-	-	-	-
Indirect cost allocation	-	-	17,198	20,224	-	-	-	-
Total expenses	-	-	131,853	159,723	-	-	-	-
Revenue								
Government Funds								
OC Children & Families Commission	-	-	74,133	98,583		-	-	-
Total government funding	-	-	74,133	98,583	-	-	-	-
Use of restricted funds this project	-	-	57,720	61,140	-	-	-	-
Total revenue	-	-	131,853	159,723	-	-	-	-
Net Income	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Kinship Center
Significant Forecast Assumptions, Education Institute and Student Support, continued

Kincamp

Santa Clara County has contracted with Kinship Center to put on one four-day camp for Santa Clara County adoptive families each year for the past five years that concentrates on the adoption experience. Santa Clara County has indicated that they intend to continue with this camp for the foreseeable future at the same funding level.

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ 35,988	$ 51,518	$ 48,078	$ 48,078	$ 49,520	$ 52,492	$ 54,066	$ 55,688
Service and supplies	110,718	99,146	98,246	95,731	94,289	91,318	89,743	88,121
Depreciation	-	-	-	-	-	-	-	-
Indirect cost allocation	6,029	14,711	7,662	7,191	7,190	7,190	7,190	7,190
Total expenses	**152,735**	**165,375**	**153,986**	**151,000**	**151,000**	**151,000**	**151,000**	**151,000**
Revenue								
Government Contracts								
Santa Clara County Contract	151,085	173,415	151,713	150,000	150,000	150,000	150,000	150,000
Program service fees								
Family fees	1,450	750	900	1,000	1,000	1,000	1,000	1,000
Donations restricted for Kincamp	200	-	-	-	-	-	-	-
Total revenue	**152,735**	**174,165**	**152,613**	**151,000**	**151,000**	**151,000**	**151,000**	**151,000**
Net Income	**$ -**	**$ 8,790**	**$ (1,373)**	**$ (0)**	**$ 0**	**$ (0)**	**$ 0**	**$ 0**

Kinship Center
Significant Forecast Assumptions, Education Institute and Student Support, continued

Student Support

Kinship Center has received restricted donations to be used for scholarships for emancipated foster youth. Donations received are sufficient to fund scholarships for two to five students per year.

	2002/2003 actual	2003/2004 actual	2004/0005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries/benefits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Service and supplies	9,591	11,336	6,820	6,000	6,000	6,000	6,000	6,000
Depreciation	-	-	-	-	-	-	-	-
Mortgage interest	-	-	-	-	-	-	-	-
Indirect cost allocation	-	-	-	-	-	-	-	-
Total costs	**9,591**	**11,336**	**6,820**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Revenue								
Program Service Fees								
Training fees	-	-	840	-	-	-	-	-
Donations Restricted for Student Support Program	**9,591**	**11,025**	**5,980**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Total revenue	**9,591**	**11,025**	**6,820**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Net Income	**$ -**	**$ (311)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Kinship Center
Significant Forecast Assumptions, Fund Raising

Fund Raising

Kinship Center' Resource Development Plan encompasses giving in four major areas: annual giving, major giving (which is the next level of annual giving), special events, and auxiliary/guild-generated support.

Annual giving is an annual campaign program that includes scheduled direct mail and other solicitations to individuals, local businesses and organizations, corporations and granting entities. It also includes unsolicited donations that are received as a result of marketing activities. The frequency of direct mail appeals has increased from one per year in 2002/2003 and 2003/2004 to four per year in 2004/2005, resulting in a doubling of donations from 2003/2004 to 2004/2005. The 2005/2006 strategy includes the following activities, which will result in a steady increase in numbers and size of donations:

- The continuation of four appeals per year
- An increase in non-solicitation mailings to donors providing information such as program highlights, positive outcomes, awards, client stories, and other content to cultivate greater interest and engagement by current and past donors
- An aggressive donor acquisition campaign, which involves renting mailing lists for specific zip-codes, so that we may solicit individuals with a documented history of giving to human services organizations involving children and families
- Use of a donor "moves management" individual cultivation strategy to move specific donors to higher levels of giving

Major giving to date for Kinship Center has focused our donors primarily on the agency's capital needs. Giving between 1998 and 2005 raised more than $4.8 million toward the construction of the statewide headquarters and program center.** With that success behind us and secure in the experience of a supportive giving community, our Board of Directors has strategically moved to refocus that momentum into the strengthening of a sustainable major gifts program that will build an operating reserve and create greater financial stability.

To assist in this move, Kinship Center contracted with Brakeley Briscoe, Inc., internationally respected fundraising consultants, to assess Kinship Center's major gifts fundraising capacity and recommend an ongoing development strategy. Brakeley Briscoe's formal study resulted in recommendations in the areas of communications and public relations, internal infrastructure building, and specific donor cultivation and management strategies to generate ongoing large non-capital gifts. The recommendations have been acted upon and our experienced new development professional is leading the agency through the early stages of development for a strong major gifts campaign.

** Of the capital campaign monies raised, $3.5 million was used for the land, building, furnishings, and equipment. The balance of $1.3 million has been used over the seven year time period for fund raising expenses, and mortgage principal and interest payments.

Kinship Center
Significant Forecast Assumptions, Fund Raising, continued

Our confidence in community support for major giving is strengthened by giving statistics, which show a significant history of non-capital giving from capital campaign donors.

- The giving history of those donors who made capital gifts of $20,000 and above shows that 68% have made non-capital gifts as well. The range of non-capital giving from this group includes significant donations to the general fund, donations to programs, in-kind donations, and participation in special events.
- Two-thirds of the gifts to the capital campaign were under $500. Many smaller donors had a prior giving history and have continued to give non-capital gifts.
- Nearly two-thirds (60%) of *all gifts* to the capital campaign were made by donors who have also made non-capital gifts.

Special events have brought in from $80,000 to $138,000 in the past three years. The determination has been made that a series of non-strategic special events will yield less income for Kinship Center than a schedule of fewer events consistent with our major gifts strategies. Accordingly, our events will be limited to one "signature" annual event, one partnership event, and purposeful small donor cultivation events spearheaded by our board members and our strongest community supporters.

Auxiliary and guild revenue:

Kinship Center is fortunate to have the involvement of a fundraising auxiliary chapter in Northern California and a fundraising guild in Southern California who bring their local knowledge and contacts to the support of the agency's resource development goals. These organizations have contributed from $79,000 to $96,000 annually to the agency in the past three years. With increased attention to these and other support organizations by the development staff, we expect the auxiliary/guild income to grow over the next five years.

Staffing changes:

Olivia Yates, CFRE, Ed.D. was hired as Director of Development in July 2005. She brings more than fifteen years of professional fundraising experience to Kinship Center, including major gifts development. She has already taken active steps to engage the entire organization in fundraising, including moving forward with a plan to build a more development-minded board to support a successful major gifts program. A development assistant position has been budgeted starting July 1, 2006.

Conclusion

The donation income projections that follow are considered by the Board of Directors, the development staff, and the external consultants of Brakeley Briscoe to be realistic and achievable. The projections are undergirded by our growing local and national reputation as an agency, the experience and qualifications of our new development leader, the wholehearted support and involvement of our Board, and our loyal and expanding donor population.

Fund Raising

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Revenue								
Annual gifts	$ 53,620	$ 50,122	$ 106,477	$ 115,000	$ 125,000	$ 135,000	$ 145,000	$ 155,000
Major gifts/capital gifts	366,832	1,267,092	358,416	350,000	400,000	406,000	425,000	425,000
Special events	51,548	138,507	119,091	150,000	100,000	90,000	90,000	90,000
Auxiliary and guild income	95,001	79,841	96,086	88,000	96,000	105,000	115,000	125,000
Total revenue	**567,001**	**1,535,562**	**680,070**	**703,000**	**721,000**	**736,000**	**775,000**	**795,000**
Revenue by type								
Unrestricted	199,069	268,470	321,604	553,000	566,000	576,000	605,000	595,000
Temporarily restricted	366,832	1,267,092	358,416	150,000	150,000	150,000	150,000	150,000
Permanently restricted	1,100	-	50	-	5,000	10,000	20,000	50,000
Total revenue	**567,001**	**1,535,562**	**680,070**	**703,000**	**721,000**	**736,000**	**775,000**	**795,000**
Expenses								
Salaries and benefits	93,214	71,690	75,968	154,768	199,411	211,376	217,717	224,248
Services and supplies	90,341	62,847	164,810	120,810	144,972	149,321	153,801	158,415
Depreciation	2,435	4,212	3,839	3,554	3,582	3,130	3,130	3,130
Interest	16,934	5,852	3,404	3,400	3,400	3,400	3,400	3,400
Total expenses	**$ 202,924**	**$ 144,601**	**$ 248,021**	**$ 282,532**	**$ 351,365**	**$ 367,227**	**$ 378,048**	**$ 389,193**

Notes:
Services and supplies in 2004/2005 includes $86,000 of fund raising consulting with the firm of Brakeley Briscoe.
With the hiring of the new development director, this expense will be reduced to $46,000 in 2005/2006 and will be zero after that.

Kinship Center
Significant Forecast Assumptions, Other Revenue

Other Revenue

Other revenue consists of interest and dividends, in-kind donations, gain/loss on sale of investments and on disposal of equipment, the change in carrying value of pledges receivable, and other miscellaneous income. We are projecting slight increases in investment income, in-kind donations, and other miscellaneous income. Some in-kind donations and miscellaneous revenue are included in the program schedules; as donated stocks are sold as soon as they are received, the gain/loss on sale of investments is generally small and is not budgeted. We do not anticipate the disposition of any equipment at a loss. The change in carrying value of pledges is based on any long-term pledges and is not budgeted.

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Revenue								
Interest and dividends	$ 29,137	$ 17,471	$ 10,124	$ 17,000	$ 22,480	$ 23,500	$ 29,300	$ 31,890
Change in present value of pledges receivable	25,759	-	-	-	-	-	-	-
Change in carrying value of pledges receivable	(7,600)	(7,004)	17,809	-	-	-	-	-
Gain/loss on investments	(217)	576	11	-	-	-	-	-
Loss on disposal of equipment	(9,706)	(3,063)	-	-	-	-	-	-
Other revenue (not in program worksheets)	75,878	59,843	28,253	29,101	29,974	30,873	31,799	32,753
In-kind donations (not in program worksheets)	15,760	69,046	41,845	42,000	43,260	44,558	45,895	47,271
Total revenue	**$ 129,011**	**$ 136,869**	**$ 98,042**	**$ 88,101**	**$ 95,714**	**$ 98,931**	**$ 106,994**	**$ 111,914**

Kinship Center
Significant Forecast Assumptions, Management and General Expenses

Management and General Expenses

Management and general expenses include expenses related to the overall operations of Kinship Center. Included are the salary and benefit expenses of the Executive Director, Assistant Director, Associate Director, support staff for these positions, Finance and Human Resources staff, and the Information Technology staff. The occupancy, travel, supplies, phone, equipment, and other such expenses used by these administrative positions are also included. Administrative contracts are also included. For financial reporting purposes, these expenses are allocated to programs based on the ratio of each program's direct expenses to the total direct program expenses. Some grants and contracts do not allow the full allocation; the unallocated portion along with some items not eligible for allocation remain as administrative expenses. (See Statement of Functional Expenses in the Audit Reports included.)

As the agency grows, administrative staffing is required to support the management functions. (Please see the salary worksheet for details.)

As additional programs are implemented (the mental health clinic starting in July 2006, the parent education subcontract with Five Acres and Los Angeles county that started August 2005, etc.), the allocation base increases more than the increase in management expenses. If a program's direct expenses do not increase significantly its share of administrative costs will become smaller.

	2002/2003 actual	2003/2004 actual	2004/2005 actual	2005/2006 projected	2006/2007 projected	2007/2008 projected	2008/2009 projected	2009/2010 projected
Expenses								
Salaries and benefits	$ 404,504	$ 612,736	$ 666,172	$ 716,172	$ 847,657	$ 898,517	$ 925,472	$ 953,236
Services and supplies	260,525	279,641	274,243	282,470	302,243	361,311	372,150	383,314
Depreciation	53,861	114,690	89,043	83,231	83,898	73,313	73,313	73,313
Interest	12,300	60,125	61,517	62,000	62,000	62,000	62,000	62,000
Total expenses	**$ 731,190**	**$ 1,067,192**	**$ 1,090,975**	**$ 1,143,873**	**$ 1,295,798**	**$ 1,395,140**	**$ 1,432,935**	**$ 1,471,864**

Note:
Services and supplies increase from 2006/2007 to 2007/2008 includes $50,000 for computer server and connectivity upgrades.