

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants as described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Interest on the Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.

**\$20,000,000**

**ABAG Finance Authority For Nonprofit Corporations  
Variable Rate Demand Revenue Bonds  
(La Jolla Country Day School)  
Series A (Tranche Two)**

**Dated: Delivery Date****CUSIP: 00037C LR9<sup>†</sup>****Due: September 1, 2037**

The above-captioned Bonds are being issued under the Indenture (defined below) as the second Tranche of bonds by the ABAG Finance Authority for Nonprofit Corporations on behalf of the La Jolla Country Day School (the "Corporation"). The first Tranche of bonds (the "Tranche One Bonds") was issued under the Indenture on June 29, 2006 in the aggregate principal amount of \$20,000,000.

The Bonds will initially bear interest at a Weekly Rate payable on the first Business Day of each month, commencing August 1, 2007. The Bonds may be converted to a Term Mode or a Fixed Rate Mode. The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2006, and supplemented by a First Supplemental Indenture, dated as of July 1, 2007 (collectively the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to the Corporation, pursuant to a Loan Agreement, dated as of June 1, 2006, and supplemented by a First Supplemental Loan Agreement, dated as of July 1, 2007 (collectively the "Loan Agreement"), by and between the Authority and the Corporation. The Bonds are limited obligations of the Authority payable solely from and secured by certain Revenues pledged under the Indenture, consisting primarily of Loan Payments made by the Corporation under the Loan Agreement and certain other funds as provided in the Indenture.

The Bonds will finance (a) the acquisition, construction or improvement of certain school facilities and various capital expenses related thereto (the "Project") and (b) certain costs of issuance of the Bonds. See "THE PROJECT" herein. The rating on the Bonds is based upon the Letter of Credit. Accordingly, detailed information on the Project is not provided in this Official Statement.

The Bonds will be issued in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only. The Bonds will have denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 while in the Weekly Mode. Purchasers of the Bonds will not receive physical certificates representing their beneficial ownership interests in the Bonds purchased. Payments of principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "APPENDIX C — BOOK-ENTRY ONLY SYSTEM" herein.

**The Bonds are subject to optional and mandatory redemption and optional and mandatory tender, as described herein.**

Payment of the principal of and interest on, and purchase price of, the Bonds will initially have the benefit of an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued by Allied Irish Banks, p.l.c., New York Branch (the "Bank") as the initial Credit Facility pursuant to the Indenture. The initial expiration date of the Letter of Credit is July 12, 2010 as extended or earlier terminated prior thereto as described herein. The Letter of Credit and any Alternate Credit Facility is defined under the Indenture as the "Credit Facility." See "THE BANK" and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."



The rating on the Bonds is based upon the Letter of Credit. Accordingly, detailed information on the finances and operations of the Corporation is not provided in this Official Statement.

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.

**This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Potential investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.**

The Bonds are offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of legality and certain other legal matters by Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California, for the Bank by HellerEhrman LLP, New York, New York, and for the Corporation by Sheppard, Mullin, Richter & Hampton LLP, Los Angeles, California. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about July 12, 2007.

**STONE & YOUNGBERG LLC**

Dated: July 5, 2007

<sup>†</sup> Copyright 2007, American Bankers Association. CUSIP data is set forth herein for convenience of reference only. Neither the Corporation nor the Underwriter assumes responsibility for the accuracy of such numbers.

The information relating to the Authority contained herein under the headings “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 the Authority) that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by and is not to be relied upon or construed as a promise or representation by the Authority.

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

Certain statements contained in this Official Statement reflect not historical facts but forecasts and “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

No dealer, broker, salesperson, or any other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby, and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Bank, the Corporation or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the Bank, or the Corporation since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

# TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| INTRODUCTION.....   | 1           |
| GENERAL.....  | 1           |
| THE CORPORATION.....  | 1           |
| SECURITY FOR THE BONDS.....                                 | 2           |
| NO CONTINUING DISCLOSURE.....                               | 2           |
| OTHER MATTERS.....  | 3           |
| THE PROJECT.....  | 3           |
| ESTIMATED SOURCES AND USES OF FUNDS.....                    | 4           |
| THE BONDS.....  | 4           |
| GENERAL PROVISIONS.....                                     | 4           |
| TERMS OF THE BONDS.....                                     | 4           |
| REDEMPTION OF THE BONDS.....                                | 9           |
| REDEMPTION PROCEDURES.....                                  | 10          |
| OPTIONAL AND MANDATORY TENDER.....                          | 11          |
| PURCHASE AND REMARKETING OF BONDS.....                      | 12          |
| REMARKETING AGREEMENT.....                                  | 14          |
| SECURITY FOR THE BONDS.....                                 | 15          |
| GENERAL.....  | 15          |
| ASSIGNMENT.....   | 16          |
| ENFORCEABILITY OF REMEDIES.....                             | 16          |
| AMENDMENT OF INDENTURE AND LOAN AGREEMENT.....              | 17          |
| THE BANK.....   | 17          |
| THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT.....       | 18          |
| THE LETTER OF CREDIT.....                                   | 18          |
| THE LETTER OF CREDIT REIMBURSEMENT AGREEMENT.....           | 19          |
| ALTERNATE CREDIT FACILITY.....                              | 26          |
| THE CORPORATION.....  | 26          |
| GENERAL.....  | 26          |
| INVESTMENT CONSIDERATIONS.....                              | 27          |
| SECURITY FOR THE BONDS.....                                 | 27          |
| EXPIRATION OF THE LETTER OF CREDIT.....                     | 27          |
| BANK'S OBLIGATIONS UNSECURED.....                           | 27          |
| GENERAL FACTORS AFFECTING THE BANK.....                     | 28          |
| TAX-EXEMPT STATUS.....                                      | 28          |
| THE AUTHORITY.....  | 29          |
| TAX MATTERS.....  | 30          |
| OPINION OF BOND COUNSEL.....                                | 30          |
| CERTAIN ONGOING FEDERAL TAX REQUIREMENTS AND COVENANTS..... | 31          |
| CERTAIN COLLATERAL FEDERAL TAX CONSEQUENCES.....            | 31          |

|  |            |
|--|------------|
| INFORMATION REPORTING AND BACKUP WITHHOLDING ..... | 33         |
| MISCELLANEOUS .....                                | 33         |
| APPROVAL OF LEGALITY .....                         | 34         |
| ABSENCE OF MATERIAL LITIGATION.....                | 34         |
| THE AUTHORITY.....                                 | 34         |
| THE CORPORATION.....                               | 34         |
| UNDERWRITING .....                                 | 34         |
| RATINGS.....                                       | 35         |
| MISCELLANEOUS.....                                 | 35         |
| AUTHORIZATION OF OFFICIAL STATEMENT.....           | 36         |
| SUMMARY OF PRINCIPAL LEGAL DOCUMENTS .....         | APPENDIX A |
| PROPOSED FORM OF BOND COUNSEL OPINION.....         | APPENDIX B |
| BOOK-ENTRY ONLY SYSTEM .....                       | APPENDIX C |

## **OFFICIAL STATEMENT**

**\$20,000,000**

**ABAG Finance Authority For Nonprofit Corporations  
Variable Rate Demand Revenue Bonds  
(La Jolla Country Day School)  
Series A (Tranche Two)**

### **INTRODUCTION**

This Introduction is subject in all respects to the more complete information included and referred to elsewhere in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for summaries of various documents referred to herein and definitions of certain words and terms used herein.

#### **General**

This Official Statement, including the cover page and the appendices hereto, is provided to furnish certain information in connection with the sale and issuance by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”) of \$20,000,000 aggregate principal amount of the Authority's Variable Rate Demand Revenue Bonds (La Jolla Country Day School) Series A (Tranche Two) (the “Bonds”). The first Tranche of bonds (the “Tranche One Bonds”) was issued under the Indenture on June 29, 2006 in the aggregate principal amount of \$20,000,000.

The Bonds will be issued pursuant to an Indenture, dated as of June 1, 2006, as supplemented by the First Supplement to the Indenture, dated July 1, 2007 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Authority will lend the proceeds of the Bonds to La Jolla Country Day School, a California nonprofit public benefit corporation (the “Corporation”), pursuant to a Loan Agreement, dated as of June 1, 2006, as supplemented by the First Supplemental Loan Agreement, dated as of July 1, 2007 (collectively the “Loan Agreement”), by and between the Authority and the Corporation.

The Bonds will finance (a) the acquisition, construction or improvement of certain school facilities and various capital expenses related thereto (the “Project”) and (b) certain costs of issuance of the Bonds. See “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

#### **The Corporation**

The Corporation is a nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code that operates an independent, co-educational, non-sectarian college preparatory school serving students in Nursery through Grade 12. See “THE CORPORATION” herein.

The rating on the Bonds is based upon the Letter of Credit. Accordingly, detailed information on the finances and operations of the Corporation is not provided in this Official Statement.

### **Security for the Bonds**

The Bonds are limited obligations of the Authority payable solely from and secured by certain Revenues pledged under the Indenture, consisting primarily of Loan Payments made by the Corporation under the Loan Agreement and certain other funds as provided in the Indenture. The Corporation's payment obligations under the Loan Agreement are unsecured, general obligations of the Corporation. The Loan Agreement contains certain covenants for the protection of the Authority and the Bondholders. See "SECURITY FOR THE BONDS" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

Payment of the principal of and interest on, and purchase price of, the Bonds will initially have the benefit of an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued by Allied Irish Banks, p.l.c., New York Branch (the "Bank") as the initial Credit Facility pursuant to the Indenture. The initial expiration date of the Letter of Credit is July 12, 2010, as extended or earlier terminated prior thereto as described herein. The Letter of Credit and any Alternate Credit Facility is defined under the Indenture as the "Credit Facility." See "THE BANK" and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

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.

### **No Continuing Disclosure**

While in the Weekly Mode, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

## **Other Matters**

The brief descriptions of the Corporation, the Authority, the Project (defined below), the Bonds, the Indenture, the Loan Agreement, the Credit Facility, the Reimbursement Agreement and other documents, statutes, reports, and other instruments included in this Official Statement do not purport to be complete, comprehensive, or definitive. All references to the Indenture, the Loan Agreement and other documents, statutes, reports, and other instruments are qualified in their entirety by reference to such document, statute, report, or instrument, and all references to the Bonds are qualified in their entirety by reference to the forms of the Bonds set forth in the Indenture.

During the period of the offering of the Bonds, copies of the Indenture, the Loan Agreement, the Credit Facility and the Reimbursement Agreement may be obtained in reasonable quantity at the offices of Stone & Youngberg LLC, One Ferry Building, Suite 275, San Francisco, California 94111, and thereafter at the office of the Trustee, 707 Wilshire Blvd., 17<sup>th</sup> Floor, Los Angeles, California 90017.

## **THE PROJECT**

The Authority will lend the proceeds of the Bonds (together with the proceeds of any subsequent Tranche authorized under the Indenture) to the Corporation to finance and re-finance (1) construction, improvement, acquisition and installation of educational facilities, including a Visual Arts & Sciences complex, additional classrooms and office space, a new main school entrance, improved parking, and improvements to the Corporation's athletic fields and facilities located on the campus of the Corporation at 9490 Genesee Avenue and 9409 Regents Road, located in La Jolla, California (the "Campus"), (2) related and other miscellaneous construction, acquisition, renovation, reconstruction, improvements, capital maintenance, equipment acquisition and installation thereof and improvements located at the Campus, (3) miscellaneous purchases, installation and restoration of capital equipment, systems and software, (4) reimbursement of any of the foregoing costs, and (5) various costs of issuance and credit enhancement fees.

The first Tranche of bonds (the "Tranche One Bonds") was issued under the Indenture on June 29, 2006 in the aggregate principal amount of \$20,000,000. The Tranche One Bonds also financed improvements to the Corporation's educational facilities.

The rating on the Bonds is based upon the Letter of Credit. Accordingly, detailed information on the Project is not provided in this Official Statement.

## ESTIMATED SOURCES AND USES OF FUNDS

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

|                                  |                |
|----------------------------------|----------------|
| Sources of Funds:                |                |
| Par Amount of the Bonds          | \$20,000,000   |
| Uses of Funds:                   |                |
| Deposit to Project Fund          | \$19,653,772   |
| Costs of Issuance <sup>(1)</sup> | <u>346,228</u> |
| Total Uses                       | \$20,000,000   |

<sup>(1)</sup> Includes underwriter's discount, fees of the Bank, legal fees, printing costs, fees of the Authority, the Trustee and the rating agency, and other miscellaneous expenses.

## THE BONDS

### General Provisions

The Bonds will be issued in fully registered form only and, when initially issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive physical certificates representing their beneficial ownership interests in the Bonds purchased. Payments of principal, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM" herein.

### Terms of the Bonds

The Bonds will initially bear interest in the Weekly Mode, and interest will be calculated based on a 365 or 366 day year, as applicable, for the number of days actually elapsed during an Interest Period. Interest on the Bonds will be payable on the first Business Day of each month, commencing August 1, 2007. The Bonds will continue to bear interest at a Weekly Rate until the conversion thereof to a different Term Mode or Fixed Rate Mode. Interest on the Bonds in a Term Mode or a Fixed Rate Mode will be calculated based on a 360-day year, consisting of twelve 30-day months. Ownership interests in the Bonds while in the Weekly Mode will be in denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000. Ownership interests in the Bonds while in the Term Mode or the Fixed Rate Mode will be in denominations of \$5,000 or any integral multiple thereof. The Indenture requires that all Tranches of the Bonds be in the same Mode.

### *Weekly Mode*

Determination of Weekly Rate. When the Bonds are in the Weekly Mode, the Bonds will bear interest at the Weekly Rate, which will be determined by the Remarketing Agent not later

than 2:00 p.m. (California time) on each Wednesday, or if Wednesday is not a Business Day, the following Business Day at 9:00 a.m. (California time) (the “Rate Determination Date” with respect to Bonds in the Weekly Mode). The Weekly Rate will be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on such day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Weekly Rate cannot be determined, the Weekly Rate for the next succeeding Weekly Rate Accrual Period is required to remain at the then-existing rate, and if the Weekly Rate cannot be determined for a second Weekly Rate Accrual Period then the Alternate Rate will be effective as provided in the Indenture. The Weekly Rate will in no event exceed the Maximum Rate (12%).

Adjustment to Weekly Mode. The Corporation, by written direction to the Trustee and the Remarketing Agent, and with the written consent of the Bank, may elect to adjust the Mode for the Bonds from a Term Mode to a Weekly Mode. Such direction will specify the effective date of such adjustment to a Weekly Mode, which will be (a) the final Interest Payment Date of the then current Term Rate Period not less than 30 days following the date of receipt by the Trustee of such direction, or (b) any date on which such Bonds may be optionally redeemed at a Purchase Price of 100% of the principal amount thereof, plus accrued interest, pursuant to the Indenture not less than 30 days following the date of receipt by the Trustee of such direction.

Notice of Adjustment to Weekly Mode. The Trustee is required to give notice by mail of an adjustment to the Bonds in a Weekly Mode to the Owners of such Bonds, with copies to the Bank and the Corporation, not less than 15 days prior to the effective date of such Weekly Mode. Such notice is required to state (1) that the interest rate on the Bonds will be adjusted to a Weekly Rate, (2) the effective date of such Weekly Mode, (3) the day by which the Weekly Rate will be determined and the manner by which such Weekly Rate may be obtained, (4) the Interest Payment Dates after such effective date, (5) that the Bonds are required to be purchased on such effective date pursuant to the Indenture, (6) the procedures for such purchase as provided in (5) above, (7) that, subsequent to such effective date, the DTC Participants or the Owners of Bonds will have the right to tender and demand purchase of Bonds upon not less than seven days notice, (8) the procedures for a demand for tender and purchase as provided in (7) above, (9) the redemption provisions that will pertain to the Bonds during such Weekly Mode, (10) the ratings that are expected to be assigned to the Bonds on such date, and (11) that such portion of Bonds not in Authorized Denominations on such Mode Change Date will be purchased as provided in the Indenture.

### ***Term Mode***

Determination of Term Rate. When the Bonds are in the Term Mode, the Bonds will bear interest at the Term Rate, which is required to be determined by the Remarketing Agent not later than 2:00 p.m. (California time) at least one Business Day prior to the first day of a Term Rate Period. The Term Rate for each Term Rate Period will be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Bonds known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing

Agent to sell the Bonds at a price equal to the principal amount thereof; provided, however, that if for any reason the Term Rate cannot be determined for any Term Rate Period, the interest rate on the Bonds is required to convert to a Weekly Rate. In no event is the Term Rate allowed to exceed the Maximum Rate (12%).

Adjustment to and Continuation of a Term Rate Period. The Corporation, by written direction to the Trustee and the Remarketing Agent, and with the written consent of the Bank, may elect to adjust the Mode for the Bonds from a Weekly Mode to a Term Mode or continue in the Term Mode and designate a new Term Rate Period. Such direction (1) will specify the effective date of such Term Rate Period, which is required to be (a) in the case of an adjustment from a Weekly Mode, an Interest Payment Date on which interest is payable for the Weekly Mode from which the adjustment is to be made, which Interest Payment Date will not be earlier than 30 days following the date of receipt by the Trustee of such direction and (b) in the case of a continuation of a Term Mode, the last Interest Payment Date of the then current Term Rate Period not less than 30 days following the date of receipt by the Trustee of such direction, and (2) will specify the last day of such new Term Rate Period, which is required to be a Business Day. At least 30 days prior to the last day of any Term Rate Period, the Corporation will elect whether the Bonds will bear interest at a Weekly Rate or a Term Rate after the then effective Term Rate Period.

Notice of Term Rate Periods. The Trustee is required to give notice by mail of each Term Rate Period to the Owners of the Bonds in such Term Mode, with copies to the Bank and the Corporation, not less than 15 days prior to the effective date of such Term Rate Period. Such notice is required to state (1) that the interest rate on the Bonds will be adjusted to or continue to be a Term Rate, (2) the effective date of such Term Rate Period, (3) the day by which the Term Rate for such Term Rate Period will be determined, (4) the manner by which such Term Rate may be obtained, (5) the Interest Payment Dates after such effective date, (6) the Bonds will be purchased on such effective date pursuant to the Indenture, (7) the procedures of such purchase, (8) the redemption provisions that will pertain to the Bonds during such Term Rate Period, and (9) the ratings which are expected to be assigned to the Bonds on such date.

### ***Fixed Rate Mode***

Determination of Fixed Rate. When the Bonds are to be converted to the Fixed Rate Mode, the Bonds will bear interest at the Fixed Rate, which is required to be determined by the Remarketing Agent not later than 2:00 p.m. (California time) on date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date. The Fixed Rate will be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Bonds known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds at a price equal to the principal amount thereof; provided, however, that if for any reason the Fixed Rate cannot be determined, the interest rate on the Bonds is required to convert to a Weekly Rate. In no event is the Fixed Rate allowed to exceed the Maximum Rate (12%).

Adjustment to the Fixed Rate Mode. The Corporation, by written direction to the Trustee and the Remarketing Agent, and with the written consent of the Bank and the Authority, may

adjust the Mode for the Bonds to a Fixed Rate. Such direction will specify the effective date of such Fixed Rate Mode, which is required to be (a) in the case of an adjustment from a Weekly Mode, an Interest Payment Date on which interest is payable for the Weekly Mode from which the adjustment is to be made, which Interest Payment Date may not be earlier than 30 days following the date of receipt by the Trustee of such direction and (b) in the case of an adjustment from a Term Rate Mode, the last Interest Payment Date of the then current Term Rate Period not less than 30 days following the date of receipt by the Trustee of such direction.

Notice of Conversion to Fixed Rate Mode. The Trustee is required to give notice by mail of the conversion of the Bonds to the Fixed Rate Mode to the Owners of such Bonds, with copies to the Bank and the Corporation, not less than 15 days prior to the effective date of such Fixed Rate Mode. Such notice is required to state (1) that the interest rate on the Bonds will be adjusted to a Fixed Rate, (2) the effective date of such Fixed Rate Mode, (3) the day by which the Fixed Rate will be determined, (4) the manner by which such Fixed Rate may be obtained, (5) the Interest Payment Dates after such effective date, (6) the Bonds will be purchased on such effective date pursuant to the Indenture, (7) the procedures of such purchase, (8) the redemption provisions that will pertain to the Bonds during such Fixed Rate Mode, and (9) the ratings which are expected to be assigned to the Bonds on such date.

***Alternate Rate for Interest Calculation.*** If (a) the Remarketing Agent fails or is unable to determine the interest rate(s) with respect to the Bonds for two consecutive Weekly Rate Accrual Periods as provided in the Indenture, or (b) the method of determining the interest rate(s) with respect to the Bonds is held to be unenforceable by a court of law of competent jurisdiction, the Bonds will thereupon bear interest at the Alternate Rate in a Weekly Mode from the last date on which such rate was determined. The Bonds may resume to bear interest at a Weekly Rate or a Term Rate at such time as the Remarketing Agent is able to determine the interest rates with respect to the Bonds or an Opinion of Bond Counsel is delivered to the effect that the method of determining interest hereunder is legally enforceable, as applicable.

***Interest Rate Conclusive.*** The determination of the interest rate on the Bonds by the Remarketing Agent will be conclusive and binding upon the Owners of the Bonds, the Authority, the Tender Agent, the Bank, and the Trustee.

***Credit Facility Coverage.*** The Corporation may not convert the Bonds to a Term Mode or a Weekly Mode unless (i) the Credit Facility provides, or has been modified to provide, coverage sufficient to maintain the rating on the then current Bonds and (ii) in the case of conversion of the Bonds to a Term Mode, the remaining term of the Credit Facility is at least equal to the length of the initial Term Rate Period.

**RATE AND TENDER SUMMARY TABLE  
FOR THE BONDS\***

|                                     | WEEKLY MODE   | TERM MODE   | FIXED MODE  |
|-------------------------------------|---|---|---|
| Interest Payment Date               | First Business Day of each month; any Mode Change Date; the maturity date   | (i) If 12 months or less, the Business Day next succeeding the last day of the Term Rate Period; (ii) if greater than 12 months, April 1 and October 1; any Mode Change Date; the maturity date | Each April 1 and October 1  |
| Record Date                         | Business Day immediately preceding the applicable Interest Payment Date   | Fifteenth day of the month prior to an Interest Payment Date  | Fifteenth day of the month prior to an Interest Payment Date  |
| Date of Interest Rate Determination | Not later than 2:00 p.m. California time each Wednesday, or if Wednesday is not a Business Day, 9:00 a.m. California time the next Business Day | Not later than 2:00 p.m. California time at least one Business Day prior to the first day of a Term Rate Period   | Not later than 2:00 p.m. California time on a day determined by Remarketing Agent but at least one Business Day prior to the Mode Change Date |
| Weekly Rate Accrual Period          | Thursday to following Wednesday   | N/A   | N/A   |
| Commencement of Rate Period         | Day of conversion to the Weekly Mode and each Thursday thereafter   | Day of conversion to the Term Mode and first day of each Term Rate Period thereafter  | Day of Conversion to the Fixed Mode   |
| Optional Tender Date                | Any Business Day  | N/A   | N/A   |
| Notice Period for Optional Tender   | Written or telephonic notice not later than 9:00 a.m. on any Business Day not less than seven days prior to the Purchase Date                   | N/A   | N/A   |

\*The information in this table is subject to DTC settlement procedures and is provided for the convenience of the Bondholders and is not meant to be comprehensive.

## Redemption of the Bonds

The Bonds are subject to redemption prior to maturity as set forth below.

### *Optional Redemption*

Optional Redemption During Weekly Mode and Upon Change of Mode. On any date while the Bonds are in a Weekly Mode, on any Mode Change Date and on the last day of a Term Rate Period, the Bonds are subject to redemption prior to maturity, as a whole or in part from any prepayments made by the Corporation to the Trustee at a redemption price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the date fixed for redemption.

Optional Redemption During any Term Rate Period and During Fixed Rate Mode. During any Term Rate Period and after a conversion to the Fixed Rate Mode, the Bonds are subject to redemption prior to the stated maturity, as a whole or in part on any date from any prepayments made by the Corporation to the Trustee, at the times (measured from the applicable Mode Change Date to the next Mode Change Date or the final maturity of Fixed Rate Bonds (the “Applicable Period”)), and at the following redemption prices (expressed as a percentage of the principal amount to be redeemed) plus accrued interest, if any, to the date fixed for redemption (the maturity or mandatory sinking fund payment date and amount of Bonds to be redeemed from the amount so prepaid and the redemption date will be as specified in the Request of the Corporation given pursuant to the Loan Agreement):

| <u>Length of Term of Applicable Period</u>        | <u>Redemption Dates and Prices</u>   |
|---|--|
| Greater than 10 years                             | At any time on or after the 5th anniversary of the applicable Mode Change Date at 102% declining 1/2% annually to 100%       |
| Greater than 6 and less than or equal to 10 years | At any time on or after the 3rd anniversary of the applicable Mode Change Date at 101-1/2 % declining 1/2 % annually to 100% |
| Greater than 4 and less than or equal to 6 years  | At any time on or after the 2nd anniversary of the applicable Mode Change Date at 101% declining 1/2% annually to 100%       |
| Greater than 3 and less than or equal to 4 years  | At any time on or after the 2nd anniversary of the applicable Mode Change Date at 100-1/2 % declining 1/2 annually to 100%   |
| Greater than 2 and less than or equal to 3 years  | At any time on or after the 1st anniversary of the applicable Mode Change Date at 100-1/2% declining 1/2% annually to 100%   |
| Greater than 1 and less than or equal to 2 years  | At any time on or after the 1st anniversary of the applicable Mode Change Date at 100%                                       |
| Less than or equal to 1 year                      | On the Interest Payment Date which is six months after the applicable Mode Change Date at 100%                               |

***Mandatory Redemption from Sinking Fund Payments.*** Prior to conversion to a Term Rate or a Fixed Rate, the Bonds are not subject to mandatory sinking fund redemption.

After conversion to a Term Rate or a Fixed Rate, the Bonds will be subject to mandatory sinking fund redemption on April 1 in each year, at 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, in accordance with a mandatory sinking fund schedule to be submitted by the Corporation to the Trustee.

## **Redemption Procedures**

***Selection of Bonds for Redemption.*** Whenever less than all of the Outstanding Bonds are to be redeemed on any one date, the Trustee shall select the Bonds to be prepaid by lot in any manner that the Trustee deems fair and appropriate, which decision shall be final and binding upon the Authority, the Corporation and the Owners. Notwithstanding the foregoing, all Bank Bonds shall be redeemed prior to the redemption of any other Bonds. The Trustee will promptly notify the Authority in writing of the numbers of the Bonds so selected for redemption on such date. For purposes of such selection, any Bond may be redeemed in part in Authorized Denominations.

***Notice of Redemption.*** Notice of redemption is required to be given by the Trustee as provided in the Indenture to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee (*i.e.*, Cede & Co., as nominee for DTC so long as the Bonds are subject to the DTC book-entry system), with a copy to the Bank, (ii) the Information Services and (iii) the Securities Depositories. Each notice of redemption is required to state the date of such notice, the redemption date, the redemption price (including any premium), the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities (provided that the Corporation will supply the CUSIP numbers and to the extent a Bond is redeemed or not because the CUSIP number designations of redeemed bond was incorrect, such event will not, under any circumstances, result in any liability to the Trustee in identifying a Bond by its CUSIP number) and, if less than all the Bonds of any maturity of a particular Bond are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of the Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will 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 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 will to cease to accrue, and will require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Conditional notice of optional redemption may be given at the direction of the Corporation. Prior to or contemporaneously with any withdrawal or rescission of any notice of redemption, the Trustee and the Tender Agent will receive written confirmation from the Bank of the full reinstatement, if any, of the Credit Facility.

Any notice of redemption is required to be mailed by first-class mail, postage prepaid, to Bondholders and the Bank not less than 15 days or more than 60 days prior to the date fixed for redemption. Notices to the Information Services is required to be mailed by the Trustee by

certified, registered or overnight mail at the time of the mailing of notices to Bondholders. Notices to the Securities Depositories are required to be given by telecopy or by certified, registered or overnight mail at least one Business Day before the mailing of notices to Bondholders.

Failure by the Trustee to give notice pursuant to the Indenture, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for redemption.

***Effect of Redemption.*** Moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so called for redemption will cease to accrue from and after the redemption date, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment of said Redemption Price. All Bonds redeemed pursuant to the provisions of the Indenture will be cancelled upon surrender thereof.

### **Optional and Mandatory Tender**

***Demand Purchase of Bonds.*** While the Bonds are in the Weekly Mode, the Beneficial Owner (or if the Bonds are not Book-Entry Bonds, the Holder) of any Bond may elect to tender such Bonds, or portion thereof in an Authorized Denomination, for purchase at a purchase price equal to 100% of the principal amount of such Bond (or portion thereof to be tendered), plus accrued and unpaid interest thereon to but not including the date of purchase, on any Business Day (the "Optional Tender Date"), but only upon (i) receipt by the Remarketing Agent by not later than 9:00 a.m. (California time) at least seven (7) calendar days, but not more than thirty (30) days, prior to such Optional Tender Date of telephonic (followed by written or facsimile confirmation delivered to the Remarketing Agent no later than the close of business on the next succeeding Business Day) or written notice from the DTC Participant through whom such Beneficial Owner holds such Bonds (or if the Bonds are not Book-Entry Bonds, the Holder) stating (1) the principal amount of the Bond (or portion thereof) to be tendered, (2) the Bond number or other identification satisfactory to the Remarketing Agent, and (3) the Optional Tender Date on which such Bond will be tendered; and (ii) if the Bonds are not Book-Entry Bonds, delivery of such Bond (with an appropriate instrument of transfer duly executed in blank) to the Tender Agent by 9:30 a.m. (California time) on such Optional Tender Date. Upon receipt by the Remarketing Agent of a notice of optional tender for purchase, the Remarketing Agent shall give prompt telephonic notice thereof to the Trustee (and written notice to the Tender Agent if the Bonds are not Book-Entry Bonds).

***Mandatory Tender Upon Failure to Renew Credit Facility.*** The Bonds shall be purchased pursuant to a mandatory tender as provided in the Indenture, in the event that (a) a notice of renewal of the Credit Facility or a notice of expected delivery of an Alternate Credit Facility is not delivered by the Bank or the provider of the Alternate Credit Facility, as applicable, to the Trustee at least fifteen (15) days prior to the scheduled expiration of the Credit Facility or (b) the Credit Facility is not actually renewed or such Alternate Credit Facility is not

actually delivered on a Business Day at least seven (7) days prior to such expiration date. Upon the occurrence of an event described in (a) or (b) of this paragraph, the Trustee shall promptly mail a notice to all Holders of the Bonds stating that the Bonds will be subject to mandatory tender on a purchase date selected by the Trustee that is a Business Day at least five (5) days preceding the expiration date of the Credit Facility (provided that no such tender shall occur if the Bonds are converted to the Fixed Rate Mode and successfully remarketed on a Business Day at least seven (7) days prior to such expiration date).

***Mandatory Tender for Purchase of Bonds.*** The Bonds will be purchased pursuant to a mandatory tender (i) on each Mode Change Date, (ii) on the last day of a Term Rate Period and (iii) during a Weekly Mode, on the effective date of an Alternate Credit Facility, (iv) on any Business Day within five days after receipt by the Trustee of written notification from the Bank that an event of default under the Reimbursement Agreement has occurred and is continuing and instructing the Trustee to call for a mandatory tender of the Bonds and (v) on a Business Day at least five days preceding the expiration date of the Credit Facility pursuant to a failure to renew or replace the Credit Facility as provided in the Indenture (each a “Purchase Date”), and the Owner or Direct Participant of such Bond is required to tender such Bond for purchase as provided below and such Bond will be purchased or deemed purchased at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. Payment of the Purchase Price of such Bond is required to be made by 1:30 p.m. (California time), in the same manner as payment of interest on the Bonds, to the Direct Participant with respect to Book-Entry Bonds (or the Owner of record if the Bonds are not Book-Entry Bonds), on the Record Date. If the Bonds are Book-Entry Bonds, the tendering Direct Participant is required to transfer, on the registration books of DTC, the beneficial ownership interests in such Bonds tendered for purchase to the account of the Trustee or a Direct Participant acting on behalf of the Trustee. If the Bonds are not Book-Entry Bonds, the Owner is required to deliver such Bonds no later than 9:30 a.m. (California time) on the Purchase Date to the Tender Agent at its corporate trust office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs.

### **Purchase and Remarketing of Bonds**

***Bonds Delivered for Purchase.*** Except as provided in the Indenture, the Trustee (or the Tender Agent if the Bonds are not Book-Entry Bonds) will purchase, but only from the sources listed below, Bonds required to be purchased by the Trustee (or the Tender Agent if the Bonds are not Book-Entry Bonds) not later than the close of business (California time) on the date such Bonds are required to be purchased at the Purchase Price. Funds for the payment of such Purchase Price by the Trustee (or the Tender Agent if the Bonds are not Book-Entry Bonds) will be derived from the following sources in the order of priority indicated:

- (1) the remarketing proceeds of the sale of the Bonds as are received from purchasers of the Bonds pursuant to the Indenture; and
- (2) moneys furnished to the Trustee representing the proceeds of a draw under the Credit Facility.

If moneys sufficient to pay the Purchase Price of Bonds to be purchased pursuant to the Indenture shall be held by the Trustee, the Tender Agent or the Remarketing Agent, as applicable, on the date such Bonds are to be purchased, any Bonds to be so purchased will be deemed to have been transferred on the registration books of DTC or delivered for purchase, as applicable, on such date and to have been purchased. The DTC Participants with respect to Book-Entry Bonds or former holders with respect to the Bonds that are not Book-Entry Bonds, will thereafter have no rights with respect to such Bonds except to receive payment of the Purchase Price therefor.

***Delivery of Remarketed Bonds and Bank Bonds.*** The Trustee and the Tender Agent, as applicable, are required to each hold all Bonds delivered to it in trust for the benefit of the DTC Participants who have transferred their interests in the Book-Entry Bonds or the respective Owners which will have so delivered such Bonds until moneys representing the Purchase Price of such Bonds will have been delivered to or for the account of or to the order of such DTC Participants or Owners. The Trustee and the Tender Agent are required to each hold all moneys for the purchase of Bonds uninvested in trust for the benefit of the person or entity which will have so delivered such moneys until Bonds purchased with such moneys will have been delivered to or for the account of such person or entity. Neither the Authority nor the Corporation will have any right, title, or interest in or to any remarketing proceeds held by the Trustee, the Tender Agent or the Remarketing Agent.

Book-Entry Bonds purchased with remarketing proceeds pursuant to an optional tender or mandatory tender are required to be transferred on the registration books of DTC on the date of such purchase or the date the ownership interest will be transferred to the new DTC Participants on the books of DTC, against payment to the Remarketing Agent in immediately available funds or evidence of immediately available funds in the form of a federal reserve wire number.

Bonds purchased with moneys obtained by a drawing on the Credit Facility (“Bank Bonds”) are required to be registered in the name of the Bank or its nominee on the registration books of DTC, with respect to Book-Entry Bonds, or held by the Tender Agent as directed in writing by the Bank. The Remarketing Agent is required to seek to remarket any Bank Bonds prior to remarketing any other Bonds tendered for purchase. The proceeds of any remarketing of Bank Bonds are required to be delivered to the Trustee and transferred to the Bank. Upon receipt by the Trustee of funds representing the proceeds of the remarketing of Bank Bonds, Bonds in place of such Bank Bonds so purchased will be made available for pick-up by the Remarketing Agent for subsequent delivery to the purchasers thereof, or the ownership interest will be transferred to the new DTC Participants on the books of DTC. Prior to or contemporaneously with such delivery, the proceeds of such remarketing will have been or will be delivered to the Trustee and transferred to the Bank, and the Trustee and the Tender Agent will have received written confirmation from the Bank of the reinstatement of the Credit Facility.

If any Bond is tendered after a notice of redemption for such Bond has been given, the Remarketing Agent will give the redemption notice to any purchaser of such Bond or to DTC if a Book-Entry Bond.

***Draws Upon the Credit Facility.*** The Trustee is required to draw on the Credit Facility prior to 8:30 a.m. (California time) on the Purchase Date in the amount necessary to provide to the Trustee or the Tender Agent the balance of the funds needed to purchase tendered Bonds on the Purchase Date, such balance will be determined based upon notification provided to the Trustee by the Remarketing Agent. Such moneys will be used only to pay the Purchase Price as provided in the Indenture, and if not so used are required to be promptly returned to the Bank. In the event that the Bonds are not Book-Entry Bonds, all amounts received from a draw under the Credit Facility will be transferred immediately by the Trustee to the Tender Agent to purchase tendered Bonds on the Purchase Date.

***Delivery of Proceeds of Sale Held by Remarketing Agent.*** So long as the Bonds are Book-Entry Bonds, if the Remarketing Agent has received from the purchasers thereof remarketing proceeds for the remarketing of all Bonds to be remarketed pursuant to an optional tender on an Optional Tender Date, the Remarketing Agent will promptly forward by not later than the close of business (California time) on the Purchase Date such remarketing proceeds by wire transfer (or in such other manner as is acceptable to the Remarketing Agent) to the Beneficial Owners tendering such Bonds for purchase. Until such transfer, all such remarketing proceeds are required to be deposited in a separate, segregated account of the Remarketing Agent and until so applied will be held uninvested in trust for the benefit of the Beneficial Owners tendering such Bonds for purchase.

If the Remarketing Agent has not received remarketing proceeds with respect to all of the Bonds to be remarketed on a Purchase Date or the Bonds are not Book-Entry Bonds or the Bonds are Bank Bonds, the proceeds of the remarketing of such Bonds received by the Remarketing Agent will be transferred by the Remarketing Agent to the Tender Agent or the Trustee, as applicable, no later than 9:00 a.m. (California time) on the Purchase Date and, upon receipt thereof, the Tender Agent or the Trustee, as applicable, is required to immediately apply such proceeds to the payment of the Purchase Price of Bonds to the Beneficial Owners or Owners or, in the case of the remarketing of Bonds which constitute Bank Bonds, to the Bank. In making payments to the Bank, the Trustee may conclusively assume that the Bank has not been repaid from any other sources.

***Notices Upon Delivery of Alternate Credit Facility.*** Whenever the Corporation has delivered to the Trustee notice of delivery of an Alternate Credit Facility pursuant to the Loan Agreement, the Trustee will mail a notice to all Holders of the Bonds stating: (i) the name of the issuer of the Alternate Credit Facility, (ii) the date on which the Alternate Credit Facility will become effective, (iii) the rating expected to apply to the Bonds after the Alternate Credit Facility is delivered, and (iv) if the Bonds is in the Weekly Mode, notice that such Bonds will be subject to mandatory tender for purchase on the effective date of the Alternate Credit Facility. Such notice will be mailed at least fifteen (15) days prior to the effective date of the Alternate Credit Facility.

## **REMARKETING AGREEMENT**

The Corporation entered into a Remarketing Agreement for the Bonds, dated as of June 1, 2006 (the "Remarketing Agreement"), with Stone & Youngberg LLC as the Remarketing Agent (the "Remarketing Agent"). Under the Remarketing Agreement, the Remarketing Agent

has agreed to use its best efforts to offer for sale all Bonds tendered in accordance with the provisions of the Indenture.

## **SECURITY FOR THE BONDS**

### **General**

The Bonds are being offered solely on the basis of the Letter of Credit and the financial strength of the Bank and not the operations, financial strength or condition of the Corporation or any other security. This Official Statement does not describe the financial condition of the Corporation. The rating assigned to the Bonds is based primarily on the creditworthiness of the Bank. Prospective purchasers of the Bonds that wish to make a full evaluation of the financial status of the Bank are advised to obtain financial statements of the Bank.

The Bonds are limited obligations of the Authority payable solely from and secured by certain Revenues pledged under the Indenture, consisting primarily of Loan Payments made by the Corporation under the Loan Agreement and certain other funds as provided by the Indenture. Pursuant to the terms of the Indenture, subject only to the provisions of such 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 and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of such Indenture, all of the Revenues and other amounts (including proceeds of the sale of Bonds) held in certain funds or accounts established pursuant to such Indenture (other than the Rebate Fund under the Indenture). “Revenues” is defined under the Indenture to include all payments received by the Authority or the Trustee from the Corporation with respect to the Bonds (except Additional Payments paid by the Corporation pursuant to the Loan Agreement and any amounts paid by the Corporation pursuant to the indemnification provisions of the Loan Agreement), including, without limiting the generality of the foregoing, Loan Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments of all or any part of the Loan Payments and all interest, profits or other income derived from the investment of any money in any fund or account established pursuant to the Indenture (except with respect to the Bonds to the extent such interest, profits or other income is required to be transferred to or retained in the Rebate Fund pursuant to the Indenture or the Tax Agreement). See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Pledge and Assignment of Revenues and Rights under the Loan Agreement; Revenue Fund” 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.

See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein for a summary of certain provisions of the Indenture and the Loan Agreement.

### **Assignment**

Pursuant to the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, and to the Bank, all of the Revenues and other amounts pledged under such Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for any deposits to the Rebate Fund, and except for the right to receive any Administrative Fees and Expenses payable to the Authority, the right of the Authority to receive any indemnification and the right to receive any notices and reports). Under the Indenture, the Trustee is entitled to and is required to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and is required to forthwith be paid by the Authority to the Trustee without any set-off whatsoever.

### **Enforceability of Remedies**

The remedies available to the Trustee or the Bondholders upon an Event of Default under the Indenture or the Loan Agreement are in many respects dependent upon judicial actions that are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed with respect to the Authority or the Corporation. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, and, in the bankruptcy process, executory contracts such as the Loan Agreement or the Indenture may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

## **Amendment of Indenture and Loan Agreement**

So long as the Credit Facility is outstanding and the Bank is not wrongfully dishonoring any draws thereunder, the Indenture and the Loan Agreement may be amended with Bank consent and without Bondholder consent.

### **THE BANK**

*The following information concerning the Bank has been provided by representatives of the Bank and has not been confirmed or verified by either the Authority, the Corporation, the Underwriter, or their respective officers, employees, or agents. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated herein by reference is correct of any time subsequent to its date.*

THIS DOCUMENT REPRESENTS ONLY A SUMMARY OF THE INFORMATION REFERRED TO HEREIN. EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN, THIS DOCUMENT DOES NOT ATTEMPT TO DESCRIBE THE BUSINESS OR ANALYZE THE CONDITION, FINANCIAL OR OTHERWISE, OF ALLIED IRISH BANKS, p.l.c. (“AIB”) OR OTHERWISE DESCRIBE ANY RISKS ASSOCIATED WITH AIB. EACH BONDHOLDER MUST RELY ON THAT HOLDER’S OWN KNOWLEDGE, INVESTIGATION AND EXAMINATION OF AIB AND AIB’S CREDITWORTHINESS.

AIB reports its financial information on a consolidated basis, which includes AIB and certain affiliates and subsidiaries (“AIB Group”). AIB Group provides a diverse and comprehensive range of banking, financial and related services principally in Ireland, Britain, Poland and the United States. AIB Group is currently organized into four (4) divisions: Republic of Ireland; Great Britain & Northern Ireland; Poland; and Capital Markets (which includes AIB’s New York Branch). AIB is the largest banking corporation organized under the laws of Ireland. As of December 31, 2006, AIB’s total assets were EUR159 billion. Profit before taxation from continuing operations for the year ending December 31, 2006 amounted to EUR 2,615 million. Profit attributable to equity holders of the parent was EUR 2,185 million. Return on average ordinary shareholders’ equity was 29% and return on average total assets was 1.63%.

AIB’s New York Branch files quarterly reports on Form FFIEC-002 (“Call Reports”) with the Federal Reserve Bank of New York, 33 Liberty Street, New York, NY 10001 and with the New York State Banking Department at 1 State Street, New York, NY 10004. The Call Reports are publicly available.

AIB is an Irish registered public limited company and its ordinary shares are quoted on the Dublin and London stock exchanges. The Group’s ordinary shares (symbol AIB) and non-cumulative preference shares (symbol AIBPr) are traded in the USA on the New York Stock Exchange in the form of American Depositary Shares (“ADS”) and each ADS is evidenced by an American Depositary Receipt (“ADR”). AIB, as a foreign private issuer of securities in the United States, is required to file an annual report on Form 20-F with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”) within 6 months after the end of each fiscal year. Moreover, a foreign

issuer, unlike domestic companies, is required to submit to the SEC under the Exchange Act on Form 6-K, only those interim reports and other materials that the issuer prepares in accordance with home country or home market requirements or delivers to its security holders. Exchange Act documents filed by AIB are publicly available at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, D.C. 20549 and at its regional offices at 233 Broadway, New York, NY 10279 and 175 West Jackson Street, Suite 900, Chicago, IL 60604. Copies of documents filed by AIB with the SEC may also be accessed electronically by means of the SEC's home page on the Internet at "<http://www.sec.gov>".

Any of the documents referred to herein (other than exhibits to such documents) are available upon request, without charge, by writing to the Office of Investor Relations, Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4, Ireland. Additional information about AIB, including a copy of AIB Group's Annual Report and Form 20-F, is presently available on the Internet at "<http://www.aibgroup.com>". (Such website is not incorporated by reference into this Official Statement).

Note: The exchange rate as at 12/30/06 - EUR1 = \$1.317

## **THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT**

### **The Letter of Credit**

The Letter of Credit will be issued pursuant to the Letter of Credit Reimbursement Agreement (the "Reimbursement Agreement"). Although certain provisions of the Letter of Credit 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 Letter of Credit.

The Letter of Credit is an irrevocable direct pay letter of credit issued by the Bank in an amount not exceeding \$20,223,561.64, of which, subject to the terms and conditions of the Letter of Credit, (a) up to \$20,000,000 may be drawn on to pay principal or the portion of the redemption price or the purchase price corresponding to principal of the Bonds, and (b) up to the amount of \$223,561.64 may be drawn to pay interest on or the portion of the purchase of the purchase price of Bonds corresponding to thirty-four (34) days of interest on the Bonds computed at a maximum rate of twelve percent (12%) per annum.

The Letter of Credit will permit the Trustee to draw thereunder (a) to pay accrued interest on the Bonds as provided for under the Indenture, (b) to pay principal and interest upon an optional or a mandatory sinking fund redemption of all or a portion of the Bonds as provided for under the Indenture, (c) to pay the principal and interest component of the Purchase Price (as defined in the Letter of Credit) upon mandatory or optional tender of all or a portion of the Bonds as provided for under the Indenture, or (d) to pay the maturing principal amount of Bonds, whether by acceleration, defeasance or stated maturity.

The Available Amount (as defined in the Letter of Credit) of the Letter of Credit will be reduced automatically by the amount of any interest component drawn thereunder; provided, however, that the amount of any interest component drawn thereunder shall be immediately and automatically reinstated effective after the Bank's honoring of such draw, or under some

circumstances, such earlier time when and to the extent the Bank is reimbursed by or on behalf of the Corporation for such interest component drawn. The Available Amount of the Letter of Credit will also be reduced automatically by the amount of the principal component drawn pursuant to a mandatory or optional tender of all or a portion of the Bonds; provided, however, that such amount shall be automatically reinstated, when and to the extent the Bank is reimbursed by or on behalf of the Corporation for such principal component drawn. Notwithstanding the foregoing, upon a drawing pursuant to a mandatory or optional tender in connection with a conversion of the interest rate on all or a portion of the Bonds Outstanding (as defined in the Indenture) to the Term or the Fixed Interest Rate (each as defined in the Indenture), the principal component and interest component of the Available Amount under the Letter of Credit shall be automatically and permanently reduced to the amount set forth in the certificate delivered by the Trustee in connection such drawing.

The termination date of the Letter of Credit will be the earliest of (i) 4:00 P.M. (New York City time) on July 12, 2010; (ii) the date on which the Bank receives from the Trustee a certificate confirming that (a) no Bonds (as defined in the Letter of Credit) remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Bond Indenture and available under the Letter of Credit have been made and honored, or (c) an Alternate Credit Facility (as defined in the Indenture) has been issued to replace the Letter of Credit pursuant to the Indenture; (iii) the date on which the Bank honors a drawing in connection with an optional or a mandatory sinking fund redemption of all of the Bonds; and (iv) ten (10) Business Days after the date on which the Bond Trustee receives notice of the occurrence of an event of default under the Reimbursement Agreement.

### **The Letter of Credit Reimbursement Agreement**

The Bank has certain rights and the Corporation has certain obligations under the Reimbursement Agreement. These rights of the Bank do not extend to the Bondholders. In addition, the Corporation's compliance with its obligations under the Reimbursement Agreement can be waived solely at the behest of the Bank. The Reimbursement Agreement provides for, among other things, repayment by the Corporation of amounts drawn under the Letter of Credit. Although certain aspects of the Reimbursement Agreement are summarized herein, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Reimbursement Agreement.

The occurrence of any of the following events is an Event of Default under the Reimbursement Agreement:

(a) failure by the Corporation to reimburse or pay the Bank for any Drawing under the Letter of Credit within three (3) Business Days after the same is due; or

(b) failure by the Corporation to pay the Bank any other amount payable pursuant to the Reimbursement Agreement, any Collateral Document, any other agreement, undertaking or instrument benefiting the Bank or under any Bond Document within five (5) Business Days after notice of the same has been given; or

(c) failure by the Corporation to observe or perform certain affirmative and negative covenants in the Reimbursement Agreement and such failure continues for a period of ten (10) or more days after (i) written notice thereof to the Corporation from the Bank or (ii) the Bank is notified of such failure, or should have been notified of such failure by the Corporation, pursuant to the terms of the Reimbursement Agreement or any Collateral Document; or

(d) failure by the Corporation to observe or perform any other term, condition, covenant or agreement set forth herein or the other Collateral Documents to be observed or performed by the Corporation (and not constituting an Event of Default under any of the preceding or following provisions) and such failure continues for a period of thirty (30) or more days after (i) written notice thereof to the Corporation from the Bank or (ii) the Bank is notified of such failure, or should have been notified of such failure by the Corporation, pursuant to the terms of the Reimbursement Agreement or any Collateral Document; or

(e) any representation, warranty or statement made or deemed made by or on behalf of the Corporation herein or the other Collateral Documents or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with the Reimbursement Agreement or any Collateral Document shall prove to have been materially misleading or incorrect in any material respect when made or deemed made; or

(f) any provision of the Reimbursement Agreement shall for any reason cease to be valid and binding on the Corporation or in full force and effect or the Corporation shall so assert in writing; or

(g) the Corporation shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator or other similar official of itself or of all or a substantial part of its Property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign relating to bankruptcy, insolvency, reorganization or relief of debtors, seek to have an order of relief entered with respect to it or seek to adjudicate it a bankrupt or insolvent, or seek reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to its debts, or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(h) a case, proceeding or other action shall be commenced without the application or consent of the Corporation, in any court of competent jurisdiction, seeking the liquidation or readjustment of debts, the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation, or of all or any substantial part of its assets, or any similar action with respect to the Corporation, under any existing or future law of any jurisdiction, domestic or foreign relating to bankruptcy, insolvency, reorganization or relief of debtors and such case, proceeding or other action shall continue undismissed, or unstayed and in effect, for a period of sixty (60) days, or an order for relief against the Corporation, shall be entered in any such involuntary case, proceeding or other action or the Corporation, shall take any action in furtherance of, or indicating its consent to, approval of or acquiescence in any of the actions described above; or

(i) unless waived by the Bank, in writing, (i) any Event of Default, however defined, shall have occurred and be continuing under any Collateral Document or with respect to any obligation of the Corporation under any Bond Document, or (ii) Corporation fails to comply with any covenant or financial obligation set forth in the Collateral Documents or the Bond Documents, or (iii) any representation or warranty made or deemed made by the Corporation in the Collateral Documents or the Bond Documents or which is contained in any exhibit, schedule or any other document or other statement furnished at any time under or in connection with the Collateral Documents, the Bond Documents or any of the other documents, instruments or certificates furnished by the Corporation in connection therewith shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(j) a final judgment for an amount not otherwise covered by insurance, in excess of \$100,000.00 (which the Bank determines to not be covered by insurance or as to which the insurer has given notice of a denial of coverage) is rendered against the Corporation and, within ten (10) days after entry thereof, such judgment has not been discharged or execution thereof stayed pending appeal or if, within ten (10) days after the expiration of any such stay, such judgment has not been discharged; or

(k) at any time any Liabilities, other than the Liabilities created under the Reimbursement Agreement, of the Corporation are not paid when due (whether at original maturity or as a result of acceleration by reason of the happening of an event of default, howsoever described, unless such event of default has been unconditionally waived for no consideration) and any originally stated applicable period of grace in respect thereof shall have expired, except in the event that the event of default has been objected to by the Corporation before a court with jurisdiction to hear or determine the validity of such dispute, and Corporation shall present a bond in an amount reasonably satisfactory to the Bank to cover any such liabilities; or

(l) any of the following events occurs or exists with respect to either the Corporation or any ERISA Affiliate: (i) any Prohibited Transaction involving any Plan; (ii) any Reportable Event with respect to any Plan; (iii) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan; (iv) any event or circumstance that might constitute grounds entitling the PBGC to institute proceedings under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any Plan, or the institution by the PBGC of any such proceedings; (v) complete or partial withdrawal under Section 4201 or 4202 of ERISA from a Multi-employer Plan or the reorganization, insolvency, or termination of any Multi-employer Plan; and in each case above, such event or condition, together with all other events or conditions, if any, could in the opinion of the Bank subject the Corporation to any tax, penalty, or other liability to a Plan, a Multi-employer Plan, the PBGC or otherwise (or any combination thereof) which in the aggregate would have a Material Adverse Effect; or

(m) the Corporation ceases or threatens to cease to carry on the business it carries on at the date hereof or any substantial part thereof; or

(n) any event occurs which has a Material Adverse Effect; or

(o) any Liens created by any of the Collateral Documents shall for any reason cease to be valid, perfected, security interests or deed of trust Liens of the required priority in favor of the Bank (except with respect to Financing Statements that have lapsed because the Bank has failed to file a continuation statement on time); or

(p) An “Event of Default” occurs under the Indenture (as such term is defined in the Indenture) or a default or event of default otherwise occurs under any other Bond Documents (subject to any applicable notice and cure provisions contained in the Bond Documents); or

(q) An Environmental Event shall have occurred that in the reasonable opinion of the Bank has or is likely to have a Material Adverse Effect; or

(r) A default or event of default occurs under the Corporation’s existing line of credit with First Republic Bank (subject to any applicable notice and cure provisions contained therein);

then, upon the occurrence of (A) any event specified in subsection (g) or (h) above: (i) automatically all amounts due under the Reimbursement Agreement in respect of Drawings made or available to be made under the Letter of Credit or otherwise shall immediately become due and payable, without the giving of notice of any kind, and (ii) the Bank shall proceed to enforce all other remedies available to it under applicable law, and (B) any Event of Default (other than any event specified in subsection (g) or (h) above), the Bank, at its election, may: (i) declare all amounts due under the Reimbursement Agreement in respect of Drawings made under the Letter of Credit or otherwise to be immediately due and payable, whereupon the same shall immediately become due and payable, (ii) request in writing that the Trustee in accordance with the Indenture cause a mandatory tender of the Bonds, (iii) require the Corporation to deposit cash and/or securities with the Bank in an amount satisfactory to the Bank, and/or (iv) proceed to enforce all other remedies available to it under the Collateral Documents, Bond Documents and under applicable law. Except as expressly provided above, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Corporation. In the event that any amount is deposited with the Bank pursuant to the clause B (iii) above, the yield on such amount shall not exceed the yield on the Bonds, computed in accordance with Treasury Regulation 1.148, unless the Corporation and the Bank receive an opinion of nationally recognized bond counsel selected by the Corporation and satisfactory to the Bank that the investment of such amount at a higher yield will not affect adversely the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

For purposes of this Section, the following terms shall have the following meanings:

“Bond Documents” means the Resolution adopted by the Authority on May 24, 2006 authorizing the issuance of the Bonds, the Bonds, the Indenture, the Loan Agreement, the Bond Purchase Agreement, the Remarketing Agreement, the Official Statement and any and all documents, instruments and agreements relating to the foregoing, and any amendment, modification or supplement from time to time, to any of the foregoing.

“Bond Purchase Agreement” means the Bond Purchase Agreement dated on or about July 11, 2007, executed by the Underwriter, the Authority and the Corporation.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which the Principal Corporate Trust Office (as defined in the Indenture) of the Trustee or the offices of the Tender Agent (as defined in the Indenture) at which the duties hereunder are to be performed or the office of the Bank at which draws under the Letter of Credit are presented are authorized or required by law to close or (iii) a day on which the New York Stock Exchange is closed.

“Collateral Documents” means the Pledge Agreement, the Control Agreement, Financing Statements and all documents, instruments and agreements relating to the foregoing, and any amendment, restatement, modification or supplement, from time to time, to any of the foregoing.

“Control Agreement” means that Deposit Account Control Agreement dated June 29, 2006 among First Republic Bank, the Bank and the Corporation.

“Debt” of any Person means any (i) indebtedness for borrowed money and (ii) installment sales or conditional sales agreements for the deferred purchase price of property or services and obligations as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases; provided that the term “Debt” shall exclude deferred income, trade payables and other expenses normally incurred in the ordinary course of business.

“Drawing” means depending on the context, (a) the presentation by the Trustee to the Bank of a completed certificate and demand for payment in the form annexed to the Letter of Credit, purportedly signed on behalf of the Trustee, or (b) the amount paid by the Bank upon its honor of such a certificate and demand.

“Environmental Event” means (i) the presence, release generation, storage, disposal, removal, transportation or treatment of hazardous materials or hazardous substances (as defined in any applicable Environmental Laws, and including friable asbestos and materials containing friable asbestos) on any Property owned, occupied or operated by the Corporation (including the Site or any portion thereof), or by any Person for whose conduct the Corporation is responsible (any or all of such Property owned, occupied or operated by such Persons for whose conduct the Corporation is responsible being “Other Affected Property”), or on any real property adjoining or in the vicinity of such Property or Other Affected Property (“Adjoining Property”), which through soil or ground water migration could come to be located at or on such Property owned, occupied or operated by the Corporation or any Other Affected Property; provided, that in each case the same has resulted in contamination or deterioration of any portion of such Property, Other Affected Property or Adjoining Property in a level of contamination greater than the levels permitted or established by any Governmental Authority having jurisdiction over the Corporation, of such Property, Other Affected Property or Adjoining Property; or (ii) the receipt by the Corporation of any written notice or claim of any violation, nuisance, negligence or other tort or other theory alleging liability on the basis of any of the events described in the foregoing item (i).

“Environmental Law” means any and all present and future federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Substances or relating to liability for costs of other actual or threatened danger to human health or the environment. The term

“Environmental Law” includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Endangered Species Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Federal Water Pollution Control Act; the Hazardous Materials Transportation Act; the National Environmental Policy Act; the Occupational Safety and Health Act; the Resource Conservation and Recovery Act (including but not limited to Subtitle I relating to underground storage tanks); the River and Harbors Appropriation Act; the Safe Drinking Water Act; the Solid Waste Disposal Act; and the Toxic Substances Control Act. The term “Environmental Law” also includes, but is not limited to, any present and future federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law: conditioning transfer of property upon a negative declaration or other approval of a Governmental Authority of the environmental condition of the property; requiring notification or disclosure of Releases of Hazardous Substances or other environmental condition of the property to any Governmental Authority or other Person, whether or not in connection with transfer of title to or interest in the property; imposing conditions or requirements in connection with permits or other authorization for lawful activity; relating to nuisance, trespass or other causes of action related to the property; and relating to wrongful death, personal injury, or property or other damage in connection with any physical condition or use of the property.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business, whether or not incorporated, which together with the Corporation would be treated as a single employer under Section 4001 of ERISA.

“Financing Statements” means any UCC financing statements executed or authorized by the Corporation and filed on the closing date or thereafter.

“GAAP” means generally accepted accounting principles in the United States of America in effect from time to time.

“Governmental Authority” means any nation, government, or state, or any political subdivision thereof, or any court, entity or agency exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Guaranteed Debt” means, without duplication, all obligations of the Person in question to guarantee, directly or indirectly, in any manner, Debt of any other Person.

“Hazardous Substances” includes but is not limited to any and all substances (whether solid, liquid or gas) defined, listed, or otherwise classified as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future Environmental Laws or that may have a negative impact on human health or the environment, including but not limited to petroleum and

petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives.

“Improvements” means the library and academic center to be constructed on the campus of the Corporation at the Site.

“ISDA Contracts” means any and all International Swap Dealers Association Master Agreements entered into from time to time between the Corporation and any Person providing an interest rate swap, cap, collar, floor, forward, option, put, call or other agreement, arrangement or security however denominated to hedge interest rate fluctuations and any amendments, modifications, supplements or confirmations thereto.

“Liabilities” means any and all obligations and indebtedness of every kind and description of the Corporation, including, without limitation, any and all Debt and Guaranteed Debt, whether under the Reimbursement Agreement, the Letter of Credit, the Bond Documents, the Collateral Documents, and any other loan documents, promissory notes, guaranties or other agreements, including swap agreements (as defined in 11 U.S.C. §101) or ISDA Contracts, whether such debts or obligations are primary or secondary, direct or indirect, absolute or contingent, sole, joint or several, secured or unsecured, due or to become due, contractual or tortious, arising by operation of law or otherwise, or now or hereafter existing, including, without limitation, principal, interest, fees, late fees, expenses, attorneys’ fees and costs and/or allocated fees and costs of Bank’s counsel, that have been or may hereafter be contracted or incurred. “Liabilities” shall exclude liabilities under leases and purchases of equipment in the ordinary course of Corporation’s business or for the operation of the Site, deferred income and trade payables or accrued liabilities normally incurred in the ordinary course of business.

“Lien” means any mortgage, deed of trust, pledge, charge, encumbrance, security interest, collateral assignment or other lien or restriction of any kind, whether based on common law, constitutional provision, statute or contract, and shall include recorded reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions.

“Material Adverse Effect” means any material and adverse effect (i) upon the assets, business (including prospects), operations, Property or financial condition of the Corporation (including, without limitation, contingent liabilities indicated in the notes to the Corporation’s financial statements), (ii) on the ability of the Corporation to perform its obligations hereunder or under the Collateral Documents or the Bond Documents or (iii) on the Corporation’s ability to complete the Improvements in the manner and within the time provided in the Reimbursement Agreement, the Bond Documents and the Collateral Documents.

“Multi-employer Plan” means a “multi-employer plan” as defined in Section 4001(a)(3) of ERISA.

“PBGC” means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, and any successor to PBGC.

“Person” means any individual, partnership, firm, corporation, limited liability company, association, joint venture, trust or other entity, or any government or political subdivision or agency, department or instrumentality thereof.

“Plan” means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained for employees of Corporation, (ii) is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which the Corporation is a part of or has within the preceding five plan years made contributions, or (iii) under which the Corporation is a part of or has any liability, including any liability by reason of having been a substantial employer within the meaning of Section 4063 of ERISA at any time during the preceding five years or by reason of being deemed a contributing sponsor under Section 4069 of ERISA.

“Pledge Agreement” means that Pledge Agreement dated as of June 29, 2006 by the Corporation in favor of the Bank.

“Prohibited Transaction” means any transaction set forth in Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

“Property” means any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

“Reportable Event” means any of the events set forth in Section 4043 of ERISA.

“Site” means the real property and improvements thereon located at 9490 Genesee Avenue and 9409 Regents Road, La Jolla, California.

### **Alternate Credit Facility**

Pursuant to the terms of the Indenture, the Corporation may elect to replace any Credit Facility with an Alternate Credit Facility conforming to the requirements of the Indenture. The Corporation will promptly notify the Trustee of its intention to deliver an Alternate Credit Facility. Upon receipt of such notice, the Trustee will deliver a notice of mandatory tender of the Bonds in accordance with the terms of the Indenture.

## **THE CORPORATION**

### **General**

Tracing its beginnings to The Balmer School founded in 1926, La Jolla Country Day School (the “Corporation”) is a nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code that operates an independent, co-educational, non-sectarian college preparatory school serving students in Nursery through Grade 12. The Corporation's administrative facilities are located at 9409 Regents Road in La Jolla, California.

## **INVESTMENT CONSIDERATIONS**

The following information should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be an exclusive listing of risks and other considerations that may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks and considerations.

### **Security for the Bonds**

The Bonds are being offered solely on the basis of the Letter of Credit and the financial strength of the Bank and not the operations, financial strength or condition of the Corporation or any other security. This Official Statement does not describe the financial condition of the Corporation. The rating assigned to the Bonds is based primarily on the creditworthiness of the Bank. Prospective purchasers of the Bonds that wish to make a full evaluation of the financial status of the Bank are advised to obtain financial statements of the Bank.

Except as noted herein under “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT,” the Bonds are payable solely from payments made pursuant to the Loan Agreement. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make payments required by the Loan Agreement and thus to pay maturing principal, mandatory sinking fund requirements and interest on the Bonds. Future economic and other conditions, including economic trends and events, technological developments and demographic changes, increases in insurance claims, as well as increased costs and changes in government regulations, including Internal Revenue Service (the “IRS”) policy regarding tax exemption, may adversely affect the future financial condition of the Corporation and, consequently, its ability to make payments of the principal of and premium, if any, and interest on the Bonds.

### **Expiration of the Letter of Credit**

The initial Letter of Credit expires on July 12, 2010, subject to extension or earlier termination in certain circumstances as described therein. If the Letter of Credit is not extended or an Alternate Credit Facility is not obtained by the Corporation, the Bonds will be subject to mandatory redemption. There can be no assurance that the Corporation will be able to obtain an extension of the Letter of Credit or an Alternate Credit Facility. The Bank is under no obligation to extend the Letter of Credit beyond the scheduled expiration thereof.

### **Bank's Obligations Unsecured**

The ability of the Bank to honor draws upon the Letter of Credit is based solely upon the Bank's general credit and is not collateralized or otherwise guaranteed by the United States of America or any agency or instrumentality thereof. No provision has been made for replacement of or substitution for the Letter of Credit in the event of any deterioration in the financial condition of the Bank. Neither the Authority, the Corporation or the Bank assumes any liability to any purchaser of the Bonds as a result of any deterioration of the financial condition of the Bank. Upon any insolvency of the Bank, any claim by the Trustee against the Bank would be subject to bank receivership proceedings.

## **General Factors Affecting the Bank**

The Bank is subject to regulation and supervision by various regulatory bodies. New regulations could impose restrictions upon the Bank which would restrict its ability to respond to competitive pressures. Various legislative or regulatory changes could dramatically impact the banking industry as a whole and the Bank specifically. The banking industry is highly competitive in many of the markets in which the Bank operates. Such competition directly impacts the financial performance of the Bank. Any significant increase in such competition could adversely impact the Bank.

Prospective purchasers of the Bonds should evaluate the financial strength of the Bank based upon the information contained and referred to herein under the caption "THE BANK", and other information available upon request from the Bank and should not rely upon any governmental supervision by any regulatory entity.

## **Tax-Exempt Status**

***Tax-Exempt Status of Interest on the Bonds.*** The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on 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 earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the IRS. The Authority and the Corporation have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the Date of Delivery of the Bonds.

***Tax-Exempt Status of the Corporation.*** The tax-exempt status of interest on the Bonds presently depends upon the maintenance by the Corporation of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modern tax-exempt organizations.

Tax-exempt organizations such as the Corporation are subject to scrutiny from ongoing IRS audit programs. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful, private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of nonprofit Corporations or trusts, it could do so in the future. Loss of tax-exempt status by the Corporation would most likely result in loss of tax exemption of interest on the Bonds and of future tax-exempt debt of the Corporation, if any, and defaults in covenants regarding the Bonds and existing and future

tax-exempt debt, if any, would likely be triggered. Loss of tax-exempt status of the Corporation would also have material adverse consequences on the financial condition of the Corporation.

***Bond Audit.*** In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division.

The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Hawkins Delafield & Wood LLP, San Francisco, Bond Counsel, is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See the section entitled “TAX MATTERS” herein.

***Unrelated Business Income.*** In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). The Corporation has not historically generated any significant amount of UBTI. The Corporation may participate in activities which generate UBTI in the future. Management believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Corporation as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds and other future tax-exempt debt of the Corporation, if any.

***State Income Tax Exemption.*** The State of California has not been as active as the IRS in scrutinizing the income tax exemption of organizations. However, it is likely that the loss by the Corporation of federal tax exemption would also trigger a challenge to the State tax exemption of the Corporation. Depending on the circumstances, such an event could be adverse and material.

***Exemption from Property Taxes.*** 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. The management of the Corporation believes that its real property and the planned improvements thereon are and will continue to be exempt from California real property taxation.

## THE AUTHORITY

The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California. The Authority was formed 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.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Corporation and others in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinion of counsel to the Corporation regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from present State of California personal income taxes. See "Miscellaneous" below for a discussion of certain litigation that may relate to this California tax exemption.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing

statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Corporation have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

### **Original Issue Discount**

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of

the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

## **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest (including OID) paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification”, or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding”, which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

## **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds.

Prospective purchasers should be aware that the United States Supreme Court has agreed to review *Davis v. Dep’t. of Revenue of the Finance and Admin. Cabinet*, 197 S.W. 3d 557 (Ky. App. 2006), *cert. granted* 2007 U.S. LEXIS 5914 (May 21, 2007), a decision of a Kentucky appellate court, which held that provisions of Kentucky tax law that provided more favorable income tax treatment for holders of bonds issued by Kentucky municipal bond issuers than for holders of non-Kentucky municipal bonds violated the Commerce Clause of the United States Constitution. California statutes provide more favorable California income tax treatment for holders of bonds issued by the State of California and its political subdivisions, including the Bonds, than for bonds issued by other states and their political subdivisions. If the United States Supreme Court were to affirm the holding of the Kentucky appellate court, subsequent California judicial decisions or legislation designed to ensure the constitutionality of California tax law could, among other alternatives, adversely affect the California tax exemption of outstanding bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from California income tax of interest on certain bonds issued by other states and their political subdivisions, either of which actions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix B.

### **APPROVAL OF LEGALITY**

The validity of the issuance of the Bonds under California law is subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, acting as Bond Counsel. The proposed form of the legal opinion of Bond Counsel is attached hereto as Appendix B. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California, for the Bank by HellerEhrman LLP, New York, New York, and for the Corporation by Sheppard, Mullin, Richter & Hampton LLP, Los Angeles, California.

### **ABSENCE OF MATERIAL LITIGATION**

#### **The Authority**

There is no litigation that has been served on the Authority or, to the best knowledge of the Authority, that is otherwise pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceeding of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of the Authority, or the authority of the Authority to enter into any document relating to the Indenture or the Bonds.

#### **The Corporation**

There is no material litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, which seeks to restrain or enjoin the issuance or the sale of the Bonds, which in any way contests or affects the validity of the Bonds or any proceedings of the Corporation 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 Bond proceeds or the existence or powers of the Corporation relating to the issuance of the Bonds. The Corporation will furnish a no-litigation opinion of its counsel related to the foregoing at the time of delivery of the Bonds.

### **UNDERWRITING**

The Bonds will be purchased from the Authority by Stone & Youngberg LLC, as the Underwriter. The Underwriter has agreed to purchase the Bonds from the Authority at a purchase price equal to the principal amount of the Bonds, less an Underwriter's discount of \$120,000.

The purchase contract between the Authority and the Underwriter provides that the Underwriter will purchase all of the Bonds, if any are purchased. Bonds may be offered and sold by the Underwriter to certain dealers and others at prices lower than the public offering prices set

forth on the inside cover page of this Official Statement, and such public offering prices may be changed by the Underwriter from time to time without notice.

## **RATINGS**

Standard & Poor's Ratings Services (“S&P”) has assigned ratings of “A+/A-1” to the Bonds. Such ratings are based on the Letter of Credit issued for the benefit of the Bonds. See “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT” herein. Such ratings reflect only the view of the agency assigning such rating, and any explanation of the significance of such ratings should be obtained from the assigning rating agency. The Corporation furnished S&P with certain information and material relating to the Bonds and the Corporation that have not been included in this Official Statement. Generally, rating agencies base their ratings on information and materials furnished and on investigation, studies, and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain in effect for any given period of time, or that such rating might not be lowered or withdrawn entirely by the rating agency, if in the judgment of the rating agency circumstances so warrant. The Authority, the Corporation, and the Underwriter have not undertaken any responsibility either to bring to the attention of the Bondholders any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

## **MISCELLANEOUS**

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the Bonds.

The Authority is a conduit issuer and has not prepared or participated in the preparation of this Official Statement and is not responsible for the statements made herein except for the information under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION—The Authority” and the Authority will not participate in or be responsible for the offering, sale, distribution, or remarketing of the Bonds.



## **APPENDIX A**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

The following is a summary of certain provisions of the Indenture and the Loan Agreement. These summaries do not purport to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions.

### **DEFINITIONS**

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

“Additional Payments” means the payments to be made by the Corporation to the Trustee or the Authority in accordance with the Loan Agreement.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee, including Additional Payments.

“Alternate Credit Facility” means an alternate irrevocable letter of credit or similar credit facility issued by a commercial bank or savings institution, the terms of which shall be to the extent dictated by the terms of the Bonds, the same as or similar to those of the initial Credit Facility, delivered to the Trustee pursuant to the Loan Agreement, and meeting the requirements of said Loan Agreement. The Alternate Credit Facility may include a bond insurance policy and a liquidity facility combined. For purposes of a mandatory tender pursuant to the Indenture, the amendment and restatement of the Credit Facility to provide for coverage in connection with the delivery of a new Tranche of the Bonds shall not be considered an Alternate Credit Facility and no mandatory tender of the Bonds shall be required.

“Alternate Rate” means the lesser of the Maximum Rate or The Bond Market Association Municipal Swap Index rate as of the most recent date for which such index was published or such other weekly, high-grade index composed of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or its successor, or as otherwise determined by The Bond Market Association; provided, however, that if such index is no longer produced by Municipal Market Data, Inc. or its successor, then the rate of a reasonably comparable index selected by the Corporation.

“Authority” means ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers agency organized and existing under the laws of the State.

“Available Moneys” means:

(a) during any period a Credit Facility is in effect, any of the following moneys that, until applied, are held in a separate and segregated account under the Indenture in which only Available Moneys are held:

(1) proceeds of the Bonds received from the original issuance and sale of the Bonds;

(2) proceeds from the remarketing of any Bonds tendered for purchase pursuant to the Indenture and purchased by any Person other than the Authority or the Corporation (or any “insider,” as defined in the United States Bankruptcy Code, of the Authority or the Corporation);

(3) moneys drawn under the Credit Facility;

(4) moneys deposited in a separate and segregated account under the Indenture that have been continuously on deposit with the Trustee for a period of at least 367 days during which no petition in bankruptcy (or other bankruptcy or similar proceedings) is pending or has been filed by or against the Corporation or the Authority (or any “insider”, as defined in the United States Bankruptcy Code, of the Corporation or the Authority) under the United States Bankruptcy Code;

(5) any other moneys or securities, if there is delivered to the Trustee an Opinion of Counsel from legal counsel having expertise in bankruptcy matters (who, for purposes of such opinion, may assume that no bondowner is an “insider,” as defined in United States Bankruptcy Code) to the effect that the use of such moneys or securities to pay the principal or purchase price of, or premium, if any, or interest on the Bonds would not constitute a voidable preferential payment in the event of the occurrence of the filing of a petition in bankruptcy (or other commencement of bankruptcy or similar proceedings) by or against the Corporation or the Authority under the United States Bankruptcy Code; and

(6) earnings derived from the investment of any of the foregoing;

(b) during any period a Credit Facility is not in effect, any moneys held by the Trustee in any fund or account under the Indenture and available, pursuant to the provisions thereof, to be used to pay principal or purchase price of, or premium, if any, or interest on, the Bonds.

“Bank” means Allied Irish Banks, p.l.c., New York Branch, and any other commercial bank, savings association or financial institution issuing a Credit Facility then in effect.

“Bank Bonds” means Bonds purchased with moneys obtained by a drawing on the Credit Facility.

“Bondholder” or “Holder” or “Owner” means, with respect to any Bond, the person in whose name such Bond is registered.

“Bonds” means, in this Appendix A, the ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Revenue Bonds (La Jolla Country Day School) Series A issued pursuant to the Indenture, including all Tranches of such Bonds.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which the Principal Corporate Trust Office of the Trustee or the offices of the Tender Agent at which the duties under the Indenture are to be performed or the office of the Bank at which draws under the Credit Facility are presented are authorized or required by law to close or (iii) a day on which the New York Stock Exchange is closed.

“Corporation” means La Jolla Country Day School, a nonprofit public benefit corporation organized and existing under the laws of the State of California, and its successors or assigns permitted pursuant to the Loan Agreement.

“Date of Delivery” means, with respect to the Tranche One Bonds, June 29, 2006, and with respect to all other Tranches of Bonds shall mean the Date of Delivery set forth in the Supplemental Indenture pursuant to which such Bonds are issued.

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

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30 or any other twelve-month, or fifty-two week, period hereafter selected and designated as the official fiscal year period of the Corporation.

“Fixed Rate” means the interest rate on the Bonds determined pursuant to the Indenture.

“Fixed Rate Bonds” means the Bonds during the Fixed Rate Mode.

“Fixed Rate Mode” means the period during which the Bonds bear interest at a Fixed Rate.

“Interest Payment Date” means (1) with respect to Bonds in a Term Mode with a Term Rate Period of 12 months or less, the Business Day next succeeding the last day of the Term Rate Period; (2) with respect to Bonds in a Term Mode with an Interest Rate Period of greater than 12 months each April 1 and October 1 and the last day of the Term Rate Period, (3) with respect to Bonds in a Weekly Mode, the first Business Day of each month; (4) with respect to Bonds in the Fixed Rate Mode, each April 1 and October 1; (5) any Mode Change Date; (6) the respective maturity dates of the Bonds; and (7) with respect to Bank Bonds, the dates set forth in the Reimbursement Agreement.

“Interest Period” shall mean the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, except that the first Interest Period shall be the period from and including the Date of Delivery of the Bonds to and including the day immediately preceding the first Interest Payment Date.

“Loan Default Events” means any of the events of default specified in the Loan Agreement.

“Maximum Rate” shall mean with respect to Bonds other than Bank Bonds, twelve percent (12%) per annum, and with respect to Bank Bonds, the maximum interest rate permitted by law.

“Mode” means, as the context may require, the Term Mode, the Weekly Mode or the Fixed Rate Mode.

“Mode Change Date” means with respect to any Bond, the day on which a Mode begins following the last day of a different Mode.

“Optional Tender Date” is defined in the Indenture.

“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 cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority has been discharged in accordance with the related Indenture; and (c) Bonds for the transfer or exchange of which, or in lieu of or in substitution for which, other Bonds shall have been authenticated and delivered by the Trustee pursuant to the related Indenture.

“Permitted Investments” means any of the following obligations as and to the extent that such obligations are at the time legal investments under the laws of the State for moneys held under the Indenture and then proposed to be invested therein, as shall be certified by the Corporation to the Trustee:

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America, and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;

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

(3) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities shall constitute Permitted Investments only if they have been stripped by the agency itself): Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”), Student Loan Marketing Association, Resolution Funding Corporation or Farm Credit System;

(4) bonds or notes issued by any state or municipality which are rated by S&P and Moody's in one of the two highest rating categories assigned by such agencies;

(5) repurchase agreements with either a primary dealer on the reporting dealer list

of the Federal Reserve or any bank, which, in either case, is rated “A” or better by S&P and Moody's, provided that (a) the term of such repurchase agreement is not greater than thirty days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) there shall have been delivered to the Trustee and the Authority an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of such funds;

(6) investment agreements, including guaranteed investment contracts (“GICs”) with financial institutions, the debt obligations of which, or insurance companies the claims paying ability of which, are rated in one of the highest two rating categories of the Rating Agency then rating the Bonds, or investment agreements or investment contracts which are guaranteed by financial institutions, the debt obligations of which, or insurance companies, the claims paying ability of which, are rated in one of the highest two rating categories of the Rating Agency then rating the Bonds, provided, that, at all times, the investment agreement or investment contracts, as appropriate, shall allow the Corporation to instruct the Trustee to replace such financial institution or insurance company if such rating falls below the highest rating category or two highest rating categories, as appropriate, described in the Indenture or investment agreements which are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) of this definition) with a market value (valued at least quarterly) of no less than the amount of moneys so invested, in each case, the securities in such investment agreements shall be payable at the times and in the amounts as the funds and accounts held under the Indenture by the Trustee are required to be available for its use;

(7) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2;

(8) certificates of deposit secured at all times by collateral described in (1) and/or (2) above, issued by commercial banks, savings and loan associations or mutual savings banks relating to collateral held by a third party, and in which collateral the Bondholders have a perfected first security interest;

(9) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(10) commercial paper rated, at the time of purchase, “Prime - 1” by Moody's and “A-1” or better by S&P;

(11) federal funds, deposit accounts, or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody's and “A-1” or “A” or better by S&P;

(12) obligations of a bank or other financial institution rated at least “Aa3” by the Rating Agency; and

(13) the Common Fund.

“Principal Corporate Trust Office” means with respect to the Trustee, the office of the Trustee at 707 Wilshire Blvd., 17<sup>th</sup> Floor, Los Angeles, California 90017.

“Project Fund” means the funds by that name established pursuant to the Indenture.

“Property” means, as of any date, all land, improvements, facilities, fixtures and equipment then owned by the Corporation.

“Purchase Date” shall mean the date on which any Bond is required to be purchased pursuant to the Indenture.

“Purchase Price” shall mean that amount equal to 100% of the principal amount of any Bond purchased pursuant to the Indenture, plus accrued and unpaid interest thereon to but not including the Purchase Date or the date on which such Bond is deemed purchased in accordance with the Indenture.

“Rate Determination Date” means the date on which the interest rate(s) with respect to the Bonds shall be determined, which (i) in the case of the Weekly Mode, shall be each Wednesday or, if Wednesday is not a Business Day, the next following Business Day, or in the case of a conversion to the Weekly Mode shall be at least one Business Day prior to the Mode Change Date; (ii) in the case of the Term Mode, shall be at least one Business Day prior to the first day of a Term Rate Period; and (iii) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be a least one Business Day prior to the Mode Change Date.

“Rating Agency” means Standard & Poor's Ratings Services, so long as such rating agency maintains a rating on the Bonds, and any other nationally recognized securities rating agency designated in writing by the Corporation with the written approval of the Authority and the Bank.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Rebate Requirement” shall have the meaning assigned to that term in the Tax Agreement.

“Record Date” shall mean (i) the Business Day immediately preceding the applicable Interest Payment Date during the Weekly Mode and (ii) the fifteenth day of the month prior to an Interest Payment Date during a Term Mode or the Fixed Rate Mode.

“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), premium, if any, and interest, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

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

“Revenues” means all payments received by the Authority or the Trustee from the Corporation (except Additional Payments paid by the Corporation pursuant the Loan Agreement and any amounts paid by the Corporation pursuant the Loan Agreement), including, without limiting the generality of the foregoing, Loan Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments of all or any part of the Loan Payments and all interest, profits or other income derived from the investment of any money in any fund or account established pursuant to the Indenture (except to the extent such interest, profits or other income is required to be transferred to or retained in the Rebate Fund pursuant to the Indenture or the Tax Agreement).

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

“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.

“State” means the State of California.

“Supplemental Indenture” or “Indenture Supplemental Hereto” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee in accordance with the provisions of the Indenture.

“S&P” means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the state of New York, its successors and their assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the Corporation and the Bank.

“Tax Agreement” means the Tax Regulatory Agreement executed by the Authority and the Corporation dated the Date of Delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Tender Agent” means the Trustee, or any successor tender agent appointed pursuant to the Indenture.

“Term Mode” means the period during which a Term Rate is in effect.

“Term Rate” means a non-variable interest rate on the Bonds established in accordance with the Indenture.

“Term Rate Period” means a period of one month or more during which a particular Term Rate is in effect as provided in the Indenture.

“Tranche” means all the Bonds designated as being of the same tranche, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds as herein provided.

“Tranche One Bonds” means the Bonds issued in the first Tranche in the amount of \$20,000,000 pursuant to the Indenture.

“United States Bankruptcy Code” means the United States Bankruptcy Reform Act of 1978, as amended from time to time, or any substitute or replacement legislation.

“Weekly Mode” means the period during which Weekly Rates are in effect.

“Weekly Rate” means a variable interest rate on the Bonds established weekly in accordance with the Indenture.

“Weekly Rate Accrual Period” means each period a Weekly Rate is in effect for the Bonds commencing on Thursday and ending on the next Wednesday; provided that the first Weekly Rate Accrual Period shall begin on the Date of Delivery and the first Weekly Rate Accrual Period after any change from a Term Interest Mode to a Weekly Mode shall begin on the Mode Change Date to the Weekly Mode.

## **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 and Application of Project Fund.**

The Indenture provides that the Trustee shall establish, maintain and hold in trust a separate fund designated as the “Project Fund.” The moneys in such Project Fund shall be used and withdrawn by the Trustee, as directed by Requisition of the Corporation, submitted by the Authorized Representative of the Corporation, to pay or reimburse the Corporation for Project Costs.

Pledge and Assignment of Revenues and Rights under the Loan Agreement; Revenue Fund.

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in such Indenture, the Authority pledges to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payments of amounts owing to the Bank pursuant to the Reimbursement Agreement, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to such Indenture other than the Rebate Fund or Credit Facility Account or remarketing proceeds.

The Authority under the Indenture transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, and to the Bank, all of the Revenues and other amounts pledged as described in the paragraph above and all of the right, title and interest of the Authority in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any Administrative Fees and Expenses payable to the Authority, the right of the Authority to receive any indemnification and the right to receive any notices and reports).

Allocation of Revenues.

The Indenture provides that on or before the Business Day immediately preceding each Interest Payment Date and each day on which payments of principal are due on the Bonds (whether at maturity or because of redemption or acceleration), the Trustee shall transfer from the Revenue Fund, and deposit or transfer into the following respective accounts within the Revenue Fund which are established under the Indenture, the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such fund or 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 subsequent in priority:

First: To the Interest Account, the amounts received from the Corporation as an interest payment pursuant to the Loan Agreement. Amounts in the Interest Account shall be used to pay interest on the Bonds or to reimburse the Bank for draws on the Credit Facility used to pay interest on the such Bonds.

Second: To the Principal Account, the amounts received from the Corporation as a principal payment (whether at maturity or because of redemption or acceleration) pursuant to the Loan Agreement. Amounts in the Principal Account shall be used to pay principal of the Bonds or to reimburse the Bank for draws on the Credit Facility used to pay principal of such Bonds.

Funds in the Principal Fund shall be transferred to the Redemption Fund to be applied to the mandatory sinking fund redemption of the Bonds at the principal amount thereof and interest accrued to the date of redemption, without premium, as set forth in the schedule submitted by the Issuer at the direction of the Corporation to the Trustee pursuant to the Indenture.

Notwithstanding anything to the contrary described above, so long as a series of the Bonds are in the Weekly Mode or the Term Mode, the principal of, interest on, and Redemption Price of, such Bonds shall be paid solely first from draws on the Credit Facility and second from other Available Moneys.

#### Application of Redemption Fund.

The Indenture provides that the Trustee shall establish, maintain and hold in trust a separate fund designated as the Redemption Fund and within such Fund shall establish separate accounts as directed by the Corporation. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds in the manner and upon the terms and conditions specified in the Indenture or to reimburse the Bank for draws on the Credit Facility used to pay the Redemption Price of such Bonds redeemed; provided that, at any time prior to giving such notice of redemption, the Trustee may on the Request of the Corporation apply such amounts to the purchase of such Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may in its discretion determine, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds.

#### Credit Facility Account.

The Indenture provides that the Trustee shall create within the Revenue Fund a separate account called the "Credit Facility Account," into which all moneys drawn under the related Credit Facility shall be deposited and disbursed. Neither the Corporation nor the Authority shall have any right title or interest in the Credit Facility Account.

#### Investment of Moneys in Funds and Accounts.

The Indenture provides that all moneys in any of the funds and accounts (other than the Rebate Fund or Credit Facility Account or remarketing proceeds) established pursuant to such Indenture shall be invested by the Trustee solely in such Permitted Investments as are specified in a Request of the Corporation received by the Trustee at least 2 Business Days before the investment date, which Request of the Corporation shall state that such investment is a Permitted Investment as required by the Indenture, provided, however, that, if the Corporation does not file such a Request with the Trustee, the Trustee shall invest to the extent practicable in investments described in clause (7) of the definition of the term "Permitted Investments."

All interest, profits and other income received from the investment of moneys within the Project Fund shall be credited to such fund. Except as otherwise provided in a Request of the Corporation, all interest, profits and other income received from the investment of moneys in any other fund or account established under the Indenture (other than the Rebate Fund or Credit Facility Account or remarketing proceeds) shall be credited to the related Revenue Fund.

Notwithstanding anything to the contrary in the Indenture, moneys held by the Trustee or the Tender Agent that are remarketing proceeds or draws on a Credit Facility shall be held uninvested and uncommingled with other moneys.

### Rebate Fund.

Pursuant to the Indenture, the Trustee shall establish, maintain and hold in trust a separate fund designated as the Rebate Fund. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirements to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Rebate Regulations”). Such amounts shall be free and clear of any lien under the Indenture and shall be governed by the Indenture and by the Tax Agreement.

### Tax Covenants.

Under the Indenture, the Authority covenants that it shall not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority covenants that it will comply with the requirements of the Tax Agreement, which is incorporated in the Indenture as if fully set forth therein. This covenant shall survive the payment in full or the defeasance of the Bonds.

### Amendment of the Loan Agreement.

The Indenture provides that, except as provided in the Indenture, the Authority shall not supplement, amend, modify or terminate any of the terms of the Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Bank (so long as the Credit Facility is outstanding and the Bank is not wrongfully dishonoring any properly presented and conforming drawings thereunder or any amounts for reimbursement of draws under the Credit Facility remain owing to the Bank) and the Trustee. The Trustee shall give such written consent if but only if (1) it has received a Certificate of the Authority or Opinion of Bond Counsel to the effect that such amendment, modification or termination will not materially and adversely affect the interests of the Holders of the Bonds (which Certificate of the Authority may be based on certifications, opinions or representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Authority shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel), (2) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent in writing to such amendment, modification or termination, or (3) the Bank consents in writing to such amendment, modification or termination (Bank consent to amendment, modification or termination of the Agreement without Bondholder consent shall be permitted only so long as the Credit Facility is outstanding and the Bank is not wrongfully dishonoring any draws thereunder), provided that no such amendment, modification or termination shall reduce the amount of Loan Payments to be made to the Authority or the Trustee by the Corporation pursuant to the Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding. The Trustee

shall mail a copy of such amendment as executed to the Bank and each Rating Agency then rating the Bonds promptly after execution by the Authority and the Corporation.

Notwithstanding the provisions of the paragraph above, the terms of the Agreement may also be supplemented, modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the Corporation contained in the Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Agreement, or in regard to matters or questions arising under the Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Agreement or the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) in connection with the issuance of an additional Tranche of Series S-4 Bonds pursuant to the Indenture; or

(4) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds.

#### Events of Default; Acceleration.

The Indenture provides that if one or more of the following events (each an “Event of Default”) occur:

(1) if there is a default in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same is due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(2) if there is a default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment is due and payable;

(3) if there is a default in the due and punctual payment of the Purchase Price of any Bond subject to tender pursuant to the Indenture;

(4) if there is a default by the Authority in the performance or observance of any other of the material covenants, agreements or conditions on its part in the Indenture or in the Bonds, and such default has continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the Authority and the Corporation by the Trustee, or to the Authority, the Corporation and the Trustee by the

Holders of not less than a majority in aggregate principal amount of such Bonds at the time Outstanding;

(5) if a Loan Default Event has occurred and is continuing; or

(6) if the Bank gives written notice to the Trustee that an event of default has occurred and is continuing under the Reimbursement Agreement and instructing the Trustee to accelerate the Bonds,

then and in each and every such case during the continuance of such Event of Default, unless the principal of all the Bonds has already become due and payable, the Trustee, by notice in writing to the Authority and the Corporation, may and, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or at the direction of the Bank or upon the occurrence of (6) above, shall immediately declare the principal of all 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, and interest shall accrue until paid (provided that with respect to a declaration of an acceleration at the direction of the Bank pursuant to (6) above, interest shall accrue until such declaration). Upon any such declaration, the Trustee shall immediately draw upon any then existing Credit Facility in accordance with the terms thereof and apply the amount so drawn to pay the principal of and interest on the Bonds so declared to be due and payable.

This provision, however, is subject to the condition that if, at any time while the Bonds are in the Fixed Rate Mode after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses by the Trustee (including but not limited to those of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) 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, then, and in every such case, the Holders of at least a majority in aggregate principal amount of such series of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Holders of all of such Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. No such rescission and annulment may occur while the Bonds are in the Weekly Mode or the Term Mode.

Notwithstanding any other provision of the Indenture, the Trustee may not declare an event of default, accelerate the Bonds or exercise any remedy under certain sections of the Indenture without the written consent of the Bank (so long as a Credit Facility is in effect and the Bank has not dishonored any properly presented and conforming draw thereunder or any amounts for reimbursement of draws under the Credit Facility remain owing to the Bank).

### Modification without Consent of Bondholders.

The Indenture provides that the Authority and the Trustee, from time to time and at any time, may enter into an indenture or an indenture supplemental to the Indenture, which indenture or supplemental indenture thereafter shall form a part of the Indenture, including, without limitation, for one or more of the following purposes; provided that the Bank (so long as the related Credit Facility is outstanding and the Bank is not wrongfully dishonoring any properly presented and conforming drawings thereunder or any amounts for reimbursement of draws under the related Credit Facility remain owing to the Bank) shall have consented to such amendment, and, in the case of the Indenture, the Trustee shall have received an Opinion of Bond Counsel to the effect that such amendment or modification will not cause interest on the Bonds to be included in the gross income of the Holders thereof for federal income tax purposes and a written representation from the Authority or an Opinion of Bond Counsel to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (which written representation may be based on representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Authority shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel):

(a) to add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power in such Indenture reserved to or conferred upon the Authority;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision, contained in such Indenture, or in regard to such matters or questions arising under the Indenture as the Authority may deem necessary or desirable and not inconsistent with the Indenture;

(c) to modify, amend or supplement the Indenture or any indenture supplemental to the Indenture in such manner as to permit the qualification of the Indenture or any indenture supplemental to the Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental to the Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(d) in connection with an amendment of the Loan Agreement permitted by the Indenture for the purpose of conforming the terms, conditions and covenants of the Indenture to the corresponding or related provisions of such amended Loan Agreement;

(e) in connection with delivery of an Alternate Credit Facility for the purpose of conforming the terms, conditions and covenants of the Indenture so as to provide Bondholders the full benefit of the provisions of such Alternate Credit Facility;

(f) in connection with the issuance of one or more additional Tranches of Bonds pursuant to the Indenture; or

(g) for any other purpose.

Modification with Consent of Bondholders.

The Indenture provides that with the written consent of the Bank (so long as the Credit Facility is outstanding and the Bank has not wrongfully dishonored any properly presented and conforming drawings thereunder or any amounts for reimbursement of draws under such Credit Facility remain owing to the Bank), the Corporation and the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding (the consent of the Holders shall not be necessary so long as a Credit Facility is outstanding and the Bank is not wrongfully dishonoring any drawings thereunder), the Authority and the Trustee may from time to time, with an Opinion of Bond Counsel to the effect that such amendment or modification will not cause interest on the Bonds to be included in the gross income of the Holders thereof for federal income tax purposes, enter into an indenture or indenture supplemental to the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture; provided, however, that no such supplemental indenture shall (1) extend the fixed maturity of any Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof or (2) reduce the aforesaid percentage of Holders of Bonds whose consent is required for the execution of such supplemental indenture or extend the time of payment or permit the creation of any lien on the Revenues or the funds pledged in the Indenture prior to or on a parity with the lien of the Indenture or deprive the Holders of the Bonds of the lien created by the Indenture upon the Revenues or the funds pledged in the Indenture, in each case without the consent of the Holders of all the Bonds then Outstanding. Upon receipt by the Trustee of a Certificate of the Authority authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of the Corporation and the Bondholders, as aforesaid, the Trustee shall join with the Authority in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Discharge of Indenture.

The Indenture provides that Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(1) by paying or causing to be paid the principal of and premium, if any, and interest on the 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 Bonds Outstanding; or

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

If the Authority pays all Bonds then Outstanding as provided above and also pays or causes to be paid all other sums payable under the Indenture by the Authority, and any balance remaining in the funds and accounts established under the Indenture has been paid to the Bank to the extent any amounts are owing to the Bank, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), which election shall be made on the Request of the Corporation, and notwithstanding that any such Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues made under the Indenture 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 only as provided in the Indenture.

Deposit of Money or Securities with Trustee.

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the amount necessary to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds established pursuant to the Indenture, shall be Available Moneys and shall be:

(1) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given or provision satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date, together with the redemption premium, if any; or

(2) noncallable direct obligations of the United States of America (including, without limitation, obligations issued or held in book-entry form on the books of the Department of Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (including without limitation the interest component of Resolution Funding Corporation strips for which the separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form) and the principal of and interest on which, in the written opinion of an Accountant, when due will provide money sufficient to pay the principal of, and premium, if any, and all unpaid interest to maturity, or to the redemption date provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice,

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, and premium, if any, and interest with respect to such Bonds and certain requirements have been fulfilled pursuant to the Indenture.

Liability of Authority Limited to Revenues.

Notwithstanding anything in the Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes mentioned in the Indenture, whether for the payment of the principal or redemption price of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

**LOAN AGREEMENT**

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

Maintenance of Corporate Existence; Consolidation, Merger, Sale or Transfer Under Certain Conditions.

The Corporation covenants and agrees that, so long as any of the Bonds are Outstanding, it will maintain its existence as a nonprofit public benefit corporation qualified to do business in the State and an organization described in Section 501(c)(3) of the Code and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it or acquire all or substantially all of the assets of any person or entity. Notwithstanding the foregoing, the Corporation may consolidate with or merge into another corporation, or acquire or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve, if:

- (1) The surviving, resulting or transferee corporation, as the case may be:
  - (a) assumes in writing, if such corporation is not the Corporation, all of the obligations of the Corporation under the Loan Agreement;
  - (b) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement; and
  - (c) is an organization described in Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect.
- (2) The Authority, the Trustee and the Bank shall have received a Certificate of the Corporation to the effect that the covenants under the Loan Agreement will be met after such consolidation, merger, sale or transfer;

(3) The Trustee and the Authority shall have received an Opinion of Bond Counsel to the effect that under existing law, such merger, consolidation, sale, acquisition or other transfer will not cause interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code; and

(4) The written consent of the Bank has been received by the Trustee, together with an acknowledgement that the Credit Facility will remain in effect.

#### Events of Default.

The following shall be “events of default” under the Loan Agreement, and the terms “events of default” or “default” shall mean, whenever they are used in the Loan Agreement, any one or more of the following events:

(A) The Corporation fails to make any Loan Payment by its due date; or

(B) The Corporation fails to observe and perform any material covenant, condition or agreement on its part to be observed or performed under the Loan Agreement other than as referred to in paragraph (A) above for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Corporation by the Authority, the Bank or the Trustee, with a copy to the Bank; provided, however, if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Trustee, upon the prior written consent of the Bank, will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Corporation within the applicable period and diligently pursued until the default is corrected; or

(C) Any of the representations or warranties of the Corporation made in the Loan Agreement or in any other document, certificate or writing furnished by the Corporation to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds was false or incorrect in any material respect when made; or

(D) The Corporation applies for or consents to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property or admits in writing its inability to pay its debts as they mature; or such a receiver, trustee or similar officer is appointed without the application or consent of the Corporation and such appointment continues undischarged for a period of sixty (60) days; or the Corporation institutes (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding is instituted (by petition, application or otherwise) against the Corporation and remains undischarged for a period of sixty (60) days; or the Corporation makes a general assignment for the benefit of creditors.

#### Remedies on Default.

The Loan Agreement provides that in the event any of the Bonds are Outstanding and unpaid (and provision for the payment thereof has not been made as provided in the Indenture) and any event of default referred to in the Loan Agreement has happened and is continuing, the

Authority or the Trustee may, with the consent of the Bank, and shall, at the direction of the Bank, take any one or more of the following remedial steps:

(1) The Authority or the Trustee may, at its option, declare all installments of Loan Payments to be immediately due and payable, whereupon the same shall become immediately due and payable.

(2) The Authority or the Trustee may take whatever action at law or in equity that may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, condition or covenant of the Corporation under the Loan Agreement.

#### Amendment of the Loan Agreement

The Agreement may only be amended, modified or terminated in accordance with the Indenture. See “Indenture - Amendment of the Loan Agreement” above.

(THIS PAGE INTENTIONALLY LEFT BLANK)

## APPENDIX B

### PROPOSED FORM OF BOND COUNSEL OPINION

\_\_\_\_\_, 2007

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

*\$20,000,000 ABAG Finance Authority for Nonprofit Corporations  
Variable Rate Demand Revenue Bonds (La Jolla Country Day School)  
Series A (Tranche Two)*

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Issuer") of \$20,000,000 aggregate principal amount of its Variable Rate Demand Revenue Bonds (La Jolla Country Day School) Series A (Tranche Two) (the "Bonds"), issued pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code (the "Act"), and an Indenture, dated as of June 1, 2006 (the "Original Indenture"), as amended by a First Supplemental Indenture, dated as of July 1, 2007 (the "First Supplemental Indenture and together with the Original Indenture, the "Indenture"), each by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are being issued for the purpose of making a loan of the proceeds thereof to La Jolla Country Day School (the "Corporation") pursuant to a Loan Agreement, dated as of June 1, 2006 (the "Original Loan Agreement"), as amended by a First Supplemental Loan Agreement, dated as of July 1, 2007 (the "First Supplemental Loan Agreement" and, together with the Original Loan Agreement, the "Loan Agreement"), each by and between the Issuer and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture; the Loan Agreement; the Tax Regulatory Agreement, dated the date hereof (the "Tax Agreement"), between the Issuer and the Corporation; opinions of counsel to the Trustee, the Issuer and the Corporation; certificates of the Issuer, the Trustee, the Corporation and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Sheppard, Mullin, Richter & Hampton, LLP, Los Angeles, California, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Corporation to be organized and operated in

accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof.

We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge of the Revenues to secure the payment of the principal of and interest on the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.
4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds.
5. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted

current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Corporation and others in connection with the Bonds, and we have assumed compliance by the Issuer and the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for Federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Bond proceeds, restrictions on the investment of Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Issuer and the Corporation will execute the Tax Agreement containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Agreement, the Issuer and the Corporation covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for the purpose of Federal income taxation, be excluded from gross income. In rendering the opinion in paragraph 5 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Corporation with the procedures and covenants set forth in the Tax Agreement as to such tax matters.

6. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof.

We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

Respectfully submitted,

(THIS PAGE INTENTIONALLY LEFT BLANK)

## APPENDIX C

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix C concerning The Depository Trust Company (“DTC”), New York, New York, and DTC's book-entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, “NSCC,” “FICC,” and “EMCC,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More

information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org); nothing contained in such websites is incorporated into this Official Statement.

Purchases of the 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 Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of 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. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for

the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners.

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

Payments of principal of, premium, if any, and interest evidenced by 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 Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE AUTHORITY OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

None of the Authority or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

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

(THIS PAGE INTENTIONALLY LEFT BLANK)





1855 Dobbin Drive • San Jose, CA 95133-1702  
Phone: 408-582-5100 • Fax: 408-523-8998