

In the opinion of Sidley Austin LLP, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Bonds is not includable in gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. (See "TAX MATTERS" herein.)

**\$16,440,000**

**ABAG FINANCE AUTHORITY FOR NONPROFIT  
CORPORATIONS**

**Variable Rate Refunding Revenue Bonds  
(Schools of the Sacred Heart - San Francisco)  
Series 2008A  
CUSIP No.† 00037C NLO**

**\$11,770,000**

**ABAG FINANCE AUTHORITY FOR NONPROFIT  
CORPORATIONS**

**Variable Rate Refunding Revenue Bonds  
(Schools of the Sacred Heart - San Francisco)  
Series 2008B  
CUSIP No.† 00037C NM8**

**Dated:** Date of Delivery**Price:** 100%**Due:** Series A Bonds: June 1, 2030

Series B Bonds: June 1, 2030

**This cover page contains certain information for general reference only. It is not intended to be a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used but not defined on this cover page shall have the meanings given such terms in the Official Statement.**

The ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco) Series 2008A (the "Series A Bonds") and the ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco) Series 2008B (the "Series B Bonds" and, collectively with the Series A Bonds, the "Bonds") are issuable as fully-registered bonds registered in the name of Cede & Co., as a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. Payments of the principal and Purchase Price of, premium, if any, and interest on the Bonds will be made to DTC by U.S. Bank National Association, as trustee. Disbursement of payments to DTC Participants is the responsibility of DTC and disbursement of payments to the beneficial owners is the responsibility of DTC Participants. (See Appendix C—"BOOK-ENTRY ONLY SYSTEM.")

The Bonds are being issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority"), which will loan the proceeds of the Bonds to

**SCHOOLS OF THE SACRED HEART – SAN FRANCISCO**

(the "Corporation") pursuant to a Loan Agreement (the "Loan Agreement"). Proceeds of the Bonds will be used by the Corporation to refund certain outstanding revenue bonds issued by the Authority on behalf of the Corporation and pay costs incurred in connection with the issuance of the Bonds, as more fully described herein. (See "REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.)

**THE BONDS ARE SUBJECT TO REDEMPTION AND OPTIONAL AND MANDATORY TENDER FOR PURCHASE AS DESCRIBED HEREIN.**

The Bonds will initially bear interest at a Weekly Interest Rate and will be available in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof during any Weekly Interest Rate Period or Daily Interest Rate Period. The Bonds of a Series are subject to Conversion to a Daily Interest Rate Period or Long-Term Interest Rate Period and are subject to mandatory tender for purchase upon any such Conversion, all as more fully described herein. The specific interest rate for each Interest Rate Period is to be determined by the Remarketing Agent, Banc of America Securities LLC. Each Daily Interest Rate and Weekly Interest Rate will be computed on the basis of a 365/366-day year, as applicable, for the actual number of days elapsed. The Interest Payment Date for Bonds of a Series bearing interest at a Weekly Interest Rate is the first Wednesday of each calendar month or, if the first Wednesday is not a Business Day, the next succeeding Business Day. The initial Interest Payment Date for the Bonds of each Series is December 3, 2008. The Interest Payment Date for Bonds of a Series bearing interest at a Daily Interest Rate is the fifth Business Day of the next succeeding calendar month.

**Principal, interest and Purchase Price of each Series of the Bonds will initially be supported by an irrevocable, direct-pay letter of credit (the "Letter of Credit" or the "Initial Credit Facility") issued by**

**Bank of America, N.A.**

(the "Bank" or the "Initial Credit Facility Provider"), pursuant to the terms of a Reimbursement, Credit and Security Agreement between the Corporation and the Bank. **The initial expiration date of the Letter of Credit is November 19, 2011 unless extended or earlier terminated prior thereto, as described herein.** The Initial Credit Facility may be terminated and an alternate credit facility provided by the Corporation, as described herein.

This Official Statement does not contain information material to owners of the Bonds following conversion of the interest rate on the Bonds to any rate other than a Weekly Interest Rate or a Daily Interest Rate or if the Bonds are no longer secured by the Letter of Credit.

**THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF AND INTEREST AND ANY PREMIUM, IF ANY, THEREON, 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.**

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter subject to prior sale and to the approval of legality by Sidley Austin LLP, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, for the Authority by Jones Hall, A Professional Law Corporation, San Francisco, California, for the Corporation by Chapman and Cutler, LLP, San Francisco, California and for the Bank by Foley & Lardner, LLP, San Francisco, California. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about November 20, 2008.

**Banc of America Securities LLC**

**Dated:** November 13, 2008.

† CUSIP Copyright 2008, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP service bureau, a division of The McGraw Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. None of the Authority, the Corporation or the Underwriter assumes any responsibility for the accuracy of such numbers.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”), Schools of the Sacred Heart – San Francisco (the “Corporation”), Bank of America, N.A. (the “Bank” or the “Initial Credit Facility Provider”) or Banc of America Securities LLC (the “Underwriter”) to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The Authority has not reviewed or approved any information in this Official Statement except the information set forth herein under the caption “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION—The Authority,” which has been obtained from the Authority. All other information set forth herein has been obtained from the Corporation, the Bank and other sources which are believed to be current and reliable, but is not to be construed as a 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.

Estimates and opinions included in this Official Statement should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Corporation or the Bank since the date hereof.

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**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

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## OFFICIAL STATEMENT

<b>\$16,440,000</b>	<b>\$11,770,000</b>
<b>ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS</b>	<b>ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS</b>
<b>Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco) Series 2008A</b>	<b>Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco) Series 2008B</b>

### INTRODUCTION

*This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a full review should be made of the entire Official Statement, including the cover page and the Appendices, in order to make an informed investment decision. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California (the "State") or any documents referred to herein do not purport to be complete, and such references are qualified in their entirety by the complete provisions thereof.*

#### General

This Official Statement, including the cover page and Appendices hereto (this "Official Statement"), provides certain information in connection with the offering of (i) \$16,440,000 aggregate principal amount of Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco) Series 2008A (the "Series A Bonds") of the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and (ii) \$11,770,000 aggregate principal amount of Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco) Series 2008B (the "Series B Bonds" and, collectively with the Series A Bonds, the "Bonds") of the Authority.

The Bonds will be issued pursuant to the provisions of the Indenture of Trust, dated as of November 1, 2008 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to Schools of the Sacred Heart – San Francisco (the "Corporation") pursuant to a Loan Agreement, dated as of November 1, 2008, between the Authority and the Corporation (the "Loan Agreement"). Capitalized terms used but not defined herein are defined in Appendix D—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS."

#### Purposes

The Authority will lend the proceeds of the Bonds to the Corporation pursuant to the Loan Agreement. Proceeds of the Series A Bonds will be used by the Corporation to refund certain outstanding revenue bonds previously issued by the Authority for the benefit of the Corporation and pay to costs incurred in connection with the issuance of the Series A Bonds, as more fully described herein. See "REFUNDING PLAN" herein. Proceeds of the Series B Bonds will be used by the Corporation to refund certain outstanding revenue bonds previously issued by the Authority for the benefit of the Corporation and to pay costs incurred in connection with the issuance of the Series B Bonds, as more fully described herein. See "REFUNDING PLAN" herein. The bonds to be refunded from proceeds of the Bonds were insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation, which, due to the ratings downgrades of MBIA Insurance Corporation, has negatively affected the interest rates on such bonds.

#### Interest on the Bonds

The Bonds will initially bear interest at a Weekly Interest Rate. The specific interest rate for each Interest Rate Period is to be determined by the Remarketing Agent, Banc of America Securities LLC, as provided in the Indenture. The Interest Payment Date for Bonds of a Series bearing interest at a Weekly Interest Rate is the first

Wednesday of each calendar month or, if the first Wednesday is not a Business Day, the next succeeding Business Day. The initial Interest Payment Date for the Bonds of each Series is December 3, 2008. Upon Conversion to a Daily Interest Rate Period, the Interest Payment Date for Bonds of a Series bearing interest at a Daily Interest Rate is the fifth Business Day of the next succeeding calendar month. See “THE BONDS—Interest on the Bonds.”

### **Tender of Bonds for Purchase**

The Bonds of each Series are subject to optional and mandatory tender for purchase as described under the caption “THE BONDS—Purchase of Bonds.”

If the Bonds are required to be tendered for purchase pursuant to the Indenture, interest on such Bonds will cease to accrue for the benefit of the former Bondholders on the Purchase Date and such former Bondholders will be entitled only to the Purchase Price of such Bonds, payable only from the sources specified in the Indenture. See “THE BONDS—Purchase of the Bonds.”

### **Remarketing Agent**

Banc of America Securities LLC (the “Remarketing Agent”) will serve as remarketing agent pursuant to the Indenture and a Remarketing Agreement, dated as of November 1, 2008 by and between the Corporation and the Remarketing Agent. See “REMARKETING AGREEMENT” herein.

### **Redemption**

The Bonds will be subject to optional, extraordinary and mandatory redemption prior to maturity. While the Indenture provides for the Trustee to give notice of the redemption of Bonds, the failure of a Bondholder to receive such notice, or the insufficiency of any such notice, will not affect the proceedings for redemption, and if moneys are available on the redemption date to pay the redemption price, interest on the Bonds to be redeemed will cease to accrue from and after the date of redemption. See “THE BONDS—Redemption of the Bonds.”

### **Sources of Payment of the Bonds**

The Bonds will be payable from the Loan Payments received by the Authority from the Corporation pursuant to the Loan Agreement, moneys in certain funds held under the Indenture (other than amounts on deposit in the Rebate Fund and the Bond Purchase Fund), proceeds of prepayments under the Loan Agreement and the proceeds of draws on the Letter of Credit (defined below) (collectively, the “Revenues”). Payment of the principal and Purchase Price of, and interest on the Bonds of each Series will be supported by an irrevocable, direct-pay letter of credit (the “Initial Credit Facility” or the “Letter of Credit”) to be issued by Bank of America, N.A. (the “Bank” or the “Initial Credit Facility Provider”), pursuant to and subject to the terms of a Reimbursement, Credit and Security Agreement (the “Reimbursement Agreement”), dated as of November 1, 2008, by and between the Corporation and the Bank. The Letter of Credit constitutes a “Credit Facility” under the Indenture. The Trustee will be entitled under the Letter of Credit to draw up to (i) the principal amount of the Bonds to enable the Trustee to pay the principal of the Bonds when due at maturity, upon redemption or acceleration, or upon tender, if such tendered Bonds are not successfully remarketed by the remarketing agent for the Bonds, plus (ii) 46 days’ accrued interest at the Maximum Bond Interest Rate of 12% per annum on the principal amount of the Bonds, to enable the Trustee to pay interest on each Series of Bonds. The initial expiration date of the Letter of Credit is November 19, 2011, unless extended or earlier terminated, as described herein. The Corporation at any time may provide one or more alternate credit facilities (each, an “Alternate Credit Facility”) with respect to the Bonds. Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Bondholders all of the Revenues it receives. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” “BANK OF AMERICA, N.A.” and “THE INITIAL CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT” herein.

Under the Loan Agreement, the Corporation has pledged its full faith and credit to the payment of the Loan Payments to be made thereunder, which are due in amounts and at the times necessary to pay the principal (whether at maturity or upon acceleration or prior redemption) and Purchase Price of, and premium, if any, and interest on, the Bonds to the date of maturity or redemption of the Bonds, when due. The Purchase Price of Bonds tendered or

deemed tendered for purchase is payable only from the proceeds of the remarketing of such Bonds and, in instances when such tendered or deemed tendered Bonds are not remarketed in an amount equal to the principal amount thereof, from amounts made available under the applicable Credit Facility then in effect with respect to the Bonds of a Series, or if amounts are not made available under the Credit Facility, from amounts required to be paid by the Corporation to the Tender Agent pursuant to the Loan Agreement. The Corporation's payment obligations under the Loan Agreement are general unsecured obligations of the Corporation. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

**THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF AND INTEREST AND ANY PREMIUM, IF ANY, THEREON 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.**

### **The Corporation**

The Corporation is a California nonprofit public benefit corporation that owns and operates the Schools of the Sacred Heart in the Pacific Heights neighborhood of San Francisco, California. These independent, single-sex schools include: Convent of the Sacred Heart Elementary School and Convent of the Sacred Heart High School, which were founded by the Religious of the Sacred Heart in 1887; Stuart Hall for Boys, which was established in 1956; and Stuart Hall High School, which opened in Fall 2000 (collectively, the "Schools"). The Schools are part of a worldwide network of approximately 200 Sacred Heart schools and colleges, including the 22 members of the Network of Schools of the Sacred Heart in the United States. The Schools are accredited by the California Association of Independent Schools, the Western Association of Schools and Colleges, and the Western Catholic Education Association. See Appendix A for a description of the Corporation and the Schools.

### **Financial Condition of the Corporation**

Important information on the financial condition of the Corporation is set forth in Appendix A—"INFORMATION CONCERNING THE CORPORATION" and in the Corporation's financial statements and notes thereto set forth in Appendix B, all of which should be carefully reviewed.

### **Covenants of the Corporation**

The Corporation has agreed to certain covenants for the protection of the Bondholders, including covenants to maintain its status as a nonprofit public benefit corporation and not to take any action that would impair the tax-exempt status of interest on the Bonds. These and other covenants of the Corporation are discussed further in Appendix D—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE LOAN AGREEMENT."

## **No Continuing Disclosure**

The Corporation will not, while the Bonds of a Series bear interest at a Daily Interest Rate or a Weekly Interest Rate, undertake any continuing disclosure obligations with respect to the Bonds of such Series. See “NO CONTINUING DISCLOSURE” for a discussion of the obligation the Corporation as to continuing disclosure as contemplated by Rule 15c2-12 (“Rule 15c2-12”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

## **Swap Agreement**

The Corporation entered into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transaction (the “2007 Swap Agreement”) with Bank of America, N.A. (the “Swap Provider”) in connection with the issuance of the Series 2007A Bonds (as defined below). In connection with the issuance of the Series A Bonds, the Corporation and Swap Provider expect to terminate the 2007 Swap Agreement and enter into a new interest rate swap agreement (the “Swap Agreement”). The Corporation expects the Swap Agreement to have a term equal to the final maturity of the Series A Bonds. Pursuant to the Swap Agreement, the Corporation will pay a fixed rate of interest on an initial notional amount equal to the original principal amount of the Series A Bonds. In return, the Swap Provider will pay a variable rate of interest equal to a percentage of LIBOR on a like notional amount. The amounts payable by a party under the Swap Agreement are netted against the payments to be received by such party thereunder. Any arrangements made in respect of the Swap Agreement will not alter the Corporation’s obligation to pay the principal of, premium, if any, and interest on the Series A Bonds. Both the Corporation and the Swap Provider have the right to terminate the Swap Agreement prior to its stated termination date under certain conditions, in which event termination payments may be required. Such termination payments could be substantial. Neither the Trustee nor the Owners of the Bonds will have any rights under the Swap Agreement or against the Swap Provider.

## **Book-Entry System**

When delivered, the Bonds will be registered in the name of Cede & Co., as a nominee of The Depository Trust Company (“DTC”), which will act as securities depository for the Bonds. Purchases and tenders of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants (as defined in Appendix C). Beneficial Owners (as defined in Appendix C) of the Bonds will not receive physical delivery of certificated securities. Payments of principal or Purchase Price of, premium, if any, and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, the right of any Beneficial Owner to exercise its right to tender its interest in any Bond for purchase and receive payment therefor will be based only upon and subject to the procedures and limitations of the DTC book-entry only system. See Appendix C—“BOOK-ENTRY ONLY SYSTEM.”

## **Certain Information Related to this Official Statement**

The descriptions herein of the Indenture, the Loan Agreement, the Initial Credit Facility, the Reimbursement Agreement and other agreements relating to the Bonds are qualified in their entirety by reference to such documents, and the description of the Bonds is qualified in its entirety by the forms thereof and the information with respect thereto included in such documents. See Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE” for a brief summary of the rights and duties of the Authority and the Bank, the rights and remedies of the Trustee, and the Bondholders upon an event of default, provisions relating to amendments of the Indenture and procedures for defeasance of Bonds.

All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings ascribed thereto in the Indenture. See Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS.”

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this

Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Corporation or the Bank.

### REFUNDING PLAN

In August 2007, the Authority issued the ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco), Series 2007A (Auction Rate Securities) (the “Series 2007A Bonds”), and the ABAG Finance Authority for Nonprofit Corporations Refunding Revenue Bonds (Schools of the Sacred Heart - San Francisco), Series 2007B (Auction Rate Securities) (the “Series 2007B Bonds” and, collectively with the Series 2007A Bonds, the “Series 2007 Bonds”) pursuant to an indenture (the “Series 2007 Indenture”) dated as of August 1, 2007, between the Authority and U.S. Bank National Association (the “2007 Trustee”), in the original aggregate principal amounts of \$18,450,000 and \$12,500,000, respectively. The Series 2007 Bonds currently are outstanding in the aggregate principal amount of \$30,325,000. The Corporation intends to refund all of the Series 2007 Bonds on a current basis.

Upon the issuance of the Bonds, a portion of the proceeds of the Series A Bonds will be deposited in an escrow fund (the “2007A Bonds Escrow Fund”) and a portion of the proceeds of the Series B Bonds will be deposited in an escrow fund (the “2007B Bonds Escrow Fund” and, together with the 2007A Bonds Escrow Fund, the “Escrow Funds”), each pursuant to an escrow agreement, to be dated as of November 1, 2008, between the Corporation and the 2007 Trustee. Such funds will be held in cash in an amount sufficient to provide for the payment of (i) the redemption price of the outstanding Series 2007A Bonds on or about November 28, 2008, plus accrued interest to the date of redemption, if any, and (ii) the redemption price of the Series 2007B Bonds on or about November 28, 2008, plus accrued interest, if any to the date of redemption. See “VERIFICATION” herein.

The Escrow Funds will be held in trust solely for the respective holders of the Series 2007 Bonds and will not be available to pay the principal of, or interest on, the Series A Bonds, the Series B Bonds or any bonds other than the respective series of Series 2007 Bonds for which such Escrow Fund has been established.

### ESTIMATED SOURCES AND USES OF PROCEEDS

The following table sets forth the estimated sources and uses of the proceeds of the Bonds.

	<i>Series A Bonds</i>	<i>Series B Bonds</i>	<i>Total</i>
<b>Estimated Sources of Funds:</b>			
Par Amount	\$16,440,000	\$ 11,770,000	\$ 28,210,000
Funds on deposit under the Series 2007 Indenture	<u>1,705,903</u>	<u>962,497</u>	<u>2,668,400</u>
Total Estimated Sources	\$18,145,903	\$ 12,732,497	\$ 30,878,400
<b>Estimated Uses of Funds:</b>			
Deposit to the Escrow Funds	\$17,872,533	\$ 12,533,334	\$ 30,405,867
Costs of Issuance <sup>(1)</sup>	<u>273,370</u>	<u>199,163</u>	<u>472,533</u>
Total Estimated Uses	\$18,145,903	\$ 12,732,497	\$ 30,878,400

<sup>(1)</sup> Includes underwriter’s discount, Bank fees, legal, financing, consulting and rating agency fees, printing costs and other miscellaneous expenses related to the Bonds.

## THE BONDS

The following is a summary of certain provisions of each Series of the Bonds. Reference is made to the respective Bonds for the complete text thereof and to the Indenture for all of the provisions relating to such Bonds. The discussion herein is qualified by such reference.

***This Official Statement describes certain terms of each Series of Bonds applicable while such Bonds accrue interest at the Daily Interest Rate or the Weekly Interest Rate. There are significant changes in the terms of the Bonds while such Bonds accrue interest at a Long-Term Interest Rate. This Official Statement is not intended to provide information with respect to the Bonds in the Long-Term Interest Rate Period or if the Bonds are no longer secured by the Letter of Credit.***

### General

Each Series of Bonds is being issued pursuant to the Indenture in the aggregate principal amount set forth on the cover of this Official Statement. The Bonds will be delivered in fully registered form without coupons. The Bonds will be dated and will be payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts set forth on the cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. See Appendix C—"BOOK-ENTRY ONLY SYSTEM."

The Bonds initially will be issued bearing interest in the Weekly Interest Rate Period. Thereafter, the Bonds of any Series may be converted in accordance with the provisions of the Indenture to bear interest for a different Interest Rate Period. The permitted Interest Rate Periods are the "Daily Interest Rate Period," the "Weekly Interest Rate Period" and the "Long-Term Interest Rate Period." See "Conversion to Different Interest Rate Periods" herein. The Indenture requires that all Bonds of any Series be in the same Interest Rate Period.

So long as the Bonds are held in the book-entry system, the principal and Purchase Price of and premium, if any, and interest on the Bonds will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal and Purchase Price of the Bonds are payable upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee, and interest on the Bonds is payable by check mailed on each Interest Payment Date to the Holders of the Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as shall appear on the registration books of the Trustee. In the case of any Holder of Bonds who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with written wire transfer instructions, interest payable on such Bonds shall be paid in accordance with the wire transfer instructions provided by the Holder of such Bond and at the Holder's risk and expense.

The Bonds will be issued as fully registered Bonds without coupons in denominations of \$100,000 or any larger denomination constituting an integral multiple of \$5,000 in excess of \$100,000. Except as provided in the Indenture, the Trustee will not be required to register the transfer or exchange of any Bond during the 15 days before any mailing of a notice of redemption of Bonds or after such Bond has been called for redemption. The Trustee shall require the Bondholder requesting any such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Bondholder requesting such transfer or exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

### Interest on the Bonds

***Weekly Interest Rate Period.*** During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m. (New York City time) on Tuesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate shall be determined on or prior to the Date of Issue and

shall apply to the period commencing on the Date of Issue and ending on and including the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on and including Wednesday and ending on and including the next succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period.

Each Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on Prevailing Market Conditions) to be the minimum interest rate which, if borne by a Series of Bonds, would enable the Remarketing Agent to sell all the Bonds of such Series on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any such Series for any week, then the Weekly Interest Rate for such Series for such week shall be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate for such Series determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day the Weekly Interest Rate would otherwise be determined as provided for the Weekly Interest Rate Period.

So long as any Bonds bear interest at a Weekly Interest Rate, interest will be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. During a Weekly Interest Rate Period, the "Interest Payment Date" for any Series will be the first Wednesday of each calendar month or if such Wednesday is not a Business Day, the next succeeding Business Day. For Bonds of any Series subject to a Weekly Interest Rate Period, interest shall be payable on each Interest Payment Date for such Series for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on and including the second preceding Interest Accrual Date) and ending on and including the Tuesday immediately preceding the Interest Payment Date for such Series (or, if sooner, the last day of the Weekly Interest Rate Period). During any Weekly Interest Rate Period, "Interest Accrual Date" means the first day of the Weekly Interest Rate Period and thereafter the first Wednesday of each calendar month.

**Daily Interest Rate Period.** The Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on Prevailing Market Conditions) on or before 9:30 a.m. (New York City time) on a Business Day to be the minimum interest rate which, if borne by the Bonds of such Series, would enable the Remarketing Agent to sell all of the Bonds of such Series on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day shall be the same as the Daily Interest Rate for the immediately preceding Business Day.

If for any reason a Daily Interest Rate for any Series is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day shall be the same as the Daily Interest Rate for the immediately preceding day and such rate shall continue until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the 7th day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of 7 days as described above, the interest rate applicable to the Bonds of such Series, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 105% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal as reported for each Business Day (and for the immediately preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by the Remarketing Agent.

So long as any Bonds bear interest at a Daily Interest Rate, interest will be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. During a Daily Interest Rate Period for any Series, the "Interest Payment Date" will be the fifth Business Day of the next succeeding calendar month. Interest

on each Interest Payment Date during a Daily Interest Rate Period will be payable for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date for such Series and ending on the last day of such month. “Interest Accrual Date” during a Daily Interest Rate Period means the first day of the Daily Interest Rate Period and thereafter the first day of each month.

### **Conversion to Different Interest Rate Periods**

The Corporation at any time may elect to convert the interest rate on all of the Bonds of either Series to an alternate Interest Rate Period (a “Conversion”). The written election of the Corporation must specify the proposed effective date of the Conversion (the “Conversion Date”), which will be a Business Day not earlier than the 10<sup>th</sup> day following the 2<sup>nd</sup> Business Day after the Trustee receives the Corporation’s written election.

Notice of a Conversion must be given by the Trustee by first-class mail not less than 10 days prior to the proposed effective date of such new Interest Rate Period. While the Bonds are registered in the name of Cede & Co., such notice will be given only to DTC and not to any Beneficial Owner of the Bonds.

No Conversion from one Interest Rate Period to another shall take effect under the Indenture unless each of the following conditions, to the extent applicable, shall have been satisfied.

(1) With respect to the new Interest Rate Period, there shall be in effect a Credit Facility for such Series of Bonds if the Conversion is to a Daily Interest Rate or a Weekly Interest Rate.

(2) The Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion dated the Conversion Date.

(3) There shall be sufficient funds available on the Conversion Date to purchase all of the Bonds of such Series at the Purchase Price (not including any premium).

Except as described below under “Purchase of Bonds – Inadequate Funds for Tenders,” if any condition to the Conversion of the Bonds of such Series shall not have been satisfied, then the Bonds of such Series shall bear interest at a Weekly Interest Rate commencing on the date which would have been the Conversion Date; provided, however, that if the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed Conversion. The Bonds of such Series shall continue to be subject to mandatory tender for purchase on the date that would have been the effective date of the Conversion.

In connection with any Conversion of the Interest Rate Period, if notice of the Conversion has not been provided to the Bank, the Corporation shall have the right to deliver to the Trustee on or prior to 10:00 a.m. (New York City time) on the second Business Day preceding the proposed effective date of any such Conversion a notice to the effect that the Corporation elects to rescind its election to make such Conversion. If the Corporation rescinds its election to make such Conversion, then the Bonds of that Series shall bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of the Conversion; provided, however, that if the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed Conversion. If notice of a Conversion has been mailed to the Holders and the Corporation rescinds its election to make such Conversion, then the Bonds shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion.

### **Purchase of the Bonds**

***Tenders of the Bonds are Subject to DTC Procedures.*** As long as the book-entry system is in effect with respect to the Bonds, all tenders for purchase and deliveries of the Bonds tendered for purchase or subject to mandatory tender under the provisions of the Indenture shall be made pursuant to DTC’s procedures as in effect from time to time, and none of the Authority, the Corporation, the Trustee or the Remarketing Agent shall have any

responsibility for or liability with respect to the implementation of such procedures. For a description of the tender procedures through DTC, see Appendix C—“BOOK-ENTRY ONLY SYSTEM.”

***Optional Tender for Purchase of Bonds Bearing Interest at Daily Interest Rate.*** If the Bonds of any Series bear interest at the Daily Interest Rate, any Eligible Bond of such Series shall be purchased on the demand of the owner thereof on any Business Day during a Daily Interest Rate Period at a Purchase Price, upon irrevocable written notice or Electronic Notice to the Tender Agent and the Remarketing Agent, at their Designated Offices not later than 11:00 a.m. (New York City time) on such Business Day, which notice (a) states the Series, number and principal amount (or portion thereof) of such Bond to be purchased, (b) states the Purchase Date on which such Bond shall be purchased and (c) irrevocably requests such purchase and agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 12:00 noon (New York City time) on such Purchase Date.

***Optional Tender for Purchase of Bonds Bearing Interest at Weekly Interest Rate.*** While the Bonds of any Series bear interest at the Weekly Interest Rate, any Eligible Bond of such Series shall be purchased on the demand of the owner thereof on any Business Day during a Weekly Interest Rate Period at a Purchase Price, upon irrevocable written notice to the Tender Agent and the Remarketing Agent, at their Designated Offices at or before 4:00 p.m. (New York City time) on a Business Day not later than the 7th day prior to the Purchase Date, which notice (a) states the Series and the number and principal amount (or portion thereof) of such Bond to be purchased, (b) states the Purchase Date on which such Bond shall be purchased and (c) irrevocably requests such purchase and agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 12:00 noon (New York City time) on such Purchase Date.

***Mandatory Purchase on Conversion Date.*** The Bonds of each Series shall be subject to mandatory purchase at the Purchase Price on each Conversion Date (or the day that would have been a Conversion Date if one of the events described under “Conversion to Different Interest Periods” had not occurred, which resulted in the interest rate on the Bonds of such Series not being converted).

***Mandatory Purchase Upon Event of Default Under Reimbursement Agreement or Expiration or Termination of the Credit Facility.*** The Bonds of any Series shall be subject pursuant to the Indenture to mandatory tender for purchase at the Purchase Price on (1) a Business Day within 5 days of receipt by the Trustee of notice from the Credit Facility Provider that an “event of default” under the Reimbursement Agreement has occurred and requiring the Trustee to cause a mandatory tender of such Series, (2) the 5th Business Day prior to the Expiration Date for the Credit Facility upon failure of the Trustee to receive an extension of the Expiration Date of the Credit Facility or an Alternate Credit Facility by the 30th day prior to the Expiration Date, and (3) the date on which the Credit Facility will be replaced by an Alternate Credit Facility, in each case at the Purchase Price. The Trustee shall give notice to the Holders as soon as practicable following the Trustee’s receipt of notice from the Credit Facility Provider of the occurrence of an “event of default” under the Reimbursement Agreement or promptly upon failure to receive an extension of the Expiration Date of the Credit Facility.

***Mandatory Tender for Purchase at the Direction of the Corporation.*** The Bonds of any Series are subject to mandatory tender for purchase on any Business Day designated by the Corporation, with the consent of the Remarketing Agent and the Credit Facility Provider, if any, at the Purchase Price, payable in immediately available funds. Such purchase date shall be a Business Day not earlier than the 10th day following the second Business Day after receipt by the Bond Trustee of such designation.

***Effect of Election to Tender or Mandatory Tender for Purchase of Bonds.*** The giving of notice by a Holder of a Bond shall constitute the irrevocable tender for purchase of each such Bond with respect to which such notice shall have been given, regardless of whether such Bond is delivered to the Tender Agent for purchase on the relevant purchase date. If any Holder of a Bond who shall have given notice of tender of purchase or any Holder of a Bond subject to mandatory tender for purchase shall fail to deliver such Bond to the Tender Agent at the place and on the applicable date and at the time specified, or shall fail to deliver such Bond properly endorsed, such Bond shall constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available for payment to the Holder thereof on the date and at the time specified, from and after the date and time of that required delivery, (a) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Indenture; (b) interest shall no longer accrue thereon; and (c) funds in the amount of the

Purchase Price of the Undelivered Bond shall be held by the Tender Agent for such Bond for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Designated Office. Any funds held by the Tender Agent as described above shall be held uninvested.

**Payment of Purchase Price.** Moneys delivered to the Tender Agent on a Purchase Date shall be applied at or before 3:00 p.m. (New York City time) on such Purchase Date to pay the Purchase Price of Purchased Bonds in immediately available funds as follows in the indicated order of application and, to the extent not so applied on such date, shall be held in separate and segregated accounts of the Purchase Fund for the benefit of the Holders of the Purchased Bonds which were to have been purchased or the Credit Facility Provider, as applicable:

- FIRST: Moneys deposited in the Remarketing Proceeds Account with respect to such Bonds;
- SECOND: Moneys deposited in the Credit Facility Account with respect to such Bonds;
- THIRD: Moneys deposited in the Corporation Deposit Account with respect to such Bonds;

Any moneys held in the Corporation Deposit Account remaining unclaimed by the Holders of the Purchased Bonds which were to have been purchased for three years after the respective Purchase Date for such Bonds shall be paid, upon the written request of the Corporation, to the Corporation, against written receipt therefore. The Holders of Purchased Bonds who have not yet claimed money in respect of such Bonds shall thereafter be entitled to look only to the Tender Agent to the extent it shall hold moneys on deposit in the Purchase Fund.

**Inadequate Funds for Tenders.** If sufficient funds are not available for the purchase of all Bonds of any Series tendered or deemed tendered and required to be purchased on any Purchase Date, the failure to pay the Purchase Price of all tendered Bonds when due and payable shall constitute an Event of Default and all tendered Bonds shall be returned to their respective Holders and shall bear interest at the Maximum Bond Interest Rate from the date of such failed purchase until all such Bonds are purchased as required in accordance with the Indenture. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Credit Facility Provider or the Corporation.

### **Redemption of the Bonds**

**Optional Redemption.** The Bonds of each Series, while bearing interest at the Daily Interest Rate or the Weekly Interest Rate, are subject to redemption prior to their stated maturity at the option of the Authority (which option shall be exercised upon the Request of the Corporation), from Available Moneys (except with respect to Credit Facility Bonds), as a whole or in part (from such Series and in such amounts as shall be selected by the Corporation and by lot within a Series) on any Business Day at a price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

**Mandatory Sinking Account Redemption – Series A Bonds.** The Series A Bonds are also subject to redemption prior to maturity on any June 1 on or after June 1, 2009, in part (by lot) from Mandatory Sinking Account Payments, in the amounts set forth below, on the dates set forth below, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

**Series A Bonds**

<b>Mandatory Sinking Account Payment Date (June 1)</b>	<b>Mandatory Sinking Account Payment</b>
2009	\$ 325,000
2010	420,000
2011	445,000
2012	465,000
2013	495,000
2014	525,000
2015	555,000
2016	585,000
2017	620,000
2018	650,000
2019	690,000
2020	725,000
2021	770,000
2022	810,000
2023	855,000
2024	905,000
2025	955,000
2026	1,010,000
2027	1,065,000
2028	1,125,000
2029	1,190,000
2030*	1,255,000

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\* Maturity

**Mandatory Sinking Account Redemption –Series B Bonds.** The Series B Bonds are also subject to redemption prior to maturity on any June 1 on or after June 1, 2009, in part (by lot) from Mandatory Sinking Account Payments, in the amounts set forth below, on the dates set forth below, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

## Series B Bonds

<b>Mandatory Sinking Account Payment Date (June 1)</b>	<b>Mandatory Sinking Account Payment</b>
2009	\$ 250,000
2010	345,000
2011	360,000
2012	375,000
2013	390,000
2014	410,000
2015	425,000
2016	445,000
2017	465,000
2018	485,000
2019	505,000
2020	530,000
2021	555,000
2022	575,000
2023	605,000
2024	630,000
2025	660,000
2026	685,000
2027	720,000
2028	750,000
2029	785,000
2030*	820,000

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\* Maturity

**Extraordinary Redemption.** The Bonds are subject to redemption at the option of the Authority (which option shall be exercised upon written direction of the Corporation) as a whole or in part (from such Series and in such amounts as shall be selected by the Corporation and by lot within a Series) on any date in the event certain moneys derived from hazard insurance or condemnation proceeds are received with respect to the Facilities and are deposited in the Special Redemption Account pursuant to the Loan Agreement, or, so long as the Credit Facility is in effect, the Tender Agent shall first draw under the Credit Facility pursuant to the Indenture to pay the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

**Notice of Redemption.** Notice of redemption of Bonds will be mailed by first class mail, by the Trustee, not less than 15 days nor more than 30 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee.

Failure by the Trustee to give notice to any one or more of the securities information services and/or securities depositories designated by the Corporation or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption as described herein to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Corporation. Notice of redemption having been given as described in the preceding paragraph, on the date of redemption indicated in such notice, interest on the Bonds so called for redemption shall cease to accrue from and after the date fixed for redemption thereof, if, on the date fixed for redemption, sufficient moneys for the redemption of such Bonds, together with interest to the date fixed for redemption, are held by the Trustee for such Bonds for such purposes. The Bonds so called for redemption shall cease to be entitled to any benefit or security under the Indenture after the date of redemption, and Holders of said Bonds shall have no rights in respect thereof except to receive payment of the

Redemption Price plus accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

Any notice of redemption given pursuant to the Indenture may be rescinded by written notice given to the Trustee by the Corporation no later than 5 Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a Series, the Trustee shall select the Bonds to be redeemed from all Bonds of that Series subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair, provided that Credit Facility Bonds shall be redeemed prior to any other Bonds. The Trustee shall promptly notify the Authority in writing of such Bonds or portions thereof so selected for redemption.

***Mandatory Purchase in Lieu of Redemption.*** Each Holder or Beneficial Owner, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described under “*Optional Redemption*” above. Such Bond is to be purchased at a Purchase Price equal to the then applicable Redemption Price of such Bond. In the event the Corporation determines to exercise such option, the Corporation shall deliver a Favorable Opinion of Bond Counsel to the Trustee and to the Authority, and shall direct the Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture relating to notice of redemption and to select Bonds subject to mandatory purchase in the same manner as Bonds called for redemption pursuant to the Indenture. On the date fixed for purchase of any Bond in lieu of redemption as described in this paragraph, the Corporation shall pay the Purchase Price of such Bond to the Trustee in immediately available funds, and the Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption as described in this paragraph shall operate to extinguish the indebtedness of the Authority evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

## **BOOK-ENTRY SYSTEM**

The Authority, the Corporation, the Trustee, the Bank, the Tender Agent and the Remarketing Agent will have no responsibility or obligation to any Securities Depository, any Participants in the book-entry system, or the Beneficial Owners with respect to (a) the accuracy of any records maintained by the Securities Depository or any Participant, (b) the payment by the Securities Depository or by any Participant of any amount due to any Participant or Beneficial Owner, respectively, in respect of the principal, Purchase Price of, premium, if any, or interest on any Bond, or (c) the delivery of any notice by the Securities Depository or any Participant.

In the event of the discontinuance of the book-entry system for the Bonds, Bond certificates will be printed and delivered and the following provisions of the Indenture will apply: (a) principal of the Bonds will be payable upon surrender of the Bonds at the principal office of the Trustee, (b) Bonds may be transferred or exchanged for other Bonds of authorized denominations at the Principal Corporate Trust Office of the Trustee, without cost to the owner thereof except for any tax or other governmental charge, and (c) Bonds will be issued in denominations as described under the heading “THE BONDS—General” above.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General**

The Bonds are payable solely from the Revenues received by the Authority from the Corporation pursuant to the Loan Agreement and the other amounts available to the Trustee therefor under the Indenture, including the proceeds of draws on any Credit Facility then in effect with respect to the Bonds. The Initial Credit Facility for the Bonds will be an irrevocable, direct-pay letter of credit to be issued by the Bank. See “THE INITIAL CREDIT

FACILITY AND THE REIMBURSEMENT AGREEMENT—The Initial Credit Facility” and “BANK OF AMERICA, N.A.” herein.

**THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF AND INTEREST AND ANY PREMIUM, IF ANY, THEREON 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.**

### **Credit Facilities**

*Alternate Credit Facilities.* The Corporation at any time may provide one or more Alternate Credit Facilities with respect to the Bonds. So long as any Series of Bonds bears interest at a Daily Interest Rate or a Weekly Interest Rate, the Corporation agrees to furnish a Credit Facility for such Series of Bonds. Each Alternate Credit Facility for Bonds of a Series must (i) be a Credit Facility entered into by, or issued by, a commercial bank or other financial institution; (ii) be in an amount equal to the Required Stated Amount; and (iii) have a term of at least 360 days.

*Demand for Payment under Credit Facility.* In the event that a Credit Facility is in effect with respect to the Bonds of a Series, notwithstanding any other money that the Trustee may have on deposit, the Trustee shall make a demand for payment under such Credit Facility subject to and in accordance with its terms, in order to receive payment thereunder not later than the time payment is due on the Bonds of such Series, on the following dates in the following amounts:

- (i) On each Interest Payment Date, in an amount which will be sufficient to pay all interest due and payable on the Outstanding Bonds of such Series on such Interest Payment Date;
- (ii) On any date fixed for payment (whether by acceleration, maturity or otherwise), defeasance or redemption of the Bonds of such Series in an amount which, together with amounts demanded for payment pursuant to paragraph (i) above, will be sufficient to pay the amount due on such Bonds, including accrued interest and premium, if any (if a demand for payment is permitted for premium under the terms of such Credit Facility); and
- (iii) On each Purchase Date, in an amount sufficient to pay the Purchase Price of the Bonds of such Series tendered or deemed tendered pursuant to the Indenture and which have not been remarketed in accordance with the Indenture, or for which sufficient remarketing proceeds have not been received as provided in the Indenture.

### **Revenues and Loan Payments**

The Bonds are payable from the Loan Payments made by the Corporation under the Loan Agreement, certain funds held under the Indenture and moneys drawn under any Credit Facility or Alternate Credit Facility. Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Bondholders all the Revenues. “Revenues” include all payments received by the Authority or the Trustee from the Corporation pursuant

to or with respect to the Loan Agreement (except Additional Payments, as defined in the Indenture, and certain other payments described in the Agreement), draws on a Credit Facility, proceeds of prepayments under the Loan Agreement and moneys in certain funds established pursuant to the Indenture (other than amounts on deposit in the Rebate Fund and the Bond Purchase Fund). **There will be no debt service or other reserve fund with respect to the Bonds.**

Under the Loan Agreement, the obligation of the Corporation to make payments thereunder, including Loan Payments, is a general, unsecured obligation of the Corporation. The Loan Payments are due in amounts and at the times necessary to pay the principal and Purchase Price of, and premium, if any, and interest on the Bonds when due.

See Appendix D—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" for a summary of certain terms of the Indenture and the Loan Agreement.

#### **BANK OF AMERICA, N.A.**

*The information under this heading has been provided solely by Bank of America, N.A., and is believed to be reliable, but has not been verified independently by the Corporation, the Underwriter, the Authority or the Trustee. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Underwriter, the Corporation, the Authority or the Trustee. No representation is made herein as to the accuracy of such information or as to the absence of materially adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.*

Bank of America, N.A. (the "Bank") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation ("Bank Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of September 30, 2008, the Bank had consolidated assets of \$1,359 billion, consolidated deposits of \$846 billion and stockholder's equity of \$114 billion based on regulatory accounting principles.

Bank Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding Bank Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Bank Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the Bank. Moody's Investors Service, Inc. ("Moody's") currently rates the Bank's long-term debt as "Aaa" and short-term debt as "P-1." The outlook is stable. Standard & Poor's currently rates the Bank's long-term debt as "AA" and its short-term debt as "A-1+." The Bank is on watch negative. Fitch Ratings, Inc. ("Fitch") currently rates long-term debt of the Bank as "AA-" and short-term debt as "F1+." The outlook is stable. Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18th Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communications

PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE INITIAL CREDIT FACILITY. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE INITIAL CREDIT FACILITY IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE INITIAL CREDIT FACILITY IS A BINDING OBLIGATION OF THE BANK, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF BANK CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of Bank Corporation or the Bank since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

## THE INITIAL CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT

### The Initial Credit Facility

*The following is a summary of certain provisions of the Initial Credit Facility. This summary does not purport to be comprehensive or definitive, and is subject to all of the terms and provisions of the Initial Credit Facility, to which reference is hereby made. Wherever defined terms of the Initial Credit Facility are referred to, such defined terms are incorporated herein by reference as part of the statement made, and the statement is qualified in its entirety by such reference.*

**General.** The Initial Credit Facility is an irrevocable obligation of the Initial Credit Provider to pay to the Trustee, upon drawings made by the Trustee in strict compliance with the terms and conditions of the Initial Credit Facility, up to (a) an amount equal to the outstanding principal amount of the Bonds to enable the Trustee to pay (1) the principal amount of the Bonds when due at maturity or upon redemption or acceleration and (2) the portion of the Purchase Price of Bonds tendered pursuant to the Indenture and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 46 days' interest on the Bonds at the maximum rate of twelve percent (12%) per annum (1) to enable the Trustee to pay interest on the Bonds when due and (2) to enable the Trustee to pay the portion of the Purchase Price of Bonds tendered pursuant to the Indenture and not remarketed corresponding to the accrued interest on such Bonds. The original stated amount of the Initial Credit Facility is \$28,636,628, of which \$28,210,000 is in respect of principal of the Bonds and \$426,628 is in respect of interest on the Bonds.

**Draws.** The Trustee is authorized to draw on the Initial Credit Provider by presentation of the Trustee's sight draft drawn on Bank of America, N.A., accompanied by one or more certificates and demands for payment in the forms prescribed in the Initial Credit Facility, such amount not to exceed the Letter of Credit Amount. The Principal Component shall not be available to pay amounts corresponding to the interest on the Bonds, and the Interest Component shall not be available to pay amounts corresponding to principal of the Bonds.

**Reduction and Reinstatement.** Each drawing honored by the Initial Credit Provider shall reduce the Letter of Credit Amount and the respective Principal and Interest Components thereof by the respective amounts of such

drawing and the corresponding components of such drawing. In addition, the Letter of Credit Amount and the respective Principal and Interest Components thereof shall be reduced automatically, without notice to the Trustee, upon the Initial Credit Provider's receipt from the Trustee of a certificate in the form of Annex 4 attached to the Letter of Credit, appropriately completed and executed, each such reduction to be (a) in the amounts necessary to reduce the Letter of Credit Amount and the Principal and Interest Components thereof to the respective amounts specified by the Trustee in such certificate and (b) effective on the Business Day on which the Initial Credit Provider receives such certificate from the Trustee.

The amount available under the Letter of Credit, as so reduced, shall be reinstated only as follows:

(a) unless prior to 5:00 p.m. Pacific time on the seventh (7th) calendar day following the date of each drawing under the Initial Credit Facility by an Interest Draw Certificate Trustee has received Notice specifically referring to Bank of America, N.A. Irrevocable Transferable Direct Pay Letter of Credit signed by the Initial Credit Provider's authorized officer, to the effect that an Event of Default has occurred and is continuing under the Reimbursement Agreement that the Letter of Credit Amount and the Interest Component shall not be reinstated, in which case such reinstatement shall not occur, the Letter of Credit Amount and the Interest Component shall be automatically reinstated by an amount equal to the amount of such drawing; and

(b) following any drawing under the Initial Credit Facility by a Tender Draw Certificate, the Letter of Credit Amount and the Principal and Interest Components thereof shall be reinstated with respect to such drawing (1) automatically when and to the extent that both (i) the Initial Credit Provider has received immediately available funds for application to the Corporation's reimbursement obligation for such drawing (such funds shall be remitted to the attention of the Initial Credit Provider's Letter of Credit Department with a statement that they constitute reimbursement for such Tender Draw Certificate under Bank of America, N.A., Letter of Credit) and (ii) the Trustee has delivered to the Initial Credit Provider a certificate in respect of such reinstatement in the form of Annex 5 attached to the Initial Credit Facility, appropriately completed and executed, or (2) when and to the extent that the Initial Credit Provider, at the Initial Credit Provider's option, upon the Corporation's request, advise the Trustee in writing that such reinstatement shall occur, it being understood that the Initial Credit Provider shall have no obligation to grant any such reinstatement except as provided in paragraph 6(i) of the Initial Credit Facility.

The amount demanded by any Interest Draw Certificate: (i) shall be drawn against the Interest Component of the Initial Credit Facility and shall not exceed the Letter of Credit Amount, as reduced and reinstated in accordance with the terms of the Initial Credit Facility, or the Interest Component, as reduced and reinstated in accordance with the terms of the Initial Credit Facility, (ii) shall be computed in accordance with the terms and conditions of the Indenture and the Bonds, (iii) shall not include any amount in respect of interest on the Bonds which was included in any Interest Draw Certificate, Tender Draw Certificate or Redemption Draw Certificate presented and not dishonored on or prior to the date of such Interest Draw Certificate, and (iv) shall be applied pursuant to the provisions of the Indenture to the payment of accrued interest on the Bonds which are not beneficially owned by the Corporation or pledged to the Initial Credit Provider.

**Expiration.** The Initial Credit Facility shall automatically terminate upon the first to occur of: (a) the Stated Expiration Date, the first to occur being November 19, 2011 (as such date may have been extended), (b) the date on which the Initial Credit Provider receives a certificate from the Trustee in the form of Annex 6 attached to the Initial Credit Facility to the effect that there are no Bonds Outstanding other than Bonds secured by an Alternate Credit Facility or Bonds bearing interest at a Long Term Rate (as such term is defined in the Indenture), (c) the seventh (7th) calendar day after the Trustee receives Notice from the Initial Credit Provider stating that an Event of Default has occurred and is continuing under the Reimbursement Agreement, directing Trustee to call the Bonds for mandatory tender or to declare the Bonds immediately due and payable pursuant to the Indenture and stating that the Initial Credit Facility will terminate on such seventh (7th) calendar day, or (d) the date on which the final drawing available under the Initial Credit Facility by a Redemption Draw Certificate is honored.

At any time not less than one hundred and eighty (180) days before the then effective Stated Expiration Date of the Initial Credit Facility, the Corporation may request the Initial Credit Provider in writing (each such request being irrevocable unless the Initial Credit Provider seeks to renegotiate the terms as provided below) to extend the Stated Expiration Date of the Initial Credit Facility for one additional year. The Initial Credit Provider shall respond to the Corporation in writing within sixty (60) days of receipt of the written request for extension of

the Initial Credit Facility. The Corporation understands and agrees that the determination to accept or reject any such request shall be within the Initial Credit Provider's sole and absolute discretion and that the granting by the Initial Credit Provider of one or more such requests does not obligate the Initial Credit Provider to grant any further such request. If the Initial Credit Provider accepts such request, the terms of each extension will be determined by mutual agreement after such analysis and due diligence as the Initial Credit Provider may require. The Initial Credit Facility shall automatically terminate on the Stated Expiration Date absent a written notice of renewal from the Initial Credit Provider. Before any cancellation or replacement of the Initial Credit Facility pursuant to the Reimbursement Agreement shall take effect, the Corporation shall pay, or cause to be paid, any and all outstanding draws under the Initial Credit Facility and any other Obligations owed by the Corporation under the Reimbursement Agreement (including accrued interest thereon) and shall cause the Trustee to deliver the Initial Credit Facility to the Initial Credit Provider for cancellation. In addition, the Initial Credit Facility may be immediately terminated and replaced by an Alternate Credit Facility upon (a) a negative change in the long term or short term ratings of the Initial Credit Provider that results in increased costs to the Corporation, (b) the Corporation refinances or defeases the Bonds or provides an Alternate Credit Facility or (c) the Bonds are converted to a fixed rate.

### **The Reimbursement Agreement**

*The following is a summary of certain provisions of the Reimbursement Agreement. This summary does not purport to be comprehensive or definitive, and is subject to all of the terms and provisions of the Reimbursement Agreement, to which reference is hereby made. Wherever defined terms of the Reimbursement Agreement are referred to, such defined terms are incorporated herein by reference as part of the statement made, and the statement is qualified in its entirety by such reference.*

**General.** Under the Reimbursement Agreement, the Initial Credit Provider agrees to issue the Initial Credit Facility to the Trustee concurrently with the original issuance and delivery of the Bonds, and the Corporation agrees, among other things, to reimburse the Initial Credit Provider, with interest, for each drawing under the Initial Credit Facility and to pay certain fees to the Initial Credit Provider.

**Security.** The obligations of the Corporation to the Initial Credit Provider under the Reimbursement Agreement shall have the benefit and security of the Corporation's Gross Revenues, and in the event of one or more draws under the Initial Credit Facility and the application of the proceeds thereof to the payment of the Bonds, the rights of the Initial Credit Provider will rank pari passu to the rights of the Trustee and the holders of the Bonds in and to all security held by the Trustee under the Indenture for the payment of the principal of and interest on the Bonds. In addition, the Initial Credit Provider shall have any and all other subrogation rights available to the Initial Credit Provider at law or in equity.

**Representations, Warranties and Covenants.** The Reimbursement Agreement sets forth various representations, warranties and covenants of the Corporation, including, among others, representations, warranties and covenants relating to corporate status and power, due authorization, no conflicts, all approvals, consents and certifications, validity and enforceability of agreements, limitations on liabilities, limitations on litigation, no violations of law or other agreements, no defaults, maintenance of insurance, no Material Adverse Change, maintenance of tax-exempt status, compliance with ERISA, compliance with Environmental Laws, title to assets, compliance with Material Contracts and Bond Documents, maintenance of corporate existence, maintenance of governmental authorizations, maintenance of Property, maintenance of collateral, limitation on transfer of Property, mandatory redemptions of the Bonds, financial reporting, notice requirements, maintenance of financial covenants, limitations on additional debt, limitations on additional investments, limitation on liens and limitations on loans.

**Events of Default.** Each of the following events shall constitute an "Event of Default" under the Reimbursement Agreement:

- (a) Failure by the Corporation to make or cause to be made to the Initial Credit Provider when due under the Reimbursement Agreement any payment as reimbursement for a drawing under the Initial Credit Facility;
- (b) Failure by the Corporation to make or cause to be made to the Initial Credit Provider payment of when due under the Reimbursement Agreement or the Control Agreement (1) any fee, (2) interest on any such fee or

interest on any drawing under the Initial Credit Facility, or (3) any other payment to the Initial Credit Provider under the Reimbursement Agreement, the Control Agreement or any Bond Document;

(c) Failure by the Corporation to perform or comply with any of the terms or conditions contained in Section 6.01 (corporate existence), 6.07 (change in business or control), 6.14 (mandatory redemption), 6.25 (tax-exemption), 6.27 (limitations on optional calls) and 6.28 (limitation on conversions);

(d) Failure by the Corporation to perform or comply with any other covenants, terms or conditions contained in the Reimbursement Agreement or the Control Agreement and continuance of such failure for thirty (30) days after Notice from the Initial Credit Provider to the Corporation, or such longer period to which the Initial Credit Provider in its sole discretion may agree in the case of a failure not curable by the exercise of due diligence within such thirty (30) day period, provided that the Corporation shall have commenced to cure such failure within such thirty (30) day period and shall complete such cure as quickly as reasonably possible with the exercise of due diligence;

(e) Any of the representations or warranties of the Corporation set forth in the Reimbursement Agreement, the Control Agreement or the Bond Documents or in any other document furnished to the Initial Credit Provider pursuant to the terms of the Reimbursement Agreement proves to have been false in any material respect;

(f) Any material provision of the Reimbursement Agreement, the Control Agreement or any Bond Document shall at any time for any reason cease to be valid and binding or shall be declared to be null and void, or shall be violative of any Applicable Law relating to a maximum amount of interest permitted to be contracted for, charged or received, or the validity or enforceability thereof shall be contested by the Corporation, the Trustee or any Governmental Authority, or the Corporation shall deny that it has any or further liability or obligation under this Agreement, the Control Agreement or any Bond Document to which it is a party;

(g) Any actual or asserted invalidity of any loan documentation, security interest, or Material Contract to which the Corporation is a party;

(h) The occurrence and continuance of an "Event of Default" as defined in any of the Bond Documents, beyond any applicable grace period, unless waived by the relevant party to such Bond Document;

(i) The Corporation shall (1) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of the Corporation or of Property of the Corporation or (2) not, or be unable to, or admit in writing the inability of the Corporation to pay its debts generally as they become due, or (3) make a general assignment for the benefit of creditors, or (4) be adjudicated bankrupt or insolvent, or (5) commence a voluntary case under the United States Bankruptcy Code or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against the Corporation in any bankruptcy, reorganization or insolvency proceeding, or take corporate action for the purpose of effecting any of the foregoing, or (6) have instituted against it a proceeding in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of the Corporation an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up or liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Corporation or of all or any substantial part of the assets of the Corporation or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Corporation in good faith, the same shall (i) result in the entry of an order for relief or any such adjudication or appointment or (i) remain undismissed and undischarged for a period of sixty (60) days, or (7) the Corporation shall take any action in furtherance of, or indicating its consent to, approval of or acquiescence in, any of the acts described in clauses (1) through (6) above;

(j) The Corporation fails to maintain, or caused to be maintained, in full force and effect any of the insurance coverage as required by the Reimbursement Agreement and the other Bond Documents;

(k) The Corporation fails to maintain, or caused to be maintained (1) its status as an organization described in Section 501(c)(3) of the Code or (2) any applicable accreditation necessary to continuing to operate as an independent school in California;

(l) Any one or more judgments are entered against the Corporation and within sixty (60) days of such entry either (1) such judgments have not been satisfied and execution of such judgment has not been stayed pending appeal or (2) such judgments give rise to Liens aggregating at any time more than One Million Dollars (\$1,000,000.00) which are not removed by a bond or other arrangement given or obtained on terms which do not violate any covenant under the Reimbursement Agreement;

(m) The occurrence and continuance of an event of default beyond any applicable grace period, unless waived by the relevant party entitled to a remedy as a result, in respect of any Debt of the Corporation above One Million Dollars (\$1,000,000.00) or more that results in the acceleration or mandatory redemption of such Debt, or enables the holder or holders of such Debt or any Person acting on behalf of such holder or holders to accelerate the maturity, or cause the mandatory redemption of such Debt;

(n) The occurrence of an event of default as defined in any other agreement under which the Corporation is now or hereafter obligated to the Initial Credit Provider;

(o) An ERISA Event occurs that would reasonably be expected to result in a material adverse effect;

(p) The Corporation is enjoined or prohibited from performing any of its Obligations under any of the Bond Documents for a period of more than fifteen (15) consecutive days; and

(q) The independent certified public accountants retained by the Corporation (1) deliver an opinion on the financial statements of the Corporation, which opinion states that such financial statements do not fairly or accurately present the financial condition of the Corporation or includes an explanatory paragraph which describes conditions which raise substantial doubt about the Corporation's ability to continue to operate as a going concern, or (2) fail to deliver an unqualified opinion on the annual financial statements of the Corporation (other than as to a change in GAAP with which such accountants concur).

**Remedies.** Upon or after the occurrence of any Event of Default, the Initial Credit Provider may, at its sole option and without prior notice, demand, protest or presentment, and to the extent permitted by applicable law, do any or all of the following:

(a) Notify the Trustee that such Event of Default has occurred, direct the Trustee to call the Bonds for mandatory purchase pursuant to Section 4.06(B)(3) of the Indenture, and notify the Trustee that the Initial Credit Facility shall terminate seven (7) calendar days after the Trustee's receipt of such Notice;

(b) Notify the Trustee that such Event of Default has occurred, direct the Trustee to declare the Bonds immediately due and payable pursuant to Section 7.01(F) of the Indenture, and notify the Trustee that the Initial Credit Facility shall terminate seven (7) calendar days after the Trustee's receipt of such notice;

(c) By Notice to the Corporation, terminate the Liquidity Period;

(d) Declare the Corporation's Obligations under the Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable;

(e) Take whatever action may be available at law or in equity to collect the Initial Credit Provider Obligations due and payable and to enforce the performance of the Corporation's Obligations under the Reimbursement Agreement and the Bond Documents, including applying to any court of competent jurisdiction for, and obtaining appointment of, a receiver;

(f) Require the Corporation to pay interest and commitment fees at higher rates as provided Section 2.02(q) of the Reimbursement Agreement;

(g) Direct the Trustee pursuant to paragraph 7(c) of the Initial Credit Facility to exercise remedies in accordance with the provisions of the Bond Documents to which it is a party;

(h) Direct the Trustee pursuant to paragraph 7(c) of the Initial Credit Facility to exercise remedies in accordance with the provisions of the Indenture as and to the extent permitted by the Indenture;

(i) By injunction or other writ, order, decree or decision of a court of competent jurisdiction in an action, suit or other proceeding at law or in equity, enjoin any acts or things which may be unlawful or in violation of the Initial Credit Provider's rights under the Reimbursement Agreement, the other Bond Documents or any other agreement or instrument;

(j) File for record, at the Corporation's cost and expense and in the Corporation's name, any notices that the Initial Credit Provider in its sole and absolute discretion may consider necessary or desirable to protect its security;

(k) Sell the Initial Credit Provider's rights under the Reimbursement Agreement, the Control Agreement, the other Bond Documents, any other agreements or instruments delivered to the Initial Credit Provider, or any of them, to anyone at private sale;

(l) If (1) an Event of Default has occurred under Section 7.01(a) or 7.01(b) of the Reimbursement Agreement and has not been satisfied or otherwise cured within five (5) Business Days of such Event of Default, or (2) any other Event of Default has occurred under Section 7.01 of the Reimbursement Agreement, the Initial Credit Provider may exercise or cause to be exercised, any and all rights and remedies the Initial Credit Provider may have under the Control Agreement; and

(m) Exercise, or cause to be exercised, any and all such remedies as it may have under the Reimbursement Agreement, the Bond Documents or any other document at law or in equity.

## **INVESTMENT CONSIDERATIONS**

The following are investment considerations that should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive and has been prepared within the context of this Official Statement. Inclusion of certain investment considerations below is not intended to signify that there are not other investment considerations or risks attendant to the Bonds that are material to an investment decision with respect to the Bonds that are otherwise described or apparent elsewhere herein.

### **General**

As noted under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein, the Bonds are payable from Loan Payments made by the Corporation. Future economic and other conditions, including the Corporation's revenue and expenses, the Corporation's fundraising plans, a shortfall in the amounts expected to be received by the Corporation through fundraising efforts, litigation, investment returns, changes in the demand for the Corporation's services, demographic changes, legislation, governmental regulations or catastrophic or other events damaging existing facilities at the Corporation could adversely affect the Corporation's ability to pay the Loan Payments. In addition, any developments affecting the nonprofit or tax-exempt status of the Corporation could adversely affect the financial condition and operations of the Corporation. There can be no assurance given that revenues of the Corporation will not decrease or that expenses of the Corporation will not increase. The Corporation's obligation to make Loan Payments under the Loan Agreement is an absolute and unconditional general obligation of the Corporation, however, such obligation is not secured by any property of the Corporation. Any and all financial forecasts are only good faith estimates and are not intended as a representation or warranty as to the future financial condition or results of operation of the Corporation.

## **Expiration of the Initial Credit Facility**

The Initial Credit Facility expires on November 19, 2011, subject to extension or earlier termination in certain circumstances as described therein. If the Initial Credit Facility is not extended or an Alternate Credit Facility is not obtained by the Corporation, the Bonds will be subject to mandatory tender. There can be no assurance that the Corporation will be able to obtain an extension of the Initial Credit Facility or an Alternate Credit Facility. The Bank is under no obligation to extend the Initial Credit Facility beyond its scheduled expiration.

## **Bank's Obligations Unsecured**

The ability of the Bank to honor draws upon the Initial Credit Facility 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 Initial Credit Facility in the event of any deterioration in the financial condition of the Bank. None of 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 "Bank of America, N.A.," and other information available upon request from the Bank and should not rely upon any governmental supervision by any regulatory entity.

## **The Remarketing Agent is Paid by the Corporation**

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. See "THE BONDS—Interest on the Bonds" and "REMARKETING AGREEMENT." The Remarketing Agent is appointed by the Corporation and is paid by the Corporation for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

## **The Remarketing Agent Routinely Purchases Bonds for its Own Account**

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market

than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

### **Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date**

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. The Remarketing Agent, in its sole discretion, may offer Bonds on any date, including a rate determination date, at a discount to par to some investors.

### **The Ability to Sell the Bonds other than Through Tender Process May Be Limited**

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds for remarketing by the Remarketing Agent in accordance with the tender process described herein.

### **Removal or Resignation of Remarketing Agent**

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

### **Project Completion and Construction Risks**

The total costs of the Corporation's current construction project (the "Project") are estimated to be approximately \$16.0 million, and approximately \$11.0 million of that amount has been funded from proceeds of the Series 2007B Bonds.

A delay in completion of the Project may arise from any number of causes, including but not limited to, adverse weather conditions; adverse environmental conditions; failure of the general contractor or any subcontractors to perform; unavailability of subcontractors; negligence on the part of the general contractor or any subcontractors; labor disputes; natural disasters; environmental problems; or unanticipated or increased costs of construction or renovation. Any of these events or occurrences, separately or in combination, could have a material adverse effect on the ability to complete the Project at all or to complete it as planned and on schedule as described in Appendix A—"INFORMATION CONCERNING THE CORPORATION" attached hereto. Failure to complete the anticipated construction of the Project on time or on budget could cause the Corporation to devote additional time and resources to the completion of the construction and have a material adverse effect on the Corporation's financial condition and ability to pay Loan Payments pursuant to the Loan Agreement.

Actual design and construction costs may exceed the budgeted costs for the Project. In such event, either the scope of the Project may need to be changed or phased or the Corporation may be required to seek additional sources of funding for the Project.

The Corporation is relying upon successful fundraising to be able to complete the Project. See "INVESTMENT CONSIDERATIONS—Gifts and Fundraising" herein, and Appendix A—"INFORMATION CONCERNING THE CORPORATION—Fundraising Campaigns" attached hereto.

## **Corporation Indebtedness**

The Corporation is permitted to incur additional debt under certain circumstances. Any indebtedness which may be incurred by the Corporation could have a material effect on the Corporation's operations, which may, among other things, limit the Corporation's ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements and other purposes; require the Corporation to dedicate a significant portion of its cash flow to pay principal and interest on such debt, which will reduce the funds available for working capital, capital expenditures and other general administrative and educational purposes; and limit the Corporation's ability to plan for and react to changes in its business and industry, thereby making the Corporation more vulnerable to adverse changes in general economic, industry and competitive conditions. Any of these factors could have a material adverse effect on the financial condition of the Corporation and its ability to pay Loan Payments with respect to the Bonds.

## **Insurance Coverage**

The insurance requirements imposed by the Loan Agreement are limited, and insurance proceeds may not be available to cover all claims or risks relating to the Schools or the Corporation. Litigation could arise from the business activities of the Corporation, including from its status as an employer. Many of these risks are covered by insurance, but some may not be covered completely or at all. See Appendix A—"INFORMATION CONCERNING THE CORPORATION—Risk Management" attached hereto.

Future increases in insurance premiums and future limitations on the availability of certain types of insurance coverage could have an adverse impact on the Corporation's financial condition and operations and, ultimately, could adversely impact the ability of the Corporation to make Loan Payments.

## **Seismic Conditions**

Generally, throughout the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to property located at or near the center of such seismic activity. The Loan Agreement does not require earthquake insurance and the Corporation does not maintain earthquake insurance coverage.

## **Investment of Funds Risk**

The Corporation invests its money pursuant to investment policies adopted from time to time by its Board of Trustees. In December 2007, the Corporation engaged Makena Capital Management, LLC to manage the Corporation's endowment portfolio. Pursuant to the arrangement, the endowment funds (approximately \$14 million) are invested in a limited partnership interest of Makena Capital Associates (US), L.P. See Appendix A—"INFORMATION CONCERNING THE CORPORATION—Investments of the Corporation" for information regarding the investments of the Corporation and potential constraints on liquidity posed by the Corporation's investment of substantially all of its endowment in Makena Capital Associates (US), L.P.. All investments made by the Corporation contain a degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss of delayed receipt of principal and lack of liquidity. The occurrence of these events with respect to amounts invested by the Corporation could have a material adverse effect on the availability of funds for the payment of Loan Payments by the Corporation.

Since June 30, 2008, major U.S. and foreign equity and fixed income indices, including the S&P 500, MSCI EAFE and the Lehman Aggregate, have experienced significant declines. The Corporation, through Makena Capital Management LLC, is monitoring investment market conditions and the impact such declines are having on the Corporation's investment portfolio. Due to the volatility of U.S. and world financial markets as of the date of this Official Statement, there is uncertainty regarding the long-term impact the current declines will have on the Corporation's investment portfolio. While the Corporation believes that Makena Capital Associates (US), L.P. investments are diversified, it too has experienced significant declines in value since year end.

## Gifts and Fundraising

The Corporation receives gifts, grants and donations from private and public sources. For a variety of reasons, the amount of annual gifts and fundraising results are difficult to project with precision. These reasons include the voluntary nature of charitable giving, the effect of the general and local economy on giving, the unpredictability of the effectiveness of the marketing of a fundraising campaign, the varying tax treatments of the deductibility of gifts and many other factors. A failure to attain sufficient levels of gifts and other support could have a material adverse effect on the Corporation's ability to maintain its current level of operations and pay debt service on the Bonds.

The silent phase of Framework for the Future was launched in September 2007 to generate funds for all lawful purposes of the Corporation, including the seismic upgrade and retrofit of the Stuart Hall for Boys building (\$16.0 million) and for the endowment growth (\$14.0 million), for a total campaign goal of \$30.0 million. As of September 30, 2008, the silent phase of the campaign had received pledges totaling approximately \$11.2 million, of which approximately \$6.3 million has been collected. The pledge receivables total includes \$2.1 million in pledges to the endowment. See Appendix A—"INFORMATION CONCERNING THE CORPORATION—FUNDRAISING CAMPAIGNS" attached hereto. While the Corporation believes its fundraising goals to be reasonable, it is possible that its goals will not be attained. There can be no guarantee that the Corporation will be able to reach its ultimate campaign goal. A failure to reach its stated campaign goal could negatively affect the Corporation's fundraising ability generally and the ability of the Corporation to pay Loan Payments with respect to the Bonds.

## Tax-Exempt Status

The Code imposes a number of requirements that must be satisfied for interest on bonds issued for the benefit of nonprofit corporations, 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 Authority file an information report with the Internal Revenue Service ("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 issuance of the Bonds. Moreover, the occurrence of one or more of the other events described in this section also could adversely affect the exclusion from gross income for federal or State income tax purposes of the interest on the Bonds.

**Bond Audit.** The IRS has an ongoing program of examining tax-exempt obligations to determine whether, in the view of the IRS, interest on such obligations is properly excluded from gross income for federal income tax purposes, and it is possible that the Bonds may be selected for examination under such program. If an examination is commenced, under current procedures, the IRS will treat the Authority as the relevant taxpayer under the Code, and the holders of the Bonds may have no right to participate.

The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel as to the tax-exempt status of the Bonds (see "TAX MATTERS" herein) is not binding on the IRS. An IRS examination of the Bonds could adversely affect the market value and liquidity of the Bonds or result in the loss of the tax-exempt status of the Bonds.

**Tax-Exempt Status of the Corporation.** The tax-exempt status of 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 on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations, and such organizations are increasingly subject to a greater degree of scrutiny by the IRS. 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 501(c)(3) tax-exempt status of nonprofit organizations, it could do so in the future. Loss of tax-exempt status by the Corporation could result, among other consequences, in the Corporation being in default of certain of its covenants regarding the Bonds. Loss of tax-exempt status of the Corporation also would have material adverse consequences on the financial condition of the Corporation and would cause interest on the Bonds to become taxable.

Less onerous sanctions also have been imposed by the IRS, which sanctions focus enforcement on private persons who transact business with a tax-exempt organization rather than the tax-exempt organization itself, but these sanctions do not replace the other, more severe remedies available to the IRS as mentioned above.

***Unrelated Business Taxable 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 amounts of UBTI. The Corporation may participate in activities which generate UBTI in the future. Management of the Corporation 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.

***State Income Tax Exemption.*** The loss by the Corporation of its State income tax exemption could be adverse and material to the Corporation and to the value of the Bonds.

***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 organizations with respect to their real property tax exemptions. The management of the Corporation believes that the Schools are exempt from State real property taxes; however, there can be no assurance that this will continue to be the case, and any loss of exemption could have a material adverse effect on the financial condition of the Corporation.

## **Bankruptcy and Limitations on Enforcement of Remedies**

The remedies available to the Trustee or the Owners upon an Event of Default under the Indenture or under 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 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 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.

## **Interest Rate Swaps and Other Hedge Risk**

The Corporation expects to enter into the Swap Agreement and terminate the 2007 Swap Agreement in connection with the issuance of the Bonds. Additionally, the Corporation may choose to enter into additional swap or hedge agreements in the future.

Any interest rate swap or other hedge agreement to which the Corporation is a party, including the Swap Agreement, may, at any time, have a negative value to the Corporation. If either a swap or other hedge counterparty or the Corporation terminates such an agreement when the agreement has a negative value to the Corporation, the Corporation would generally be obligated to make a termination payment to the counterparty in the amount of such

negative value, and such payment could be substantial and potentially materially adverse to the Corporation's financial condition. Under certain circumstances, each swap agreement is subject to termination prior to its scheduled termination date and prior to the maturity of the Bonds. See "INTRODUCTION – Swap Agreement" herein.

In addition, if certain conditions occur, the Corporation may be required to deliver collateral to secure obligations that would be owed to the counterparty under an interest rate swap or other hedge agreement, including the Swap Agreement, and the amount of collateral required to be delivered could be substantial. A required posting of collateral could reduce the amount of funds available to the Corporation to make Loan Payments.

## **THE AUTHORITY**

The Authority is a joint powers agency ("JPA") 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 (the "Joint Powers Agreement"), and the Joint Exercise of Powers Law of the State (constituting Chapter 5, commencing with Section 6500, of Division 7 of Title 1 of the California Government Code) (the "Act"), in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of JPA members with purposes serving the public interest.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF AND INTEREST AND ANY PREMIUM, IF ANY, THEREON 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

## **LEGALITY FOR INVESTMENT IN CALIFORNIA**

Obligations issued by the Authority under the Act are, under California law, securities in which all banks, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries and all other persons whatsoever, who now are or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest any funds, including capital belonging to them or within their control; and such obligations are securities which may properly and legally be deposited with and received by any state or municipal officer or agency of the State for any purpose for which the deposit of bonds or notes or other obligations of the State is now or may hereafter be authorized by law.

## **VERIFICATION**

Upon the delivery of the Bonds, Causey Demgen & Moore Inc. (the "Verification Agent"), will deliver a report reviewing the mathematical accuracy of certain computations contained in the schedules provided to them relating to the adequacy of the amounts held in the escrow funds established with respect to the Series 2007A and Series 2007B Bonds, for the payment of the redemption price of the Series 2007A Bonds and Series 2007B Bonds on their respective redemption dates. The report of the Verification Agent will include a statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules

provided to them and that they have no obligation to update their report because of any event occurring, or data or information coming to their attention, subsequent to the date of their report.

## **TAX MATTERS**

### **General**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Authority and the Corporation with certain covenants in the Indenture, the Loan Agreement and other documents pertaining to the Bonds and certain requirements of the Code regarding the organization and operation of the Corporation, the use, expenditure and investment of proceeds of the Bonds and timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in gross income of the owners of the Bonds for federal income tax purposes.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

With respect to the Bonds, Bond Counsel has relied on the opinion of Chapman and Cutler LLP regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Neither Bond Counsel nor Chapman and Cutler, LLP can give or has given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure to comply with the above-mentioned covenants and requirements or failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. See "INVESTMENT CONSIDERATIONS—Tax-Exempt Status."

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement and certain other documents pertaining to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than Sidley Austin LLP with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

### **Information Reporting and Backup Withholding**

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all

interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

### **State Tax Exemption**

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

### **Future Developments**

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax-exempt status of such interest. Further legislation and regulatory actions and proposals may affect the economic value of the federal or State tax exemption or the market value of the Bonds.

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

### **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters incident to the issuance of the Bonds are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is included herein as Appendix G. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Approval of other legal matters will be passed upon for the Authority by Jones Hall, A Professional Law Corporation, for the Corporation by Chapman and Cutler LLP, San Francisco, California, for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California and for the Bank by its counsel, Foley & Lardner, LLP, San Francisco, 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, the Indenture, the Loan Agreement 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 the 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 are no actions, suits or proceedings which have been served on the Corporation or, to the Corporation's knowledge, are otherwise pending or threatened against the Corporation; (i) seeking to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Indenture or the payment of Loan Payments; (ii) in any way contesting or adversely affecting the authority for the issuance of the Bonds or the validity of the Bonds, the Indenture, or the Loan Agreement; (iii) contesting the existence or powers of the Corporation; (iv) which, if determined adversely to it, would materially adversely affect the consummation of the transactions contemplated by the Loan Agreement or the ability of the Corporation to perform its obligations thereunder; or (v) contesting the Corporation's status as an organization described in Section 501(c)(3) of the Code. See also Appendix A—"INFORMATION CONCERNING THE CORPORATION."

## **UNDERWRITING**

The Bonds are being purchased by Banc of America Securities LLC (the “Underwriter”). Pursuant to the purchase contract with respect to the Bonds, the Underwriter will agree, subject to certain conditions, to purchase the Series A Bonds from the Authority at an aggregate price of \$16,382,460 (being the principal amount of the Series A Bonds of \$16,440,000, less an underwriter’s discount of \$57,540), and to purchase the Series B Bonds from the Authority at an aggregate price of \$11,728,805 (being the principal amount of the Series B Bonds of \$11,770,000, less an underwriter’s discount of \$41,195). The Underwriter is obligated under the purchase contract to purchase all of the Bonds if any are purchased.

## **REMARKETING AGREEMENT**

The Corporation will enter into a Remarketing Agreement with Banc of America Securities LLC pursuant to which Banc of America Securities LLC will act as Remarketing Agent for the Bonds. Pursuant to the Remarketing Agreement, the Remarketing Agent will agree to perform its duties and obligations under the Indenture and the Remarketing Agreement and to use its best efforts to remarket the Bonds tendered or deemed tendered for purchase pursuant to the Indenture. The obligations of the Remarketing Agent to remarket the Bonds are subject to the terms and conditions of the Remarketing Agreement.

## **CERTAIN RELATIONSHIPS**

Banc of America Securities LLC, the Underwriter and Remarketing Agent, and Bank of America, N.A., the Bank and the Swap Provider under the Swap Agreement, are affiliates, both being subsidiaries of Bank of America Corporation.

## **NO CONTINUING DISCLOSURE**

The Corporation has undertaken all responsibilities for any continuing disclosure to Bondholders as described below.

The Corporation will not, while the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, undertake any continuing disclosure obligations with respect to the Bonds. The Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended or any disclosure by the Corporation.

While bearing interest at a Weekly Interest Rate or the Daily Interest Rate, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12, pursuant to the exemptions provided in paragraph (d)(1) of Rule 15c2-12. So long as the Bonds and the remarketing thereof satisfy the exemptions provided in paragraph (d)(1) of Rule 15c2-12, no future information or disclosure will be provided by the Authority, the Corporation or the Bank.

## **RATINGS**

Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “Aaa/VMIG-1” to the Bonds, based on assurance that payment of principal and Purchase Price of, and interest on, the Bonds will be payable from the proceeds of draws on the Letter of Credit. Any explanation of the significance of such rating may only be obtained from Moody’s. 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 the rating might not be lowered or withdrawn entirely, if in the judgment of Moody’s, circumstances so warrant. Except as otherwise provided in the Continuing Disclosure Agreement, the Authority, the Corporation, and the Underwriter have not undertaken any responsibility to bring to the attention of the Bondholders any proposed change in or withdrawal of a rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the Bonds.

## **FINANCIAL STATEMENTS**

The statement of financial position of the Corporation as of June 30, 2008, and the related statements of activities and of cash flows for the year then ended, and the report dated October 3, 2008 of Armanino McKenna LLP, independent accountants (the “Auditor”), are included in this Official Statement as Appendix B. In connection with the inclusion of the financial statements and the report of the Auditor thereon in Appendix B to this Official Statement, the Corporation did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report. The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

## **MISCELLANEOUS**

All quotations from and summaries and explanations of the Act, the Indenture, the Loan Agreement and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies of the Indenture and the Loan Agreement may be obtained upon request directed to the Underwriter or the Corporation and upon payment of the expenses incurred in connection therewith.

Any statements in this Official Statement involving matters of opinion 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 or the Corporation and Holders of any of the Bonds. Appendices A and B hereto contain certain information with respect to the Corporation. The information contained in such Appendices has been furnished by the Corporation and officers and officials of the Corporation, and the Authority makes no representation or warranties whatsoever with respect to the information contained in said Appendices.

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.

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

**ABAG FINANCE AUTHORITY FOR  
NONPROFIT CORPORATIONS**

By: \_\_\_\_\_ /s/ Joseph Chan  
Chief Financial Officer

This Official Statement and the delivery thereof have been duly approved and authorized by the Corporation.

**SCHOOLS OF THE SACRED HEART – SAN  
FRANCISCO**

By: \_\_\_\_\_ /s/ Terry K. Betterly  
Director of Finance and Operations

## APPENDIX A

### INFORMATION CONCERNING THE CORPORATION

*The information provided in this Appendix A has been provided by the Corporation and no representation is made by the Authority, the Underwriter, or the Trustee as to its accuracy or completeness.*

#### HISTORY AND BACKGROUND

Schools of the Sacred Heart - San Francisco (the "*Corporation*") is a California nonprofit public benefit corporation that owns and operates the Schools of the Sacred Heart in the Pacific Heights neighborhood of San Francisco, California. These independent, single-sex schools include Convent of the Sacred Heart Elementary School ("*Convent Elementary*"), Convent of the Sacred Heart High School ("*Convent High School*"), Stuart Hall for Boys, and Stuart Hall High School (collectively, the "*Schools*"). Convent Elementary (for girls in grades K-8) and Convent High School (for girls in grades 9-12) were founded by the Religious of the Sacred Heart in 1887 and have operated continuously since that time. Stuart Hall for Boys (for boys in grades K-8) was established in 1956 and Stuart Hall High School (for boys in grades 9-12) opened in Fall 2000.

The Schools are part of a worldwide network of approximately 200 Sacred Heart schools and colleges, including the 22 members of the Network of Schools of the Society of the Sacred Heart in the United States (the "*Network of Sacred Heart Schools*").

As of October 24, 2008, Convent Elementary, Convent High School, Stuart Hall for Boys, and Stuart Hall High School had a combined enrollment for 2008-09 of approximately 1,067 students. Despite operating at full capacity, the Schools maintain low average class sizes and favorable student-to-teacher ratios. The average class size for both Convent Elementary School and Stuart Hall for Boys is 19 per class. Student-to-teacher ratios in both elementary schools are approximately 8:1. Convent High School and Stuart Hall High School have an average class size of 15 students, with a student-to-teacher ratio of approximately 7:1.

The Corporation's administrative offices are located on both its Broadway campus at 2222 Broadway and its Pine/Octavia campus at 1911 Pine Street.

#### PURPOSE AND PHILOSOPHY

The primary objectives and purposes of the Corporation are the maintenance and operation of the Schools of the Sacred Heart in San Francisco and the provision of elementary and secondary school education consonant with the educational mission of the Network of Sacred Heart Schools.

The Schools strive to offer an education that is marked by a distinctive spirit. Sacred Heart schools are committed to the individual student's total development: intellectual,

emotional, physical, and spiritual. Sacred Heart schools emphasize serious study, social responsibility, and growth grounded in faith. Sacred Heart schools commit themselves to educate to five goals: a personal and active faith in God; a deep respect for intellectual values; a social awareness which impels to action; the building of a community as a Christian value; and personal growth in an atmosphere of wise freedom. The schools admit students who come from many religious faiths. No preference in admission is given to applicants of any particular religious tradition.

Now in their second century, the Schools are among the oldest and largest independent schools in California and comprise the only Northern California institution to offer single-sex classroom education while maintaining a co-educational campus.

BOARD OF TRUSTEES

The Corporation is governed by a self-perpetuating board of trustees (the “*Board of Trustees*” or the “*Board*”) with 21 to 37 trustees, as determined by the Board. The Director of Schools and the president of the Schools’ Parents’ Association are *ex-officio* trustees with voting rights, while the remaining trustees are nominated by a Board-appointed nominating committee and elected by a majority vote of the Board. Elected trustees serve an initial three-year term, and thereafter may be reelected to one additional three-year term and up to three one-year terms (i.e., a total of nine successive years).

The business and affairs of the Corporation are managed, and all corporate powers are exercised, by or under the direction of the Board. Among other responsibilities, the Board selects and removes the Corporation’s Director of Schools.

The following table sets forth the current members of the Board of Trustees:

NAME	SERVICE FROM	OCCUPATION
Michela Alioto-Pier	2005	Member, San Francisco Board of Supervisors
Francine Nunley Anthony <i>Chair, Inclusion Committee</i>	2004	Director, IBM
John Balen <i>Chair, Strategic Planning Committee</i>	2004	General Partner, Canaan Partners
Joseph F. Bertain <i>Chair, Building and Grounds Subcommittee</i>	2003	Partner and Co-Owner, Bertain Properties
Katie Budge <i>Chair, Advancement Committee and Secretary of the Corporation</i>	2002	Volunteer
Todd Carter	2003	President and Chief Executive Officer, GCA Savvian
Leslie Davis <i>Chair, Budget Process Committee</i>	2004	Vice President of Finance, United Behavioral Health
Carol Doll	2005	President, Dixon and Doll Family Foundation, Speech and Hearing Therapist
Kathleen Dolan, RSCJ	2004	Teacher, St. Joseph’s School of the Sacred Heart
Irene Figari	2006	Employee, Genentech

NAME	SERVICE FROM	OCCUPATION
Nancy Bolmeier Fisher <i>President, Parent Association</i>	2007	Parent Volunteer
Juli Flynn <i>Co-Chair, Campaign Committee</i>	2006	Family Law Attorney
Jason Fish	2005	Meritage Group L.P.
Sarah Gallivan <i>Chair, Committee on Trustees</i>	2004	Parent Volunteer
Keith Giarman	2008	Executive Search Consultant, DHR International
John Greer <i>Chair, Positioning Committee</i>	2008	Marketing Executive, Franklin Templeton
John Hurley <i>Chair, Director's Compensation/Evaluation Committee</i>	2004	Managing Partner, Cavalry Asset Management
John Linehan <i>Chair, Board of Trustees and Vice President of the Corporation</i>	2003	Managing Director, Linehan Consulting
Gerald McGovern <sup>1</sup> <i>Chair, Audit Committee</i>	2004	Partner, Sidley Austin LLP
Donald MacLean <i>Chair, Facilities Planning Committee</i>	1998	Owner, Donald S. MacLean Incorporated (general engineering contractor)
Robert B. Morris III	2003	Retired
Virginia Murillo	2005	Retired
Joseph Niehaus <i>Chair, Business and Finance Committee</i>	2006	General Partner, Housatonic Partners
Tricia O'Brien	2007	Mortgage Banking and Author
Claire Pesiri	2000	Homemaker
Jerrold "Jerry" Petruzzelli <i>Chair, Bond Sub-Committee</i>	2004	Partner, Manatt Phelps & Phillips LLP
Karen Phillips	2007	Parent Volunteer
Fr. Stephen Privett, SJ	2006	President, University of San Francisco
Sr. Barbara Quinn, RSCJ	2007	Educator, University of San Diego
Sr. Martha Roughan	2008	Sacred Heart Educator
Michelle Growney Syufy	2008	Film Producer
Gary Tom <i>President, Alumni Association</i>	2006	Controller for Berkeley Heartlab, Inc.
Alyce Werdel	2008	Legal Consultant

#### SENIOR ADMINISTRATION

The Director of Schools, with the assistance of the Corporation's other senior administrative officers, conducts the day-to-day activities and affairs of the Corporation, subject to such policies as may be adopted and such orders as may be issued by the Board. The following are brief professional biographies of the Corporation's senior administrative officers.

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<sup>1</sup> Sidley Austin LLP is serving as bond counsel to the Authority in connection with the issuance of the Bonds.

**Pamela Hayes, *Director of Schools.*** Ms. Hayes has been the Director of Schools since 2000. Prior to such time, she was the Head of Convent Elementary from 1996 to 2000. Prior to serving as Head of Convent Elementary, she was Head of the Middle School at Schools of the Sacred Heart in Greenwich, Connecticut. Ms. Hayes received her B.A. degree in 1968 from Briarcliff College and her M.A.T. degree from Manhattanville College.

**Sr. Anne Wachter, *Head, Convent Elementary.*** Sr. Wachter has been Head of Convent Elementary since 2000. Prior to her current position with Convent Elementary, she was involved at other Sacred Heart schools in admissions, public relations, and administration of a high school boarding program, and also as a teacher and coach. Sr. Wachter received her B.B.A. degree in 1984 from St. Mary's College, Notre Dame and her M.A. degree in 1997 from the University of San Francisco.

**Andrea Shurley, *Head, Convent High School.*** Mrs. Shurley was named Head of Convent High School effective as of July 1, 2008. Prior to this she had been at Stuart Hall High School since 2001, initially as Academic Coordinator. She was promoted to Dean of Studies in 2004. Prior to joining Stuart Hall High School, Mrs. Shurley worked in the private sector primarily as curriculum designer, facilitator and project manager. She earned her undergraduate degree and her M.A. in English from Texas State University. She is currently pursuing a doctoral degree in Catholic Education Leadership from the University of San Francisco.

**Jaime A. Dominguez, *Head, Stuart Hall for Boys.*** Mr. Dominguez was named Head of Stuart Hall for Boys beginning with the 2005-06 academic year. He was Middle School Assistant Principal at the American (K-12) School in London, England, for eight years before accepting his current position. Mr. Dominguez graduated with a B.A. (*cum laude*) in Biology from Princeton University and holds an M.A. in Educational Administration from Michigan State University. He began his career in education teaching in New York City and later in Austin, Texas.

**Gordon Sharafinski, *Head, Stuart Hall High School.*** Mr. Sharafinski is the founding Head of Stuart Hall High School. Prior to such time, he was the Principal of Marquette University High School in Milwaukee, Wisconsin. Mr. Sharafinski received his B.A. in 1967 from St. Mary's University in Minnesota and his Masters in Teaching from the University of St. Thomas in St. Paul, Minnesota.

**Pamela Thorp, *Director of Admissions.*** Ms. Thorp has been the Schools' Director of Admissions since 1992. Prior to 1992, Ms. Thorp served as the Schools' Assistant Director of Admissions from 1989 to 1992 and as a secretary for Convent High School from 1988 to 1989. Ms. Thorp received her B.A. degree in 1971 from San Francisco State University and has a California Standard Teaching Credential.

**Mary Rhoades, *Director of Advancement.*** Ms. Rhoades assumed her present position as Director of Advancement in July 2006 after serving as Interim Director of Development and Alumni Relations in 2005-06. She has a long history at Schools of the Sacred Heart, having served as Special Events Coordinator and a valued member of the Central Services team since 2001. Prior to that time, in a volunteer capacity, Ms. Rhoades was President of the Parents

Association, Celebrate Spring Chair for both 1999 and 2000, and Class Parent. Her background and prior work experience is in accounting and marketing.

**Terry Kenneth Betterly, *Director of Finance and Operations*.** Mr. Betterly has been the Director of Finance and Operations since 1995. Prior to such time, Mr. Betterly spent more than 20 years as a commercial loan officer. Among other positions, he served as a Vice President and Commercial Loan Officer for First Pennsylvania Bank in Philadelphia, Pennsylvania and as a Vice President and Manager of the Loan Review Department for Central Jersey Bank in Freehold, New Jersey. Mr. Betterly received his B.A. degree in English from Ursinus College in Collegeville, Pennsylvania.

#### ACCREDITATION, LICENSURE, AND MEMBERSHIPS

The Schools are accredited by the California Association of Independent Schools, the Western Association of Schools and Colleges, and the Western Catholic Education Association. The joint accreditation by these associations was most recently completed in May 2005; the accreditation process is done every six years. In addition, Convent High School was designated a Blue Ribbon School by the United States Department of Education in both the 1992-93 and 1997-98 academic years.

Certain of the Schools are members of the National Association of Independent Schools; the Association for Supervision and Curriculum Development; the National Association of College Admissions Counselors; Boys' Schools: An International Coalition; and the National Coalition of Girls' Schools.

#### FACULTY

The Corporation currently employs approximately 145 full-time equivalent faculty members at the Schools. The combined student-teacher ratio at Convent Elementary and Stuart Hall for Boys is approximately 8:1, with an average class size of 19 students. The combined student-teacher ratio at Convent High School and Stuart Hall High School is approximately 7:1, with an average class size of 15 students. The following table sets forth the average number of full-time equivalent faculty members at the Schools for the past five academic years.

#### **SCHOOLS OF THE SACRED HEART - SAN FRANCISCO FULL-TIME EQUIVALENT FACULTY**

ACADEMIC YEAR	FACULTY (FULL-TIME EQUIVALENTS)
2003-04	143.3
2004-05	142.5
2005-06	145.1
2006-07	146.6
2007-08	144.7

The Schools' faculty members have an average teaching experience of approximately 15 years, with an average of approximately 9 years at the Schools. More than 53% of the faculty hold masters or doctorate degrees. Every member of the faculty holds an appropriate degree or credential for the subject taught. The median salary for a teacher at the Schools is approximately \$65,100, which is comparable to other private schools in the area. In addition to a salary, teachers also receive a comprehensive benefits package that includes health and dental insurance, life insurance, and a qualified retirement plan.

The Corporation does not grant tenure status for faculty. No faculty members are represented by unions. The Corporation works collaboratively with faculty and considers its relations with faculty to be good.

#### STAFF

The Corporation currently employs approximately 45 full-time equivalent administrative staff, most of whom are employed in the Corporation's Central Services departments: the Director's Office; the Business Office; and the Offices of Advancement and Admissions. These departments serve all four Schools. The Corporation considers its relations with administrative staff to be good.

#### RETIREMENT PLAN

The Corporation has an Employer Contributory Tax Deferred Annuity Plan (the "*Plan*") as established under Internal Revenue Code Section 403(b). Benefits are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association and by variable annuities offered by the affiliated organization, the College Retirement Equities Fund. The Corporation serves as the administrator of the Plan. The Corporation contributes 5.0% (or 6.0% for employees with 21 or more years of service) of eligible employee's annual base compensation to the Plan. To be a participant in the Plan, an employee must be at least 21 years old, work a minimum of 20 hours per week and have completed one year of full-time service at any qualified educational institution. Total pension expense amounted to \$641,627 and \$617,763 for the years ended June 30, 2008 and 2007, respectively.

#### EXISTING FACILITIES AT BROADWAY CAMPUS

Convent Elementary, Stuart Hall for Boys, and Convent High School are located on Broadway, between Fillmore and Webster Streets, in the Pacific Heights neighborhood of San Francisco. The Broadway campus includes seven buildings with a combined total of approximately 185,000 gross square feet of space. Students enjoy the use of two state-of-the-art computer labs, two libraries, a theater, and a gymnasium. The Broadway facilities include an adjoining five-unit apartment building, one unit of which houses the administrative staff of Stuart Hall for Boys. Following is a brief description of the facilities at the Broadway campus.

**2222 Broadway (Flood Mansion)** - a three-story, approximately 46,000 square-foot Tennessee marble and granite building with a steel and concrete foundation. The Flood Mansion

was built in 1915 as a residence of James Leary Flood, son of James C. Flood, known as the Comstock King. Built in the Italian Renaissance Revival style, the Flood Mansion includes many unique architectural and ornate elements. The building, which was gifted to the Corporation in 1939, houses Convent High School, the Admissions Department, a theater, a computer lab (completed in 1999), a library, a faculty lounge, classrooms, a student center, and a dining room and chapel. The Flood Mansion has been designated as architecturally significant by the City and County of San Francisco.

**2200 Broadway (Grant House)** - a three-story, approximately 25,000 square-foot brick and granite building. This Parisian Town House was built in 1906 as a residence for Joseph D. Grant, president of the Columbia Steel Corporation, and was purchased by the Corporation in 1948. The Corporation spent approximately \$1.1 million to seismically upgrade the Grant House in 1992. The building houses Convent Elementary and includes a computer lab and library (which serve both elementary schools), classrooms, a science lab, a faculty lounge, the office of the Head of Convent Elementary, and the Corporation's archives. The Grant House has been designated as architecturally significant by the City and County of San Francisco.

**2252 Broadway (Stuart Hall for Boys)** - a three-story, approximately 17,000 square-foot brick and concrete building. This English Georgian Revival building was erected around 1905 as a residence for Andrew B. Hammond, a lumber and railroad millionaire. It was purchased by the Corporation in 1956 to house the newly formed Stuart Hall for Boys and is currently undergoing a seismic retrofit and complete reconfiguration. Upon completion of the retrofit, the building will contain 12 classrooms, a faculty lounge and administrative offices. The Stuart Hall for Boys building has been designated as architecturally significant by the City and County of San Francisco. See "THE STUART HALL FOR BOYS RETROFIT PROJECT."

**Stuart Hall Annex (the Midlands)** - a two-story, approximately 4,500 square-foot concrete and steel building. This building was constructed by the Corporation in 1963 at a cost of \$120,000 and was expanded and improved in 1978 at an additional cost of \$152,000. Located directly behind Stuart Hall for Boys, the building contains two classrooms on each floor. The upper floor contains two kindergarten classrooms for Stuart Hall for Boys; the lower floor contains its two first grade classrooms. This building also provides an outdoor, rooftop basketball court.

**2201 Broadway (Herbst House)** - a three-story, approximately 10,000 square-foot brick building. The Herbst House was constructed as a residence in 1915 and was purchased by the Corporation in 1987 for approximately \$1.1 million. The building was completely renovated and seismically upgraded at the time of purchase at an additional cost of \$1.2 million. The building provides classroom space for the middle grades of both Convent Elementary and Stuart Hall for Boys. The ground floor provides two classrooms for Stuart Hall for Boys. The upper floors include classrooms for Convent Elementary, the office of the Middle Form Dean, a computer workstation for students and faculty, and some administrative offices.

**The Herbert Center (Gymnasium)** - a two-story, approximately 12,000 square-foot steel and concrete building located directly behind the Flood Mansion. Completed in 1994 at a cost of \$4.2 million, the Herbert Center gymnasium serves the entire Broadway campus. It

includes a regulation basketball court, a mezzanine running track, two athletic offices, three storage lockers, two classrooms, and a multipurpose room. The roof of the gymnasium was finished to provide a protected, outdoor play area including four basketball backboards.

**2255 - 2263 Vallejo Street (Vallejo Apartments)** - a five-unit apartment complex constructed in 1909 and purchased by the Corporation in 1960. Four units are currently rented to other users and the fifth unit houses Stuart Hall for Boys' administrative staff. Four of the units are two-story, four-bedroom, two-bath units and one unit is a two-bedroom unit.

**2201 Vallejo Street (Siboni Arts and Science Center)** – a five-story Arts and Science Building financed at a total cost of approximately \$16.6 million, partially with capital campaign contributions and partially with proceeds of tax-exempt bonds, and opened for classes in 2005. This facility has approximately 42,000 square feet of space, housing classrooms, science laboratories, art studios, music and drama classrooms, a 350-seat auditorium and lecture hall, and a student center.

#### EXISTING FACILITIES AT STUART HALL HIGH SCHOOL

Stuart Hall High School is located at the corner of Octavia Street and Pine Street, approximately one-half mile from the Broadway campus. The Stuart Hall High School facilities are designed to accommodate up to 210 boys. Following is a brief description of the existing facilities.

**1715 Octavia Street.** This site, which the Corporation purchased from the Archdiocese of San Francisco in May 2000 for \$2.0 million, houses Stuart Hall High School. The property includes a structure original to the site that houses the library, computer lab, auditorium and stage, and classrooms. A new three-story steel and concrete addition was constructed that incorporated the original structure to form the present high school building. The original structure was completely renovated to current building code, as was the new construction, for a combined 41,000 square feet of space. The new construction, built around an open courtyard, includes a reception area, offices for the head of Stuart Hall High School and two deans, a faculty lounge and workspace, and classrooms. A regulation-sized gymnasium was constructed entirely underground beneath the open courtyard. The site also includes 12 off-street parking spaces.

**1907-09 Pine Street.** The Corporation purchased this site from the Archdiocese of San Francisco in October 1998 for \$700,000. Built in 1859, the building's facade was preserved and the building was integrated into the high school construction. It houses classrooms and administrative offices.

**1911 Pine Street.** The Corporation purchased this site from the Archdiocese of San Francisco in October 1998 for \$1,000,000 and it is developed with a three-story, approximately 8,000 square-foot Victorian building. Built in 1879, it has been preserved by the Corporation and houses administrative offices (currently the Advancement Office, the Director of Schools' office, the Business office, and the Parents' Association). The building has been seismically

upgraded, and some interior improvements and restoration have been carried out. The building also functions as a meeting place.

#### THE STUART HALL FOR BOYS RETROFIT PROJECT

In June 2006, engineering tests associated with ordinary structural repairs to Stuart Hall for Boys uncovered a potential seismic risk, relative to current earthquake safety standards. As a result, the Corporation decided to undertake seismic retrofitting of the building. The retrofit commenced in June 2007 and has an anticipated completion date of May 2009 and an anticipated move-in date of August 2009. The interior of the Stuart Hall for Boys building has been gutted; the structure has been seismically retrofitted (exceeding current San Francisco code requirements); and the interior space is in the process of being reconfigured to better accommodate students and faculty. Some of the original features of the current lobby will be preserved and incorporated into the reconfiguration, which will provide full accessibility and appropriately-sized classrooms. Since these modifications will reduce the classroom count in the original building from 14 to 12, two new classrooms were constructed in the common area known as the Midlands, adjoining the current kindergarten classrooms. Construction of the two new classrooms, was completed in early August 2008 and the classrooms are now in use. During construction, students are attending classes at the Broadway campus in temporary classroom facilities.

The total cost of the project is estimated at \$16.0 million. The improvements are expected to be funded primarily from the proceeds of the Series 2007B Bonds and Campaign IV, Framework for the Future. (See “FUNDRAISING CAMPAIGNS” below.) As is discussed in more detail under “Fundraising Campaigns” below, Campaign IV, Framework for the Future has an approximately \$30.0 million goal for both funding the Stuart Hall for Boys project and the addition to the Schools’ endowment. The project will not result in increased enrollment at the three Broadway schools. The contractor agreement for the project was negotiated as a guaranteed maximum price contract with the contractor at a total price of \$10,752,130, based on permit drawings.

#### APPLICATIONS, ACCEPTANCES AND ADMISSIONS

The Schools’ students are drawn from diverse geographical, economic, ethnic, and racial backgrounds. Students of color represent approximately 30% of the student body. The majority of the students, 84%, reside in San Francisco, with the remainder drawn from the surrounding counties, including representation from Marin, Alameda, and San Mateo counties.

The following table shows a six-year history of applications, acceptances, and enrollments for the Schools.

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**SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
APPLICATIONS, ACCEPTANCES, AND ENROLLMENTS**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
<b>CONVENT ELEMENTARY SCHOOL</b>						
Applications Received	198	150	186	152	192	165
Acceptances	86	89	96	63	66	81
New Enrollment	53	56	64	44	50	55
Not Returning <sup>1</sup>	18	21	14	14	13	15
Total Enrollment	334	336	349	346	351	353
Acceptance/Applications (Selectivity)	43.4%	59.3%	51.6%	41.4%	34.4%	49.1%
New Enrollment/Acceptances (Matriculation)	61.6%	62.9%	66.7%	69.8%	75.8%	67.9%
Not Returning/Total Enrollment (Attrition)	5.4%	6.3%	4.0%	4.0%	3.7%	4.2%
<b>STUART HALL FOR BOYS</b>						
Applications Received	167	187	178	139	171	173
Acceptances	77	77	89	70	73	73
New Enrollment	42	46	55	49	49	53
Not Returning <sup>1</sup>	19	13	11	16	14	18
Total Enrollment	317	320	333	329	339	345
Acceptance/Applications (Selectivity)	46.1%	41.2%	50.0%	50.4%	42.7%	42.2%
New Enrollment/Acceptances (Matriculation)	54.5%	59.7%	61.8%	70.0%	67.1%	72.6%
Not Returning/Total Enrollment (Attrition)	6.0%	4.1%	3.3%	4.9%	4.1%	5.2%
<b>CONVENT HIGH SCHOOL</b>						
Applications Received <sup>2</sup>	219	179	164	161	200	211
Acceptances <sup>2</sup>	135	114	121	138	150	140
New Enrollment <sup>2</sup>	47	48	46	55	57	49
Re-Enrolls <sup>3</sup>	15	13	14	11	7	8
Not Returning <sup>1</sup>	9	13	9	7	6	8
Total Enrollment	204	204	217	223	224	208
Acceptance/Applications (Selectivity)	61.6%	63.7%	73.8%	85.7%	75.0%	66.4%
New Enrollment/Acceptances (Matriculation)	34.8%	42.1%	38.0%	39.9%	38.0%	35.0%
Not Returning/Total Enrollment (Attrition)	4.4%	6.4%	4.1%	3.1%	2.7%	3.8%
<b>STUART HALL HIGH SCHOOL</b>						
Applications Received <sup>4</sup>	164	153	114	126	154	180
Acceptances	118	111	99	116	117	137
New Enrollment	46	48	34	50	48	51
Re-Enrolls <sup>5</sup>	7	2	4	1	3	7
Not Returning <sup>5</sup>	14	10	13	1	9	14
Total Enrollment	164	172	159	164	159	163
Acceptance/Applications (Selectivity)	72.0%	72.5%	86.8%	92.1%	76.0%	76.1%
New Enrollment/Acceptances (Matriculation)	39.0%	43.2%	34.3%	43.1%	41.0%	37.2%
Not Returning/Total Enrollment (Attrition)	8.5%	5.8%	8.2%	4.3%	5.7%	8.6%

<sup>1</sup> Does not include students who have graduated.

<sup>2</sup> Includes Convent Elementary graduates who applied through regular application process.

<sup>3</sup> Represents students who graduated from Convent Elementary.

<sup>4</sup> Includes Stuart Hall for Boys graduates who applied through regular application process.

<sup>5</sup> Represents students who graduated from Stuart Hall for Boys.

## COMPETITION

The following table lists the major private elementary and secondary schools in San Francisco and proximate areas that management has identified as the Schools' major competitors and sets forth the approximate annual tuition and enrollment levels for such schools for the 2008-09 academic year. Management believes that each of these schools is experiencing full enrollment.

### SCHOOLS OF THE SACRED HEART - SAN FRANCISCO COMPETING PRIVATE SCHOOLS AND COMPARISON OF TUITION<sup>1</sup> AND ENROLLMENT

<u>SCHOOL</u>	<u>LOCATION</u>	2008-09 ENROLLMENT		2008-09 TUITION	
		<u>K-8</u>	<u>9-12</u>	<u>K-8</u>	<u>9-12</u>
Schools of the Sacred Heart	San Francisco	695	372	\$21,600	\$29,200
The Hamlin School	San Francisco	404	--	22,475	--
San Francisco Day School	San Francisco	400	--	22,310	--
Town School for Boys	San Francisco	400	--	22,570	--
Katherine Delmar Burke	San Francisco	413	--	22,765	--
Cathedral School for Boys	San Francisco	245	--	21,900	--
Head Royce School	Alameda County	457	341	20,475	27,000
St. Ignatius College Prep.	San Francisco	--	1,400	--	14,770
University High School	San Francisco	--	389	--	29,750
Urban School	San Francisco	--	352	--	29,400
Lick-Wilmerding	San Francisco	--	440	--	30,700

<sup>1</sup> Average.

## TUITION

The Schools' tuition rates are determined during the budgeting and planning process in conjunction with an analysis of projected expenses and revenues necessary to satisfy such expenses and long-range capital and growth strategies. Tuition rates at the Corporation's Schools for the last five years have been increasing at approximately 7% per year. The table below indicates the tuition rates for the Schools over the last five years and for the current year.

**SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
ANNUAL TUITION**

<u>ACADEMIC YEAR</u>	<u>K-4</u>	<u>5-8</u>	<u>9-12</u>
2003-04	\$15,365	\$15,715	\$19,975
2004-05	16,825	17,205	22,475
2005-06	17,450	17,850	23,500
2006-07	18,850	19,450	26,300
2007-08	20,200	20,500	27,800
2008-09	21,600	21,600	29,200

**RISK MANAGEMENT**

The Corporation currently maintains a full complement of insurance that takes into account the needs and special circumstances of the Corporation as an educational institution. This insurance includes (a) buildings and business personal property insurance in the amount of \$81.1 million (on a blanket basis), (b) commercial general liability insurance in the aggregate amount of \$3 million, (c) excess liability insurance in the amount of \$25 million for bodily injury, personal injury, and property damage in excess of underlying policies, (d) board of education liability insurance (including educators' error or omission liability) of \$25 million, and (e) additional excess liability insurance for educator's and general liability of \$15 million. The Corporation's insurance does not cover damage or loss due to earthquakes. The Corporation also maintains workers' compensation and employers' liability, business income, automobile, and crime insurance policies.

**LITIGATION**

In the ordinary course of its business, the Corporation has been a party to certain actions, arbitration, suits, and proceedings. There are no pending or threatened actions at this time.

**FUNDRAISING CAMPAIGNS**

**Campaign IV – Framework for the Future**

The silent phase of Framework for the Future, also known as Campaign IV, began in September 2007 to generate funds for all lawful purposes of the Corporation, including the seismic upgrade and retrofit of the Stuart Hall for Boys building (\$16.0 million) and for endowment growth (\$14.0 million), for a total campaign goal of \$30.0 million. As of September 2008, the silent phase of the campaign had received pledges totaling approximately \$11.2 million, of which approximately \$6.3 million has been collected. The pledges receivable total includes \$2.1 million in pledges to the endowment.

The Corporation has appointed its former Donor Relations Director as the Campaign Director. This individual had previously supervised all non-annual fund giving programs. A

Campaign Associate has been hired to support the Campaign Director. Brakeley Briscoe, Inc. has been retained by the Corporation for strategic guidance during the final months of the silent phase and for assistance in preparing for the public phase of Campaign IV.

Campaign IV, Framework for the Future, represents the Corporation's first major fundraising campaign since 1998-2003 when the Corporation raised \$16.5 million to fund the acquisition, construction, and renovation of Stuart Hall High School and the construction of the Siboni Arts and Science Center.

#### FINANCIAL AID

The Corporation provides tuition assistance to students based on economic need. Financial awards are made independent of admission decisions. For the 2007-08 academic year the Corporation provided \$3.4 million in assistance to 252 students (excluding the children of faculty and staff), with an average of \$13,370 per assisted student. For the 2008-09 academic year the Corporation has provided \$3.3 million in assistance to 228 students (excluding the children of faculty and staff), with an average of \$14,650 per assisted student.

#### FINANCIAL CONDITION OF THE CORPORATION

***Financial Statements.*** The Corporation's audited financial statements for the fiscal year ended June 30, 2008 (with comparative totals for the fiscal year ended June 30, 2007), including Notes thereto, are included as Appendix B to the Official Statement. The Corporation maintains its accounts in accordance with generally accepted accounting principles as applied to educational institutions. See Appendix B – "FINANCIAL STATEMENTS OF THE CORPORATION."

***Summary of Financial Results.*** In addition to the financial statements presented in Appendix B, set forth on the following page are (a) statements of activities and changes in net assets for the Corporation for the years ended June 30, 2006, 2007 and 2008 and (b) summary statements of financial position of the Corporation as of June 30, 2006, 2007 and 2008. These summary statements for each of the three fiscal years ended June 30, 2006, 2007 and 2008 were derived from the Corporation's audited financial statements.

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**SCHOOLS OF THE SACRED HEART - SAN FRANCISCO**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Revenue, gains and support			
Tuition and fees	\$21,248,432	\$23,601,910	\$25,293,610
Less School funded financial aid	<u>(3,038,507)</u>	<u>(3,877,740)</u>	<u>(3,935,792)</u>
Net tuition and fees	18,209,925	19,724,170	21,357,818
Contributions	2,437,534	5,667,990	8,811,705
Special events	1,318,693	1,311,328	1,119,267
Extension program	213,064	253,505	253,066
Investment income	542,996	724,429	1,016,414
Net realized gain (loss) on investments	135,783	544,043	(224,581)
Net unrealized gain (loss) on investments	933,005	1,461,864	(586,234)
Auxiliary enterprises	984,023	1,041,130	980,133
Other	97,852	127,630	186,437
Loss on Extinguishment of Debt	<u>        --</u>	<u>        --</u>	<u>(1,051,805)</u>
Total revenue, gains and support	24,872,875	30,856,089	31,862,220
Expenses			
Program			
Instruction	18,366,978	19,737,640	22,400,684
Institutional support	1,829,779	2,208,936	2,071,687
Extension program	<u>165,435</u>	<u>181,839</u>	<u>219,495</u>
Total program expenses	20,362,192	22,128,415	24,691,866
Auxiliary enterprises	623,349	511,636	531,373
Management and general	1,211,187	1,290,705	1,436,089
Fundraising	<u>1,241,584</u>	<u>1,545,895</u>	<u>1,656,667</u>
Total expenses	23,438,312	25,476,651	28,315,995
Change in net assets	1,434,563	5,379,438	3,546,225
Net assets at beginning of year	37,066,348	38,500,911	43,880,349
Net assets at end of year	<u>\$38,500,911</u>	<u>\$43,880,349</u>	<u>\$47,426,574</u>

**SCHOOLS OF THE SACRED HEART - SAN FRANCISCO**  
**STATEMENTS OF FINANCIAL POSITION**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
ASSETS			
Current assets			
Cash and equivalents	\$7,884,672	\$9,989,300	\$21,372,458
Tuition and fees receivable, net	119,714	171,638	116,176
Contributions receivable, current portion	475,722	231,423	2,040,998
Other assets	377,215	363,582	258,595
Investments	<u>7,550,782</u>	<u>9,803,171</u>	<u>6,069,021</u>
Total current assets	16,408,105	20,559,114	29,857,248
Non-current assets:			
Property and equipment, net	41,918,078	42,827,065	46,923,964
Restricted cash	779,695	779,695	2,417,751
Contributions receivable, net of current portion	62,553	1,276	1,907,663
Long-term investments	5,147,429	5,165,210	7,319,041
Deferred bond issuance costs, net	283,797	271,977	1,489,323
Total non-current assets	<u>48,191,552</u>	<u>49,045,223</u>	<u>60,057,742</u>
Total assets	<u>\$64,599,657</u>	<u>\$69,604,337</u>	<u>\$89,914,990</u>
LIABILITIES AND ASSETS			
Current liabilities			
Accounts payable and accrued expenses	\$2,400,678	\$2,565,428	3,585,753
Advance tuition payments	6,746,165	6,701,003	7,197,770
Interest Rate Swap Agreement	--	--	1,116,666
Capital lease obligation, current portion	137,236	146,108	122,704
Gift annuity liability, current portion	3,130	3,130	3,130
Bonds payable, current portion	<u>400,000</u>	<u>400,000</u>	<u>2,475,000</u>
Total current liabilities	9,687,209	9,815,669	14,501,023
Long-term liabilities			
Security deposits	9,200	5,900	5,900
Capital lease obligation, net of current portion	285,369	188,581	120,785
Gift annuity liability, net of current portion	16,968	13,838	10,708
Bonds payable, net of current portion	<u>16,100,000</u>	<u>15,700,000</u>	<u>27,850,000</u>
Total long-term liabilities	16,411,537	15,908,319	27,987,393
Total liabilities	26,098,746	25,723,988	42,488,416
Net assets			
Unrestricted	30,470,982	34,652,458	34,365,763
Temporarily restricted	2,882,500	4,062,680	5,741,770
Permanently restricted	<u>5,147,429</u>	<u>5,165,211</u>	<u>7,319,041</u>
Total net assets	38,500,911	43,880,349	47,426,574
Total liabilities and net assets	<u>\$64,599,657</u>	<u>\$69,604,337</u>	<u>\$89,914,990</u>

**Management's Discussion of Financial Results.** Unrestricted revenues and support increased 22.8% from \$24.1 million in fiscal year 2006 to \$29.6 million in fiscal year 2007, due primarily to increased tuition revenue and to campaign contributions as the school launched its current capital campaign. As a result, net cash provided by operating activities in fiscal year 2007 was \$5.2 million compared to \$2.9 million in fiscal year 2006. Total expenses increased

8.5% from \$23.4 million to \$25.4 million for the same periods, primarily due to increases in program-related expenses. Unrestricted Net Assets increased approximately \$4.2 million in fiscal year 2007 compared to \$710 thousand in fiscal year 2006.

The largest components of the increase in unrestricted revenues and support from fiscal year 2006 to fiscal year 2007 were increases in net tuition and fees and unrestricted fundraising revenue. During this period, net tuition and fees increased from \$18.2 million to \$19.7 million or approximately 8.2%. The majority of the increase can be attributed to tuition increases that averaged 9% in 2007. Unrestricted fundraising revenues (contributions and special events) increased from a combined \$2.9 million in fiscal year 2006 to \$6.1 million in fiscal year 2007. This can be attributed to the launching of the current capital campaign; the school recorded pledge payments of \$3.3 million. Revenue from the annual fund and special events declined slightly from \$2.9 million in 2006 to \$2.8 million in 2007. Unrestricted investment income (including realized gains on investments) increased from \$451 thousand in fiscal year 2006 to \$772 thousand in fiscal year 2007, largely due to improved market performance of the School's investment portfolio. Auxiliary enterprises provided additional net revenue of \$1.0 million in fiscal year 2007 primarily from renting school facilities and operating a thrift store.

Approximately 89% of the increase in total expenses from fiscal year 2006 to fiscal year 2007 was due to an increase in Program expenses (expenses directly related to carrying out the School's educational mission) from \$20.4 million to \$22.1 million. The increase resulted from an increase to faculty salaries that averaged 7.4% (this was in addition to the prior year's average increase in faculty salaries of 7.6%). The Corporation also implemented increases of 5.5% for all staff and administration to maintain those salaries at market levels. Special events and fundraising expenses increased from \$1.2 million in fiscal year 2006 to \$1.5 million in fiscal year 2007, reflecting staff salary increases and certain one-time expenditures for the school's conversion to the Blackbaud operating and accounting software and costs incurred for professional consulting/marketing services. Excluding these expenses, there was only a modest year-over-year increase.

Total revenues and support increased approximately \$1.0 million or 3.2% from \$30.9 million in fiscal year 2007 to \$31.9 million in fiscal year 2008. Net tuition and fee income increased \$1.6 million or 8.3% from \$19.7 million in fiscal year 2007 to \$21.4 million in fiscal year 2008. The increase was due primarily to tuition increases averaging 5.7% and an approximate 1.6% decrease in financial aid. Income from contributions and special events increased 42.3% from \$6.9 million in fiscal 2007 to \$9.9 million in fiscal 2008. This increase resulted primarily from campaign pledges of \$5.4 million (which includes pledges of \$2.1 million for endowment), annual fund giving of \$1.6 million, and special events fundraising of \$1.1 million. The school recorded a loss on investments of \$811 thousand, an approximate 5% decline due to current market conditions, versus a \$2.05 million gain in the prior fiscal year. The school also recorded a \$1.05 million loss on extinguishment of debt as a result of the refunding of the School's Series 2000A & B bonds in August 2007.

Total expenses increased \$2.8 million or 11.1% from \$25.5 million in fiscal year 2007 to \$28.3 million in fiscal year 2008. The increase reflects the 11.4% increase in program expenses, primarily salary increases averaging 4% in fiscal year 2008, and the increase in interest expense

from \$876 thousand in fiscal year 2007 to \$1.015 million in fiscal year 2008. The Corporation also recorded as interest expense the fair market value of its swap agreement on bonds payable of (\$1.12 million). Excluding this charge, expenses increased \$1.7 million or 6.6%

Net assets increased approximately \$3.5 million from \$43.9 million in fiscal year 2007 to \$47.4 million in fiscal year 2008. Net cash provided by operating activities was \$4.4 million in fiscal year 2008, slightly less than the \$5.2 million in fiscal year 2007.

Total assets increased \$20.3 million or 29.2% from \$69.6 million in fiscal year 2007 to \$89.9 million in fiscal year 2008. The increase can be attributed primarily to the \$12 million increase in cash and cash equivalents (which includes \$6.0 million in bond proceeds at fiscal year end 2008), and the \$4.1 million increase in net property and plant.

Total liabilities increased \$16.7 million or 65.2% from \$25.7 million in fiscal 2007 to \$42.5 million in fiscal 2008, primarily due to the increase in bond debt which equaled \$30.325 million in fiscal 2008 as compared to \$16.1 million in fiscal 2007.

***Investments of the Corporation.*** In December 2007, the Corporation engaged Makena Capital Management, LLC to manage the Corporation's endowment portfolio. Pursuant to the arrangement, the endowment funds (approximately \$14 million) are invested in a limited partnership interest (the "*Partnership Interest*") of Makena Capital Associates (U.S.), L.P. (the "*Makena Partnership*"). The Makena Partnership is structured as a single endowment pool whose stated primary purpose is to invest to maximize long-term, risk-adjusted returns and capital appreciation by investment in securities, investment funds, discretionary accounts and investment partnerships across a broad range of marketable and alternative asset classes. On or about March 31 of each year, the Corporation will be eligible for maximum annual cash distributions of not more than 5% of the Partnership Interest which has been held at least two years as determined as of the last day of the calendar year preceding the distribution. The first eligible date for distribution for the Corporation is March 31, 2010. The Corporation is entitled to withdraw all or any part of its Partnership Interest as of any December 31 or other date approved by Makena upon one year's written notice, but in no event may the Corporation withdraw any amount prior to two years from the date any Partnership Interest was invested. Makena is required to pay 90% of any amount withdrawn within 30 days of the withdrawal date and the remaining 10% promptly following completion of the Makena Partnership's annual audit for the calendar year of the relevant withdrawal date. The Corporation's right to withdraw capital is subject to various limitations including, among others, Makena's right to establish, in its reasonable judgment, reserves for estimated expenses, liabilities and contingencies and the Corporation's interests in certain investments which Makena designates at any time as illiquid or lacking a readily ascertainable fair market value.

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**APPENDIX B**  
**FINANCIAL STATEMENTS OF THE CORPORATION**

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**SCHOOLS OF THE SACRED HEART -**  
**SAN FRANCISCO**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

**Armanino McKenna** <sup>LLP</sup>  
Certified Public Accountants & Consultants



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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Schools of the Sacred Heart - San Francisco  
San Francisco, California

We have audited the accompanying statements of financial position of Schools of the Sacred Heart - San Francisco (the "Schools") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Schools' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schools as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Armanino McKenna LLP*

ARMANINO McKENNA LLP

October 3, 2008



SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
 Statements of Financial Position  
 June 30, 2008 and 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	\$ 21,372,458	\$ 9,989,300
Tuition and fees receivable, net	116,176	171,638
Contributions receivable, net, current	2,040,998	231,423
Other assets	258,595	363,582
Investments	<u>6,069,021</u>	<u>9,803,171</u>
Total current assets	<u>29,857,248</u>	<u>20,559,114</u>
Non-current assets		
Property and equipment, net	46,923,964	42,827,065
Restricted cash	2,417,751	779,695
Contributions receivable, net, noncurrent	1,907,663	1,276
Investments held for long-term purposes	7,319,041	5,165,210
Deferred bond issuance costs, net	<u>1,489,323</u>	<u>271,977</u>
Total non-current assets	<u>60,057,742</u>	<u>49,045,223</u>
 Total assets	 <u>\$ 89,914,990</u>	 <u>\$ 69,604,337</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 3,585,753	\$ 2,565,428
Advance tuition payments	7,197,770	6,701,003
Interest rate swap agreement	1,116,666	-
Capital lease obligation, current portion	122,704	146,108
Gift annuity liability, current portion	3,130	3,130
Bonds payable, current portion	<u>2,475,000</u>	<u>400,000</u>
Total current liabilities	<u>14,501,023</u>	<u>9,815,669</u>
Long-term liabilities		
Security deposits	5,900	5,900
Capital lease obligation, net of current portion	120,785	188,581
Gift annuity liability, net of current portion	10,708	13,838
Bonds payable, net of current portion	<u>27,850,000</u>	<u>15,700,000</u>
Total long-term liabilities	<u>27,987,393</u>	<u>15,908,319</u>
 Total liabilities	 <u>42,488,416</u>	 <u>25,723,988</u>
Net assets		
Unrestricted	34,365,763	34,652,458
Temporarily restricted	5,741,770	4,062,680
Permanently restricted	<u>7,319,041</u>	<u>5,165,211</u>
Total net assets	<u>47,426,574</u>	<u>43,880,349</u>
 Total liabilities and net assets	 <u>\$ 89,914,990</u>	 <u>\$ 69,604,337</u>

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

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Statement of Activities  
For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and support				
Tuition and fees	\$ 25,293,610	\$ -	\$ -	\$ 25,293,610
Less: financial aid	(3,935,792)	-	-	(3,935,792)
Net tuition and fees	<u>21,357,818</u>	-	-	<u>21,357,818</u>
Contributions	2,898,125	3,759,750	2,153,830	8,811,705
Special events	999,542	119,725	-	1,119,267
Extension program	253,066	-	-	253,066
Investment income	897,477	118,937	-	1,016,414
Net realized loss on investments	(97,074)	(127,507)	-	(224,581)
Net unrealized loss on investments	(250,827)	(335,407)	-	(586,234)
Auxiliary enterprises	980,133	-	-	980,133
Other	186,437	-	-	186,437
Loss on extinguishment of debt	(1,051,805)	-	-	(1,051,805)
Net assets released from restrictions	<u>1,856,408</u>	<u>(1,856,408)</u>	-	<u>-</u>
Total revenue, gains and support	<u>28,029,300</u>	<u>1,679,090</u>	<u>2,153,830</u>	<u>31,862,220</u>
Expenses				
Program				
Instruction	22,400,684	-	-	22,400,684
Institutional support	2,071,687	-	-	2,071,687
Extension program	219,495	-	-	219,495
Total program expenses	<u>24,691,866</u>	-	-	<u>24,691,866</u>
Supporting services				
Auxiliary enterprises	531,373	-	-	531,373
Management and general	1,436,089	-	-	1,436,089
Fundraising	1,656,667	-	-	1,656,667
Total supporting services expenses	<u>3,624,129</u>	-	-	<u>3,624,129</u>
Total expenses	<u>28,315,995</u>	-	-	<u>28,315,995</u>
Change in net assets	(286,695)	1,679,090	2,153,830	3,546,225
Net assets at beginning of year	<u>34,652,458</u>	<u>4,062,680</u>	<u>5,165,211</u>	<u>43,880,349</u>
Net assets at end of year	<u>\$ 34,365,763</u>	<u>\$ 5,741,770</u>	<u>\$ 7,319,041</u>	<u>\$ 47,426,574</u>

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

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO

Statement of Activities

For the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and support				
Tuition and fees	\$ 23,601,910	\$ -	\$ -	\$ 23,601,910
Less: financial aid	<u>(3,877,740)</u>	<u>-</u>	<u>-</u>	<u>(3,877,740)</u>
Net tuition and fees	19,724,170	-	-	19,724,170
Contributions	4,852,125	798,083	17,782	5,667,990
Special events	1,311,078	250	-	1,311,328
Extension program	253,505	-	-	253,505
Investment income	559,733	164,696	-	724,429
Net realized gain on investments	212,517	331,526	-	544,043
Net unrealized gain on investments	625,645	836,219	-	1,461,864
Auxiliary enterprises	1,041,130	-	-	1,041,130
Other	127,630	-	-	127,630
Net assets released from restrictions	<u>950,594</u>	<u>(950,594)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and support	<u>29,658,127</u>	<u>1,180,180</u>	<u>17,782</u>	<u>30,856,089</u>
Expenses				
Program				
Instruction	19,737,640	-	-	19,737,640
Institutional support	2,208,936	-	-	2,208,936
Extension program	<u>181,839</u>	<u>-</u>	<u>-</u>	<u>181,839</u>
Total program expenses	22,128,415	-	-	22,128,415
Supporting services				
Auxiliary enterprises	511,636	-	-	511,636
Management and general	1,290,705	-	-	1,290,705
Fundraising	<u>1,545,895</u>	<u>-</u>	<u>-</u>	<u>1,545,895</u>
Total supporting services expenses	<u>3,348,236</u>	<u>-</u>	<u>-</u>	<u>3,348,236</u>
Total expenses	<u>25,476,651</u>	<u>-</u>	<u>-</u>	<u>25,476,651</u>
Change in net assets	4,181,476	1,180,180	17,782	5,379,438
Net assets at beginning of year	<u>30,470,982</u>	<u>2,882,500</u>	<u>5,147,429</u>	<u>38,500,911</u>
Net assets at end of year	<u>\$ 34,652,458</u>	<u>\$ 4,062,680</u>	<u>\$ 5,165,211</u>	<u>\$ 43,880,349</u>

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

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO

Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	\$ 3,546,225	\$ 5,379,438
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,036,545	1,770,085
Contributions restricted for investment in endowment funds	(2,153,830)	(17,782)
Contributions restricted for long term purposes	-	(59,424)
Change in value of interest rate swap	1,116,666	-
Net realized loss (gain) on sale of investments	224,581	(808,744)
Net unrealized loss (gain) on investments	586,234	(1,461,426)
Loss on extinguishment of debt	1,051,805	-
Changes in operating assets and liabilities		
Tuition and fees receivable, net	55,462	(51,924)
Contributions receivable, net	(3,715,962)	305,576
Other assets	104,987	13,633
Accounts payable and accrued expenses	1,020,325	164,750
Advance tuition payments	496,767	(45,162)
Gift annuity liability	(3,130)	(3,130)
Security deposits	-	(3,300)
Net cash provided by operating activities	4,366,675	5,182,590
Cash flows from investing activities		
Increase in restricted cash	(1,638,056)	-
Purchase of investments	(14,300,030)	-
Proceeds from the sale of investments	15,069,534	-
Purchase of property and equipment	(364,825)	(514,751)
Payments on construction in progress	(5,564,871)	(2,078,510)
Net cash used in investing activities	(6,798,248)	(2,593,261)
Cash flows from financing activities		
Proceeds from bond issuance	30,950,000	-
Payments on bonds payable	(665,593)	(400,000)
Advance refunding of bonds payable via escrow deposit in trust	(16,840,220)	-
Payment of bond issuance costs	(1,607,446)	-
Payments on capital lease obligations	(175,840)	(161,907)
Contributions restricted for long-term purposes	-	59,424
Proceeds from contributions restricted for investment in endowment funds	2,153,830	17,782
Net cash provided by (used in) financing activities	13,814,731	(484,701)
Net increase in cash and equivalents	11,383,158	2,104,628
Cash and equivalents at beginning of year	9,989,300	7,884,672
Cash and equivalents at end of year	\$ 21,372,458	\$ 9,989,300
<u>Supplemental disclosures of cash flow information</u>		
Interest paid during the year	\$ 2,171,610	\$ 876,145
Equipment purchased through capital lease financing	\$ 84,640	\$ 73,991
Capital gain distributions from mutual funds reinvested	\$ 206,631	\$ 808,744

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

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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1. Organization and Significant Accounting Policies

Organization

Schools of the Sacred Heart (the "Schools") is an independent school incorporated in the State of California under the name Schools of the Sacred Heart - San Francisco. Stuart Hall for Boys and Convent Elementary School for girls (each grades K-8), Convent High School for girls (grades 9-12) and Stuart Hall High School for boys (grades 9-12) comprise the Schools. The Schools also provide co-educational extension and after school programs. Total enrollment for the years ended June 30, 2008 and 2007 was 1,070 and 1,051 students, respectively.

Basis of presentation

The financial statements of the School have been prepared on the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Net assets and changes therein are classified as follows:

- Permanently restricted net assets - represent contributions to be held in perpetuity as directed by the donors. The income from these contributions is available to support activities of the Schools as designated by the donors.
- Temporarily restricted net assets - represent contributions whose use by the Schools is limited in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Schools according to the intention of the donor.
- Unrestricted net assets - represent unrestricted resources available to support the Schools' operations and temporarily restricted resources that have become available for use by the School in accordance with the intentions of the donors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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1. Organization and Significant Accounting Policies (continued)

Cash and cash equivalents

The Schools consider all short-term investments with an original maturity of three months or less to be cash equivalents.

As of June 30, 2008 and 2007, the Schools had restricted cash totaling \$2,417,751 and \$779,695, restricted for reserves required by the State of California for charitable gift annuity liabilities and bond reserves stipulated by the bond issuance documents (Notes 5 and 7).

Tuition and fees receivable

The Schools use the allowance method to account for uncollectible tuition and fees. Based on historical write-offs, overall economic conditions and the current aging status of its receivables, the Schools have established an allowance for doubtful accounts at a level considered adequate to cover anticipated credit losses on outstanding trade accounts receivable. Accounts are monitored by management on an ongoing basis and are written off by the Schools when it has been determined that all available collection avenues have been exhausted. Amounts determined to be uncollectible and any amounts subsequently recovered are charged against the allowance account when realized. The allowance for doubtful accounts was \$120,129 and \$125,486 as of June 30, 2008 and 2007, respectively.

Contributions receivable

Contributions receivable represent amounts committed and promised by donors that have not yet been received by the Schools. Contributions receivable are discounted to estimated net present value using a discount rate of 3.0%. The allowance for uncollectible contributions is based on historical experience and an evaluation of the outstanding contributions at the end of the year. Amounts determined to be uncollectible and any amounts subsequently recovered are charged against the allowance account when realized.

Investments

The Schools invest with an investment management firm which offers a single pooled private endowment fund made up of equity, fixed income and other investments.

Investments are reported at estimated fair value based on quoted market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined using the specific identification method.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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1. Organization and Significant Accounting Policies (continued)

Risks and uncertainties

The Schools invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Schools account balances and the amounts reported in the statements of financial position.

Property and equipment

The Schools capitalize all property and equipment with a cost or fair value in excess of \$1,500 and an estimated useful life in excess of one year. Property and equipment is stated at cost, if purchased or at estimated fair value on the date of donation, if donated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets, ranging from 3 to 40 years.

The Schools review long-lived assets for impairment, using best estimates and projections, when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Schools record impairment losses when determined; thereby reducing the asset's carrying value to its estimated fair value.

Construction in progress is not depreciated until the buildings and improvements are placed in service. Interest expense, net of any interest earned on unspent bond proceeds, is capitalized during the construction period of the Schools' future facility. The Schools did not capitalize any interest expense incurred during the years ended June 30, 2008 and 2007.

Deferred bond issuance costs

Deferred bond issuance costs include legal costs associated with the refunding of the Revenue Bonds Series A and the issuance of the new Revenue Bonds Series B in August 2007. The costs are being amortized over the life of the bonds of 30 years. Amortization expense for the years ended June 30, 2008 and 2007 totaled \$119,108 and \$11,820, respectively.

Split-interest agreements

The Schools are beneficiaries of split-interest agreements, including charitable remainder trusts and charitable gift annuities.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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1. Organization and Significant Accounting Policies (continued)

Split-interest agreements (continued)

Irrevocable charitable remainder trusts for the benefit of the Schools are recognized as contribution revenue when the Schools are notified of the existence of the trust. When the Schools are not named as the trustee, the Schools' interest in the trust's assets is recognized at its fair value, net of the present value of an estimated investment return and the expected payments to the beneficiaries. The Schools utilize the discount rate as stipulated in the Internal Revenue Code section 7520's applicable federal rate at the date of recognition, and the Internal Revenue Code's mortality tables. Changes in the estimated investment value during the term of the agreement are reported on the statements of activities in the applicable net asset category.

When the Schools are the trustee, the trust's assets are recognized at their fair values. A liability is also reflected which represents the present value of the expected payments to the beneficiaries which is calculated in the same manner as described in the preceding paragraph. The net changes in the estimated investment value and the liability are reported on the statements of activities in the applicable net asset category.

Amounts due under charitable gift annuity agreements represent gifts received under agreements which guarantee interest payments until the death of the donor. Annuities are placed in a trust fund, as received. The trust is managed by an independent trustee. The trust holds the annuity funds as a management tool used by the Schools to assure that adequate monies are available to pay the annuity liabilities. The differences between the amounts received and the discounted value of future annuity payments are recorded as contributions. The discounted value of future annuity payments has been determined annually based on the ages and life expectancies of the donors. In the agreements, the donor may specify how the Schools must use the revenue earned under the agreements.

Upon maturity of a split-interest agreement, valuation differences in asset and liability accounts related to the agreement are recognized as changes in permanently restricted, temporarily restricted or unrestricted net assets, as determined by the donor. The Schools had no amounts due under split interest agreements as of June 30, 2008 and 2007.

Revenue recognition

Tuition and fees

The Schools recognize tuition, fees and other related revenue in the school year in which the services are provided.

Advance tuition payments primarily represent deposits on tuition and miscellaneous fees received in the current fiscal year that pertain to the next fiscal year.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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1. Organization and Significant Accounting Policies (continued)

Revenue recognition (continued)

Contributions

Contributions received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any.

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Donated materials and equipment are recorded as contributions based on the estimated fair value at the date the contribution is made. Donated services are recorded as contributions at the estimated fair value only in those instances where the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by the donation. During the years ended June 30, 2008 and 2007, a number of volunteers donated significant amounts of time to the Schools to assist in programs and raise operating funds. The value of this contributed time has not been recognized in the accompanying financial statements because volunteer services do not meet the above criteria.

Functional expense allocations

Certain expenses, such as depreciation, supplies and maintenance operations, are allocated among program services, fundraising and management and general based on square footage of facilities used and estimates made by the Schools' management.

Income taxes

The Schools qualify as a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) and is, therefore, an educational entity exempt from federal and state income taxes.

Concentrations of credit risk

Financial instruments, which potentially subject the Schools to concentration of credit risk, consist primarily of cash and cash equivalents, investments and contributions receivable.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
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1. Organization and Significant Accounting Policies (continued)

Concentrations of credit risk (continued)

The Schools maintain cash and investments in high quality financial institutions and publicly registered mutual funds. Periodically, such cash and investments may be in excess of federally insured limits.

The Schools have significant contributions receivable due primarily from families of current students and the Schools' alumni, which are concentrated in the San Francisco Bay Area.

Use of estimates

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

Uses of estimates include, but are not limited to, accounting for allowances for doubtful tuition and contribution receivables, functional expense allocations and depreciation.

Derivative instruments

The School uses a derivative instrument to manage exposures to interest rate risks. The School's objectives for holding derivatives are to minimize the risks using the most effective methods to eliminate or reduce the exposures to interest rate fluctuations. Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, requires that derivative instruments be recorded as assets or liabilities, measured at fair value. For each period, changes in fair value are reported as a component of the change in net assets. The net change in the derivative or swap's carrying value totaled \$1,116,666 for the year ended June 30, 2008 and is recorded as interest expense in the statement of activities.

Reclassifications

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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2. Contributions Receivable

Contributions receivable were due as follows at June 30, net of an allowance for uncollectible contributions of \$646,574 in 2008 and \$440,327 in 2007.

	<u>2008</u>	<u>2007</u>
Due in less than one year	\$2,040,998	\$231,423
Due in one to five years	<u>2,119,146</u>	<u>1,410</u>
Total	4,160,144	232,833
Less discounts on multi-year contributions receivable	<u>(211,483)</u>	<u>(134)</u>
Net	<u>\$3,948,661</u>	<u>\$232,699</u>

Contributions receivable expected to be collected in more than one year are discounted at 3.0%.

3. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2008</u>	<u>2007</u>
Land	\$ 2,599,100	\$ 2,599,100
Buildings	50,370,018	49,396,009
Furniture, fixtures and equipment	6,266,982	5,817,517
Grounds	121,594	121,594
Construction in progress	<u>6,350,165</u>	<u>1,759,303</u>
	65,707,859	59,693,523
Less accumulated depreciation	<u>(18,783,895)</u>	<u>(16,866,458)</u>
	<u>\$46,923,964</u>	<u>\$42,827,065</u>

Depreciation expense for the years ended June 30, 2008 and 2007 totaled \$1,917,437 and \$1,758,265, respectively.

4. Interest Rate Swap Contract

During the current year, the School entered into an interest rate swap agreement otherwise known as "Fixed/Float Swaps." The notational amount of the transaction was \$17,825,000. The agreement is effective through June 1, 2030. The value of the contract has been adjusted to its estimated fair value of \$(1,116,666) at June 30, 2008 resulting in an increase to interest expense and settlement liability of \$1,116,666 for the year ended June 30, 2008.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
Notes to Financial Statements  
June 30, 2008 and 2007

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5. Charitable Gift Annuity Liability

The Schools are certified by the State of California to market and manage charitable gift annuity contracts. Under these contracts a donor gives the Schools a lump-sum of assets at the beginning of the contract, and the Schools make predetermined interest payments to the donor for the donor's lifetime. At the end of the donor's life, the Schools retain any remaining assets not utilized in making payments to the donor. The Schools have four contracts outstanding with a gross value of \$40,000 at June 30, 2008 and 2007. The discounted value of estimated future annuity payments totaled \$13,838 and \$16,968 at June 30, 2008 and 2007, respectively.

6. Capital Lease Obligations

The Schools lease certain office equipment under long-term agreements classified as capital leases. The leases expire at various dates through November 2013. Amortization of the leased property is included in depreciation and amortization expense. The cost and accumulated amortization as of June 30, 2008 and 2007 related to such office equipment are as follows:

	<u>2008</u>	<u>2007</u>
Cost	\$659,511	\$640,897
Less accumulated amortization	<u>(278,240)</u>	<u>(173,746)</u>
Net book value	<u>\$381,271</u>	<u>\$467,151</u>

The future minimum lease payments under capital leases and the present value of the future minimum lease payments at June 30, 2008 are as follows:

2009	\$148,774
2010	93,014
2011	36,410
2012	5,268
2013	<u>2,195</u>
Total minimum lease payments	285,661
Amount representing interest	<u>(42,172)</u>
Present value of future minimum lease payments	243,489
Current portion	<u>(122,704)</u>
Capital lease obligation, net of current portion	<u>\$120,785</u>

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
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7. Bonds Payable

During fiscal year 2008, the School refinanced its Series 2000A and Series 2000B revenue bonds by issuing a new Revenue Bonds Series 2007A through the ABAG Finance Authority for Nonprofit Corporations on August 23, 2007, totaling \$18,450,000. The proceeds of the Series 2007A Bonds were deposited in trust with the bond trustee in various accounts, a portion of which is restricted for the purpose of making principal and interest payments on the Series 2000 A Bonds. The Series 2000 B Bonds were redeemed in full simultaneously with the refinancing. Concurrently, the School borrowed \$12,500,000 in new money by issuing Revenue Bonds Series 2007 B through the ABAG Finance Authority for Nonprofit Corporations to finance the construction, furnishing and equipping of certain educational facilities. Both Series 2007 Bonds were issued as Auction Rate Securities.

In connection with the issuance of the Series 2007 Bonds, the School entered into an interest rate swap agreement with Bank of America, N.A. that was integrated with the Series 2007 A Bonds and has a term equal to the term of the final maturity of the Series 2007 A Bonds. Pursuant to the swap agreement, the School pays a fixed rate of interest of 3.552% on an initial notional amount equal to the principal amount of the Series 2007 A Bonds. In return, the swap provider pays a variable rate of interest equal to a percentage of LIBOR on a like notional amount. The amounts payable by a party under the swap agreement are netted against payments to be received by such party.

The Series 2007 Bonds initially bore interest at an auction rate which was determined for successive 7-day auction periods. Since February 2008, there has not been an active market for auction rate securities. Subsequently, the School has been paying an interest rate which has as its base the weekly auction rate for AA Financial Commercial Paper. At June 30, 2008 the School's interest rate was 4.21%. During fiscal year 2008, the interest rate for the Series 2007 Bonds fluctuated between 2.36% and 5.53%. Principal payments commenced on June 1, 2008 and are due annually through June 1, 2030.

A summary of the principal amounts payable as of June 30, 2008 is as follows:

<u>Year Ending June 30,</u>	
2008	\$ 2,475,000
2009	2,550,000
2010	2,600,000
2011	2,675,000
2012	2,750,000
Thereafter	<u>17,275,000</u>
Total	<u>\$30,325,000</u>

The agreements underlying the Series 2007 A&B Bonds contain certain covenants which, among other things, require the Schools to maintain certain financial ratios. Management believes the Schools were in compliance with the financial covenants at June 30, 2008.

SCHOOLS OF THE SACRED HEART - SAN FRANCISCO  
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8. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30:

	<u>2008</u>	<u>2007</u>
Capital projects	\$2,358,036	\$ 117,250
Financial aid	1,540,000	1,703,819
Instructional programs	<u>1,843,734</u>	<u>2,241,611</u>
Total temporarily restricted net assets	<u>\$5,741,770</u>	<u>\$4,062,680</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Capital projects	\$1,045,214	\$ 20,000
Financial aid	301,783	379,272
Employee salaries	-	138,188
Instructional programs	<u>509,411</u>	<u>413,134</u>
Total net assets released from restrictions	<u>\$1,856,408</u>	<u>\$950,594</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for the following purposes as of June 30:

	<u>2008</u>	<u>2007</u>
Framework for the Future	\$2,109,536	\$ -
Financial aid and scholarships	3,406,664	3,374,248
Faculty and staff grants	523,861	522,034
Employee salaries	<u>1,278,980</u>	<u>1,268,929</u>
Total permanently restricted net assets	<u>\$7,319,041</u>	<u>\$5,165,211</u>

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10. Retirement Plan

The Schools have an Employer Contributory Tax Deferred Annuity Plan (the "Plan") as established under Internal Revenue Code Section 403(b). Benefits are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association ("TIAA") and by variable annuities offered by the affiliated organization, the College Retirement Equities Fund ("CREF"). The Schools serve as the administrator of the Plan. The Schools contribute 5.0% (or 6.0% for employees with twenty-one or more years of service) of eligible employee's annual base compensation to the Plan. To be a participant in the Plan, an employee must be at least twenty-one years old, work a minimum of twenty hours per week and have completed one year of full time service at any qualified educational institution. Total pension expense amounted to \$641,627 and \$617,763 for the years ended June 30, 2008 and 2007, respectively.

11. Subsequent Event

Subsequent to June 30, 2008, the Schools were notified that due to recent developments in the credit market their investment in the Common Fund Short Term Fund was being liquidated by Wachovia Bank. The Schools investment in this fund is approximately \$1.5 million. As a result of the liquidation there are limitations on how much can be withdrawn at this time (38.5% as of October 3, 2008). Based on information received to date, it is management's belief that the amount invested will be fully recovered and there is no material impairment at this time. However, this information is subject to change.

## APPENDIX C

### BOOK-ENTRY ONLY SYSTEM

THE INFORMATION HEREIN CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY, THE CORPORATION, THE TRUSTEE AND UNDERWRITER BELIEVE TO BE RELIABLE, BUT THE AUTHORITY, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. THE BENEFICIAL OWNERS SHOULD CONFIRM THE FOLLOWING INFORMATION WITH DTC OR THE DTC PARTICIPANTS (AS DEFINED HEREIN).

The Depository Trust Company ("DTC"), New York, NY, 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 Bond certificate will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other 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 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 Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

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, Bond certificates are required to be printed and delivered.

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

The foregoing information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

**BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF UNDER THE TERMS OF THE INDENTURE, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS. THE AUTHORITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM**

THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS.

The Authority, the Underwriter and the Corporation cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, redemption price, Purchase Price and interest with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices, notices of mandatory tender or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority the Underwriter and the Corporation are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption price, Purchase Price and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of the legal documents which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Loan Agreement and the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meanings set forth in the Indenture and the Loan Agreement.

### DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in this Official Statement including the summaries of the Indenture, the Loan Agreement and the Deed of Trust.

“Act” means Chapter 5 Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California.

“Additional Payments” means the payments so designated and required to be made by the Corporation pursuant to 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.

“Affiliate of any specified Person” means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Agent Member” means a member of, or participant in, DTC.

“Alternate Credit Facility” means an irrevocable direct-pay letter of credit, issued by a commercial bank or financial institution and providing for draws or claims at least equal to the Required Stated Amount, delivered to the Trustee in accordance with the Indenture which replaces the Credit Facility then in effect.

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

“Authorized Representative” means, with respect to the Authority, its President, Chief Financial Officer, Secretary or any other person as may be designated and authorized to sign for the Authority and, with respect to the Corporation, the Chair of the Business and Finance Committee of the Board of Trustees, or any member of such committee designated in writing by said Chair.

“Available Moneys” means (1) moneys derived from drawings or payments under the Credit Facility and not commingled with any other funds; (2) moneys held by the Trustee in the Remarketing Proceeds Account; (3) moneys held by the Trustee in any other funds and accounts established under the Indenture for a period of at least 123 days (or, if such funds come from an affiliate of the Corporation, for

a period of 365 days) and not commingled with any moneys so held for less than said period and during which period no petition in bankruptcy was filed by or against, and no receivership, insolvency, assignment for the benefit of creditors, or other similar proceeding has been commenced by or against, the Corporation, or the Authority, unless such petition or proceeding was dismissed and all applicable appeal periods have expired without an appeal having been filed; (4) constituting proceeds of bonds or notes issued to refund the Bonds accompanied by an Opinion of Counsel, in a form acceptable to each Ratings Agency, that such monies would not be subject to a preference in bankruptcy under Section 547 of the Bankruptcy Code; (5) investment income derived from the investment of moneys described in clause (1), (2) (3) or (4); or (6) moneys as to which the Authority has received an Opinion of Counsel from a nationally recognized bankruptcy counsel acceptable to the Trustee stating that the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy.

“Bankruptcy Code” means Title 11 of the United States Code, as amended, and any successor statute.

“Beneficial Owner” means any Person which (1) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (2) is treated as the owner of any Bond for federal income tax purposes.

“Bond Year” means the period of twelve consecutive months ending on June 1 in any year in which the Bonds are Outstanding.

“Bonds” mean ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart–San Francisco) Series 2008A and Series 2008B, authorized by, and at any time Outstanding pursuant to, the Indenture.

“Book-Entry Form or Book-Entry System” means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Bondholder, with the physical bond certificates held by and “immobilized” in the custody of the Depository and the book-entry system maintained by and the responsibility of others than the Authority or the Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

“Business Day” means any day other than (a) a Saturday, Sunday or legal holiday, (b) a day on which banking institutions in Seattle, Washington, San Francisco, California, or any other city where either the designated corporate trust office of the Trustee or the office of the Credit Facility Provider at which drawing documents are required to be presented under the Letter of Credit is located are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

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

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and regulations promulgated thereunder.

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

“Conversion” means any conversion from time to time in accordance with the terms of the Indenture of the interest rate on the Bonds of any Series from one Interest Rate Period to another Interest Rate Period (including the establishment of a new interest period within the Long-Term Interest Rate Period).

“Conversion Date” means the date on which any Conversion becomes effective.

“Corporation” means Schools of the Sacred Heart–San Francisco, a nonprofit public benefit corporation duly organized and existing under the laws of the State, and its successors or assigns permitted pursuant to the Loan Agreement.

“Corporation Deposit Account” means the account of that name established in the Purchase Fund pursuant to the Indenture.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of any Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, fees and expenses of any Credit Facility Provider, initial and ongoing fees and charges of the Authority, legal fees and charges, fees and disbursements of consultants and professionals, title insurance fees, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of such Bonds, and any other cost, charge or fee in connection with the original issuance of such Bonds.

“Credit Facility” means (1) the Initial Credit Facility or (2) any Alternate Credit Facility.

“Credit Facility Account” means the account by that name in the Purchase Fund established pursuant to the Indenture.

“Credit Facility Bonds” means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) the Credit Facility, but excluding Bonds no longer considered to be Credit Facility Bonds in accordance with the terms of the Credit Facility.

“Credit Facility Provider” means Bank of America, N.A., a national banking association, and any other commercial bank or financial institution issuing a Credit Facility then in effect.

“Credit Facility Rate” means the rate per annum, if any, specified in the Credit Facility as applicable to Credit Facility Bonds, not to exceed the Maximum Lawful Rate.

“Daily Interest Rate” means the Interest Rate Period in which the interest rate on the Bonds of any Series is determined on each Business Day in accordance with the Indenture.

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for any Series of the Bonds.

“Date of Issue” means November 20, 2008.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry-system to record ownership of book-entry interests in Bonds, and to effect transfers of book-entry interests in Bonds in book-entry form, and includes and means initially The Depository Trust Company.

“Designated Office,” when used with respect to the Tender Agent or the Credit Facility Provider, means the office thereof designated in writing to the Authority, the Trustee, the Corporation, the Tender Agent (in the case of the Credit Facility Provider) and the Credit Facility Provider (in the case of the Tender Agent) by the Tender Agent and the Credit Facility Provider, respectively.

“DTC” means The Depository Trust Company, New York, New York, its successors and their assigns or, if The Depository Trust Company or its successor or assign resigns from its functions as depository for the Bonds, any other Depository which agrees to follow the procedures required to be followed by a Depository in connection with the Bonds and which is selected by the Authority, at the direction of the Corporation.

“Electronic Notice” means notice transmitted through a time-sharing terminal, if operative as between any two parties, or if not operative, in writing, by facsimile transmission, by email or by telephone (promptly confirmed in writing or by facsimile transmission).

“Eligible Bonds” means any Bonds other than Credit Facility Bonds or Bonds owned by or for the account of, the Credit Facility Provider, the Authority, the Corporation, or any affiliate of the Authority or the Corporation.

“Event of Bankruptcy” means any of the following events:

(i) the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement or an “affiliate” of the Corporation as defined in Bankruptcy Code § 101(2)) or the Authority will (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation (or such other Person) or the Authority or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case will be commenced, without the application or consent of the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement or an “affiliate” of the Corporation as defined in Bankruptcy Code § 101(2)) or the Authority in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts, of the Corporation (or any such other Person) or the Authority, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Person) or the Authority or of all or any substantial part of their respective property, or (c) similar relief in respect of the Corporation (or any such other Person) or the Authority under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

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

“Expiration Date” means the date upon which a Credit Facility is scheduled to expire (taking into account any extensions of such Expiration Date) in accordance with its terms.

“Facilities” means: (1) the real property on which the Corporation’s educational facilities are located; (2) all buildings, structures, fixtures and improvements to the aforesaid real property; and (3) all personal property owned by the Corporation and used in, around or about the aforesaid real property, whether now existing or hereafter constructed, installed or acquired.

“Favorable Opinion of Bond Counsel” means a written opinion of Bond Counsel, addressed to the Authority, the Remarketing Agent, if any, the Credit Facility Provider, if any, and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State and the Indenture and will not result in the loss of exclusion inclusion of interest on the Bonds in gross income for federal income tax purposes.

“Fiscal Year” means the duly adopted fiscal year of the Corporation, initially the period from July 1 through June 30 of each year.

“Governmental Unit” will have the meaning set forth in Section 150 of the Code.

“Holder or Bondholder” means the Person in whose name a Bond is registered.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Initial Credit Facility” means the irrevocable direct-pay letter of credit securing payment of the Bonds that is issued by Bank of America, N.A., a national banking association, to the Trustee pursuant to the Initial Reimbursement Agreement.

“Initial Reimbursement Agreement” means the Reimbursement Agreement, dated as of November 1, 2008, between the Credit Facility Provider and the Corporation, as originally executed or as it may from time to time be supplemented or amended.

“Interest Accrual Date” with respect to any Series of Bonds means: (1) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period; (2) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month; or (3) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date.

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

“Interest Payment Date” means: (1) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day; (2) for any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month; (3) for Credit Facility Bonds, each date set forth in the Reimbursement Agreement as a date for payment of interest on such Credit Facility Bonds; or (4) for any Long-Term Interest Rate Period, each June 1 and December 1, or if any June 1 or December 1 is not a Business Day, the next succeeding Business Day.

“Interest Rate Period” means any Daily Interest Rate Period, Weekly Interest Rate Period or Long-Term Interest Rate Period.

“Investment Securities” means any of the investment securities identified in the Indenture that at the time are legal investments for moneys held under the Indenture and then proposed to be invested in such securities.

“Loan Agreement” means that certain loan agreement by and between the Authority and the Corporation, dated as of November 1, 2008, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

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

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

“Long-Term Conversion Date” means the date on which a Conversion to the Long-Term Interest Rate Period becomes effective.

“Long-Term Interest Rate” means a term, non-variable interest rate on the Bonds determined in accordance with the Indenture.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect.

“Mandatory Sinking Account Payment” means the amount required by the Indenture to be paid by the Authority on any single date for the retirement of Bonds of any Series.

“Maximum Bond Interest Rate” means (1) with respect to any Series of Bonds other than Credit Facility Bonds, the lesser of 12% per annum and the Maximum Lawful Rate and (2) with respect to Credit Facility Bonds, the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on such Series of Bonds.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if the Corporation is dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation, by notice to the Authority, the Credit Facility Provider, if any, and the Trustee.

“Official Statement” means the Official Statement of the Authority dated November 13, 2008 relating to the Bonds.

“Opinion of Bond Counsel” means a written Opinion of Counsel from a firm of recognized standing in the field of obligations, the interest on which is excluded from gross revenue for purposes of federal income taxation, which firm is acceptable to the Authority.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

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

“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 (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) on or after any Purchase Date for Bonds pursuant to the Indenture, all Bonds (or portions of Bonds) which have been purchased on such date, but which have not been delivered to the Tender Agent, provided that funds sufficient for such purchase are on deposit with the Tender Agent in accordance with the provisions of the Indenture; (3) Bonds with respect to which all liability of the Authority will have been discharged in accordance with the Indenture; and (4) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

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

“Prevailing Market Conditions” means, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indices of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, will determine to be relevant to the remarketing of the Bonds at the principal amount thereof.

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

“Principal Corporate Trust Office” means the office of the Trustee, which as of the Date of Issue is located at 1420 5th Avenue, 7th Floor, Seattle, Washington 98101, Attention: Corporate Trust Services (facsimile: 206-344-4630), or such other office as may be specified to the Authority, the Corporation, the Remarketing Agent (if any), the Tender Agent (if any) and the Credit Facility Provider (if any) by the Trustee in writing.

“Prior Trustee” means U.S. Bank National Association, a national banking association under the laws of the United States of America, as trustee under the Series 2007 Indenture.

“Project” means the additions, extensions, alterations and improvements to the facilities of the Corporation and certain of its affiliates (or the reimbursement to the Corporation and such affiliates for such financing) which were financed or refinanced with a portion of the proceeds of the Series 2007 Bonds.

“Purchase Date” means the date on which Bonds which have been tendered for purchase pursuant to the Indenture are to be purchased.

“Purchase Fund” means the fund so designated, established pursuant to the Indenture, in which there will be established a separate “Purchase Account” for each Series of the Bonds.

“Purchase Price” means the principal amount of any Bond subject to optional or mandatory purchase on a Purchase Date plus accrued interest to, but not including, such Purchase Date (unless a Purchase Date is an Interest Payment Date, in which case the Purchase Price will be the principal amount of such Bond), provided, however, that in the case of a Conversion or attempted Conversion from a Long-Term Interest Rate Period on a date on which the Bonds being converted would otherwise be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, the Tender Price will also include the optional redemption premium, if any, provided for such date under the Indenture.

“Rating Agency” means S&P or Moody’s.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“Rebate Fund” means the Rebate Fund established pursuant to the Indenture.

“Record Date” means, as the case may be, the applicable Regular Record Date or Special Record Date.

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

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Regular Record Date” means (1) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, the last Business Day of the calendar month immediately preceding such Interest Payment Date or, in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (2) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (3) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period, the fifteenth day immediately preceding that Interest Payment Date or, in the event that an Interest Payment Date will occur less than 15 days after the first day of a Long-Term Interest Rate Period, that first day.

“Reimbursement Agreement” means (i) the Initial Reimbursement Agreement or (ii) any other similar agreements entered into in connection with the issuance of any Alternate Credit Facility and, in either case, any and all modifications, alterations, amendments and supplements thereto.

“Remarketing Agent” means any remarketing agent appointed in accordance with the Indenture.

“Remarketing Agreement” means a remarketing agreement entered into between the Corporation and a Remarketing Agent providing for the remarketing of any Series of Bonds tendered for purchase, as the same may be amended from time to time, and any remarketing agreement between the Corporation and a successor Remarketing Agent.

“Remarketing Proceeds Account” means the account of that name established in the Purchase Fund pursuant to the Indenture.

“Representation Letter” means the Blanket Authority Letter of Representation from the Authority and the Trustee to DTC with respect to the Bonds, as it may be supplemented and amended from time to time.

“Required Stated Amount” means with respect to the Credit Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds of the related Series then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to 12% per annum) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating such Bonds as necessary to obtain (or maintain) the highest long-term and/or short-term rating on the Bonds of such Series. As of the Date of Issue, the minimum period specified by the Rating Agency is 46 days.

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

“Revenues” means all amounts received by the Authority or the Trustee pursuant or with respect to the Agreement, including: (1) Loan Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), (2) prepayments of all or any part of the Loan Payments, (3) moneys drawn under the Credit Facility or Alternate Credit Facility, if any, and (4) all interest, profits or other income derived from the investment of amounts 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 and the Tax Agreement), but not including any Administrative Fees and Expenses or proceeds of any right of indemnification under the Loan Agreement.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the Authority, the Credit Facility Provider, if any, and the Trustee.

“Series” whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as described in the Indenture.

“Series A Bonds” means the \$16,440,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart–San Francisco) Series 2008A.

“Series B Bonds” means the \$11,770,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart–San Francisco) Series 2008B.

“Series 2007 Bonds” means, collectively, the ABAG Finance Authority for Non Profit Corporations Revenue Bonds (Schools of the Sacred Heart – San Francisco), Series 2007A and B.

“Series 2007 Indenture” means the Indenture, dated as of August 1, 2007, between the Authority and the Prior Trustee, pursuant to which the Series 2007A Bonds and Series 2007B Bonds were issued.

“Series 2007 Loan Agreement” means the loan agreement, dated as of August 1, 2007, between the Corporation and the Authority pursuant to which the proceeds of the Series 2007 Bonds were loaned to the Corporation.

“Series 2007 Tax Agreement” means the Tax Certificate and Agreement delivered by the Authority and the Corporation at the time of issuance and delivery of the Series 2007 Bonds, as supplemented as of the Date of Issue of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Series 2007A Bonds” means the Authority’s Revenue Bonds (Schools of the Sacred Heart – San Francisco) Series 2007A, issued under the Series 2007 Indenture.

“Series 2007B Bonds” means the Authority’s Revenue Bonds (Schools of the Sacred Heart – San Francisco) Series 2007B, issued under the Series 2007 Indenture.

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry Financial Market Association (“SIFMA”) or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Corporation, and effective from such date.

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

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

“State” means the State of California.

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

“Tax Certificate” means the tax certificate and agreement dated the Date of Issue executed by the Corporation and the Authority and as it may be amended or supplemented from time to time.

“Tender Agent” means any tender agent appointed in accordance with the Indenture.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

“Undelivered Bonds” means any Bond which constitutes an Undelivered Bond under the provisions of the Indenture.

“United States Government Obligations” means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully guaranteed by the United States of America; (2) certificates or other instruments that evidence direct ownership of future principal and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company acceptable to the Trustee in a special account separate from the general assets of such custodian; and (3) obligations (a) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (b) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2), and (c) that are rated in the highest Rating Category by each Rating Agency then rating the Bonds.

“Weekly Interest Rate” means a variable rate of interest for any Series of Bonds determined weekly in accordance with accordance with the Indenture.

“Weekly Rate Period” means each period during which the Weekly Interest Rate is in effect for a Series of Bonds.

## THE LOAN AGREEMENT

### General

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds to the Corporation and the repayment of and security for such loan by the Corporation.

*Certain provisions of the Loan Agreement are summarized below; this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.*

### Payment of Bonds

(A) The Corporation agrees that it will pay Loan Payments to the Trustee, for the account of the Authority, all sums necessary for the payment of the debt service on the Bonds, as follows:

(1) By 9:00 a.m., Pacific time, on or prior to the Business Day immediately preceding each Interest Payment Date and any date on which principal of the Bonds is due and payable (whether at maturity, by redemption or by acceleration as provided in the Indenture) with respect to the Bonds and continuing until the principal of and premium, if any, and interest on the Bonds will have been fully paid (or provision for the payment thereof will have been made as provided in the Indenture), the Corporation will pay in funds which will be immediately available as of such time and date, as an installment in repayment of the loan from the Authority under the Loan Agreement, a sum equal to the aggregate amount payable on such date as principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture) and premium, if any, and interest on the Bonds, at the Principal Corporate Trust Office of the Trustee.

(2) Each payment made pursuant to paragraph (1) above will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, becoming due and payable on the Bonds on each Interest Payment Date and any date on which principal of the Bonds is due and payable; provided that on June 1 in each year, any amount held by the Trustee in the Revenue Fund on the due date for a Loan Payment under the Loan Agreement will be credited against the installment due on such date to the extent available for such purpose under the terms of the Indenture; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Revenue Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Corporation will be relieved of any obligation to make any further payments under the provisions of the Loan Agreement. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Revenue Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Corporation will forthwith pay such deficiency as a Loan Payment under the Loan Agreement.

(3) The obligation of the Corporation to make any payments under the Loan Agreement will be deemed to have been satisfied to the extent of any corresponding payment made by the Credit Facility Provider to the Trustee under the Credit Facility.

(B) If the Corporation fails to make any payment required under the Loan Agreement by the due date, the Trustee will promptly notify the Credit Facility Provider and the Authority, such notice to be given by telephone, telecopy or telegram followed by written notice.

## **Additional Payments**

In addition to the Loan Payments required to be made by the Corporation, the Corporation will also pay to the Trustee or to the Authority, as the case may be, Additional Payments as follows: (a) all taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated in the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding any taxes based upon the capital and/or income of the Trustee or any other person other than the Corporation; provided, however, that the Corporation will have the right to protest any such taxes or assessments and to require the Authority or the Trustee, as the case may be, at the Corporation's expense, to protest and contest any such taxes or assessments assessed or levied upon them and that the Corporation will have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would materially adversely affect the rights or interests of the Authority or the Trustee; (b) the reasonable annual (or other regular) fees and expenses of the Trustee and its agents pursuant to the Indenture, and all reasonable fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Indenture, including without limitation any amounts payable to the Trustee by the Authority from Additional Payments pursuant to the Indenture, as and when the same become due and payable; (c) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements or opinions or provide such other services as are reasonably required under the Loan Agreement, the Auction Agent Agreement, any Broker Dealer Agreement, the Indenture or the Tax Certificate; (d) the fees and reasonable expenses of the Authority in connection with the loan to the Corporation under the Loan Agreement, the Bonds, the Indenture or any other documents contemplated by those documents, including without limitation reasonable expenses incurred by counsel to the Authority in connection with any litigation which may at any time be instituted involving such loan or the Bonds, the Indenture or any other related documents and reasonable expenses incurred by the Authority in supervision and inspection of the Corporation and its operations with respect to the use and application of such loan; and (e) such amounts as may be necessary to satisfy the rebate requirements in accordance with the Tax Certificate and to pay the cost of calculation of such rebate requirements.

Such Additional Payments will be billed to the Corporation by the Authority or the Trustee from time to time, together with (a) a statement executed by a duly authorized officer or agent of the Authority or the Trustee, as the case may be, stating that the amount billed has been incurred or paid by the Authority or the Trustee for one or more of the above items and (b) a copy of the invoice or statement for the amount so incurred or paid. Amounts so billed will be paid by the Corporation within 60 days after receipt of the bill by the Corporation or as otherwise required by the Indenture. Payment by the Corporation to either the Authority or the Trustee of the amount so billed by either such party will fulfill such payment obligation of the Corporation.

## **Obligations of the Corporation Unconditional**

The Corporation pledges its full faith and credit to the payments it is required to make under the Loan Agreement. The obligations of the Corporation to make the Loan Payments and Additional Payments and to perform and observe the other agreements on its part contained in the Loan Agreement will be absolute and unconditional general obligations of the Corporation. Until such time as the principal of and premium, if any, and interest on all Bonds will have been fully paid (or provision for the payment thereof will have been made as provided in the Indenture), the Corporation (a) will not suspend or discontinue any Loan Payments or Additional Payments, (b) will perform and observe all of its other agreements contained in the Loan Agreement and (c) will not terminate the Loan Agreement for any

cause, including, without limiting the generality of the foregoing, any change in the laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. The Loan Agreement will be deemed and construed to be a “net contract,” and the Corporation will pay absolutely net the Loan Payments, Additional Payments and all other payments required under the Loan Agreement, free of any deductions, without abatement, diminution or set-off other than those expressly provided by the Loan Agreement.

### **Prepayments**

The Corporation may at any time prepay all or any part of the Loan Payments payable under the Loan Agreement by providing written notice at least 10 days prior to the last day by which the Trustee is permitted to give notice pursuant to the Indenture to the Trustee, the Credit Facility Provider and the Authority specifying the date of such prepayment, for the purposes and at the prices set forth in the Indenture, and the Authority agrees that the Trustee will accept such prepayments when the same are tendered by the Corporation. All such prepayments will be deposited in the Revenue Fund and credited against the Loan Payments in the order of their due date or, at the election of the Corporation exercised in a Request of the Corporation, used for the redemption of Outstanding Bonds of such maturities, in the amounts and on the redemption dates specified in such Request; provided that the redemption date will be such as to comply with the optional redemption provisions of the Indenture and the notice provisions of the Indenture. Notwithstanding any such prepayment, the Corporation will not be relieved of its obligations under the Loan Agreement until all of the Bonds have been fully paid and retired (or provision for payment thereof will have been made as provided in the Indenture). Prepayments to be used to redeem Bonds pursuant to the Indenture will be deposited into the Special Redemption Account. Prepayments to be used to redeem Bonds pursuant to the Indenture will be deposited into the Optional Redemption Account.

If the Corporation is not in default in the payment of any Loan Payments or Additional Payments, the Authority, at the request of the Corporation, at any time when the aggregate moneys in the Revenue Fund established pursuant to the Indenture, including any prepayment deposited therein under the foregoing paragraph, are sufficient to effect redemption of all or part of the then Outstanding Bonds, and if such Bonds are then redeemable under the provisions of the Indenture, will forthwith take all steps that may be necessary to effect such redemption in accordance with the Request of the Corporation. The Authority agrees that it will redeem the Bonds pursuant to the Indenture only pursuant to a Request of the Corporation.

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

(A) 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, without violating the covenants contained in the Loan Agreement, 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 and the Trustee will have received a Certificate of the Corporation to the effect that the covenants the Loan Agreement will be met after such consolidation, merger, sale or transfer; and

(3) The Trustee and the Authority will 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.

(B) If a merger, consolidation, sale or other transfer is effected, as provided in the Loan Agreement, the provisions of the Loan Agreement will continue in full force and effect, and no further merger, consolidation, sale or transfer will be effected except in accordance with the provisions of the Loan Agreement.

(C) The Corporation covenants and agrees to notify the Authority in writing within 10 Business Days following any merger, acquisition or affiliation involving the Corporation and an entity which has, or an entity affiliated with an entity which has, entered into a loan, lease or similar agreement with the Authority.

### **Insurance; Condemnation Process**

So long as any Bonds remain Outstanding, the Corporation will maintain or cause to be maintained with respect to the Facilities, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by private schools located in the State of a nature similar to that of the Corporation, which insurance will include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably estimated damage, loss or liability. The Corporation will at all times also maintain worker's compensation coverage as required by the laws of the State.

If the Authority, the Trustee or the Credit Facility Provider will so request in a Request of the Authority, the Trustee or the Credit Facility Provider, the Corporation will provide to the Authority, the Trustee or the Credit Facility Provider summaries or other evidence of its insurance coverage. All policies will name the Trustee and Authority as insured parties, beneficiary or loan payee as its interest may appear.

If prior to payment in full of the Bonds (or provision being made for payment in full in accordance with the provisions of the Indenture) any part of the Facilities is destroyed or damaged or taken under the exercise of the power of eminent domain and the operation of the remaining Facilities not so destroyed or damaged or taken might not, in the reasonable judgment of the Corporation, generate sufficient revenues to provide for the payment, as they become due of all Loan Payments and Additional Payments thereafter required with respect to the Bonds, the Corporation will either (i) apply the insurance or condemnation proceeds, together with applicable self-insurance reserves, to repair or replace the

Facilities so destroyed or damaged or taken in such a manner that the operation of the resulting Facilities will, in the reasonable judgment of the Corporation, result in sufficient revenues being generated to provide for all payments required under the Loan Agreement, or (ii) to the maximum extent possible use the net insurance or condemnation proceeds, together with applicable self-insurance reserves, to prepay Loan Payments and redeem the Bonds in accordance with the provisions of the Loan Agreement and the Indenture.

### **Financial Statements of the Corporation and Reporting of Other Information**

The Corporation will furnish the following to the Credit Facility Provider and, upon request, the Authority or the Trustee, so long as any Bonds remain Outstanding:

(A) its audited financial statements certified by an independent public accountant selected by the Corporation as of the end of each of its fiscal years as soon as accepted by its Board of Trustees but in any event within 120 days after the end thereof, and to the Trustee each year such additional copies of its audited annual financial statements as the Trustee will reasonably request;

(B) a copy of any notice from a Rating Agency to the effect that any of the Corporation's unsecured debt is being rated or re-rated; and

(C) promptly upon the request of the Authority, the Credit Facility Provider or the Trustee, such other information regarding the financial position, results of operations, business or prospects of the Corporation as such party may reasonably request from time to time.

### **Inspection**

The Corporation will, at any reasonable time and from time to time, upon 5 days prior written notice, permit the Authority, the Credit Facility Provider and the Trustee, and their respective representatives and agents to (a) inspect the premises and the books and records of the Corporation for the purpose of verifying compliance by the Corporation with the covenants contained in the Loan Agreement and all of the terms of the Act, (b) examine and make copies of and abstracts from the records and books of account of the Corporation, (c) discuss the affairs, finances and accounts of the Corporation with any of its officers or directors and (d) communicate with the Corporation's independent certified public accountants.

### **Tax Covenants**

(A) The Corporation covenants that it will 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 Corporation covenants that it will comply with the requirements of the Tax Certificate, which is incorporated in the Loan Agreement as if fully set forth in the Loan Agreement. This covenant will survive the payment in full or the defeasance of the Bonds.

(B) In the event that at any time the Corporation is of the opinion that for purposes of the Loan Agreement it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Corporation will so instruct the Authority and the Trustee in a Request of the Corporation accompanied by an Opinion of Bond Counsel.

(C) Notwithstanding any provisions of the Loan Agreement, if the Corporation provides to the Trustee and the Authority an Opinion of Bond Counsel to the effect that any specified action required

under the Loan Agreement is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Loan Agreement and the Tax Certificate, and the covenants under the Loan Agreement will be deemed to be modified to that extent.

### **Credit Facility; Alternate Credit Facility**

The Corporation will furnish a Credit Facility for any Series of Bonds bearing interest at a Daily Interest Rate or a Weekly Interest Rate (or, if a Credit Facility is then in existence, an Alternate Credit Facility in substitution for the Credit Facility then in effect) in accordance with the Indenture.

### **Payment of Purchase Price of Purchased Bonds**

The Corporation agrees that, if the Credit Facility Provider has not paid the full amount required by the Indenture at the times required under the Indenture to purchase Bonds of either Series that have been tendered for purchase, it will pay to the Tender Agent the amounts necessary for the purchase of Bonds pursuant to the Indenture and not deposited with the Tender Agent by the Remarketing Agent from the proceeds of the sale of such Bonds pursuant to the Indenture. Each such payment by the Corporation to the Tender Agent will be in immediately available funds and paid to the Tender Agent at its Principal Corporate Trust Office by 2:30 p.m., New York City time, on each date upon which a payment is to be made pursuant to the Indenture.

### **Events of Default**

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

(A) The Corporation fails to make any payment described under in paragraph (A) under the heading “Payment of Bonds” by its due date or the Corporation fails to make any other Loan Payment or Additional Payment by its due date, and failure continues for one Business Day after such 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 30 days after written notice specifying such failure and requesting that it be remedied is given to the Corporation by the Authority, the Trustee or the Credit Facility Provider; provided, however, if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Trustee 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) There is an unexcused default by the Corporation under any agreement or instrument to which it is a party relating to the borrowing of money either (i) in failing to pay any installment of principal or interest in an aggregate amount of \$250,000 or more, which default will not have been waived or excused within 90 days after the Corporation received notice of such default or (ii) as a result

of which indebtedness in an amount of \$1,000,000 or more will have been accelerated and declared to be due and payable prior to its date of maturity; or

(E) 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 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 60 days; or the Corporation makes a general assignment for the benefit of creditors.

### **Remedies on Default**

(A) In the event any of the Bonds will at the time be Outstanding and unpaid (and provision for the payment thereof will not have been made as provided in the Indenture) and any event of default referred to in the Loan Agreement will have happened and be continuing the Authority or the Trustee may, with the consent of the Credit Facility Provider and will, at the direction of the Credit Facility Provider, 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 will 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 thereunder, 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.

The term “all installments” will mean an amount equal to the entire principal amount of the then Outstanding Bonds, together with all interest accrued or to accrue on and prior to the next succeeding redemption date or dates on which the Bonds can be and actually are redeemed after giving notice to the Holders thereof as required by the Indenture (less moneys available for such purpose then held by the Trustee) plus any other payments due or to become due under the Loan Agreement, including, without limitation, any unpaid fees and expenses of the Authority, the Trustee and any paying agents of the Bonds which are then due or will become due prior to the time that the Bonds are paid in full and the trust established by the Indenture is terminated.

(B) No remedy conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy will be cumulative and will be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay in exercising or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Trustee to exercise any remedy reserved to it by the Loan Agreement, it will not be necessary to give any notice, other than such notice as may be expressly required in the Loan Agreement. The Trustee will be deemed a third party beneficiary of all covenants and conditions contained in the Loan Agreement.

(C) In the event the Corporation should default under any of the provisions of the Loan Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under the Loan Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Corporation therein contained, the Corporation agrees that it will on demand therefor pay to the Authority or the Trustee the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Authority or the Trustee.

## THE INDENTURE

### General

The Indenture sets forth the terms of each 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.

*Certain provisions of the Indenture are summarized below. Other provisions are summarized in this Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” 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.*

### The Bonds

#### Terms of the Bonds; Registration; Denominations; Payment of Principal and Interest

(A) (1) The Bonds will be issued as fully registered Bonds without coupons in denominations of \$100,000, and any larger denomination constituting an integral multiple of \$5,000 in excess of \$100,000 if the Interest Rate Period for any Series of the Bonds is the Daily Interest Rate Period or the Weekly Interest Rate Period and in denominations of \$5,000 and any integral multiple thereof if the Interest Rate Period for any Series of Bonds is the Long-Term Interest Rate Period. The Bonds will be numbered in consecutive numerical order with a Series designation from R 1 upwards and will be registered initially in the name of “Cede & Co.,” as nominee of the Depository, and will be evidenced by one bond certificate for each Series of Bonds in the principal amount of the Bonds of such Series. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture.

The Bonds will be dated the Date of Issue. Each Bond will bear interest, payable in lawful money of the United States of America, from the Date of Issue until payment of the principal or Redemption Price thereof will have been made or provided for in accordance with the provisions of the Indenture, whether upon maturity, redemption or otherwise. The Bonds of each Series will be issued in the aggregate principal amounts set forth below and will mature on the dates set forth below (subject to the right of prior redemption as provided in the Indenture):

Series	Amount	Maturity Date
A	\$16,440,000	June 1, 2030
B	11,770,000	June 1, 2030

(2) The Mandatory Sinking Account Payment dates established for the Bonds of any Series pursuant to the Indenture will be redesignated as maturity dates and Mandatory Sinking Account Payments for the Bonds of such Series will be designated as serial and/or term maturities (or will remain as Mandatory Sinking Account Payments of a term bond) of such Series on the Long-Term Conversion Date for such Series of Bonds if the Long-Term Interest Rate Period for

such Series ends on the day immediately preceding the maturity date of the Bonds of such Series, as follows:

(a) (1) If the Remarketing Agent certifies that, under Prevailing Market Conditions, designation and, where applicable, aggregation will result in the lowest net interest cost for such Bonds, Mandatory Sinking Account Payments will be designated as serial maturities maturing in the same years as such Mandatory Sinking Account Payment dates or will be aggregated in term maturities that (A) equal the total of two or more Mandatory Sinking Account Payments, and (B) have a final maturity date on the last of such Mandatory Sinking Account Payment dates; or

(2) If the designation and aggregation in (a)(1) above are not permissible because a Favorable Opinion of Bond Counsel cannot be delivered, Mandatory Sinking Account Payments will be designated as (A) serial maturities maturing on Mandatory Sinking Account Payment dates for the lesser of ten (10), or the remaining number of, Mandatory Sinking Account Payments for such Series occurring after the Long-Term Conversion Date, and (B) a term maturity equal to the total of all remaining Mandatory Sinking Account Payments for such Series and maturing on the maturity date for such Series.

(b) Mandatory Sinking Account Payments for each term maturity established pursuant to subparagraph (a) above will be in principal amounts equal to the Mandatory Sinking Account Payments established for such dates pursuant to The Indenture for such Series of Bonds and be payable on July 1 of each year, commencing on July 1 of the year immediately following the next preceding maturity date of Bonds of such Series and ending on the respective maturity date for such Series.

(c) Notwithstanding anything above to the contrary, if a Favorable Opinion of Bond Counsel cannot be delivered for the designation and aggregation described in (a)(1) or (2) above, then such designation and aggregation will not be permitted.

(d) In accordance with the Indenture, the Trustee will select the Bonds of each maturity date of such Series by lot. In addition, redemption of Bonds of such Series will be done in accordance with the Indenture and will be from such maturities as are selected by the Corporation (or if the Corporation fails to designate maturities, in inverse order of maturities) and by lot within a maturity.

(B) (1) The interest rate or rates for the Bonds of any Series will be determined in accordance with the Indenture and will be payable on each Interest Payment Date for such Series; provided that the interest rate or rates borne by the Bonds will not exceed the Maximum Lawful Rate. Interest on Bonds accruing at the Daily Interest Rate or Weekly Interest Rate will be computed upon the basis of a 365- or 366 day year, as applicable, for the actual number of days elapsed. Interest on Bonds accruing at the Long-Term Interest Rate will be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Interest on Bonds accruing at the Long-Term Interest Rate will be computed upon the basis of a 360 day year, consisting of twelve 30 day months. Each Bond will bear interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate borne by such Bond on the day before the Event of Default occurred.

(2) Each Series of Bonds will bear interest from and including the Interest Accrual Date for such Series immediately preceding the date of authentication thereof or, if such date of authentication is an Interest Accrual Date to which interest on such Series has been paid in full or

duly provided for, from such date of authentication or, if it is the first payment of interest on such Series, the date thereof. However, if, as shown by the records of the Trustee, interest on the Bonds is in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the Bonds so surrendered or, if no interest has been paid on such Bonds, from the date thereof.

(3) For any Series of Bonds subject to a Daily Interest Rate Period, interest on such Series will be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date for such Series and ending on the last day of such month.

(4) For any Series of Bonds subject to a Weekly Interest Rate Period, interest on such Series will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on and including the second preceding Interest Accrual Date) and ending on and including the Tuesday immediately preceding the Interest Payment Date for such Series (or, if sooner, the last day of the Weekly Interest Rate Period).

(5) For any Series of Bonds subject to a Long-Term Interest Rate Period, interest on such Series will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date.

(C) Interest on the Bonds of any Series will be payable on each Interest Payment Date by the Trustee by check mailed on the Interest Payment Date to the Holders of the Bonds at the close of business on the Regular Record Date in respect of such Interest Payment Date at the registered addresses of Holders as will appear on the registration books of the Trustee. In addition, in the case of (i) Bonds bearing interest at other than the Long-Term Interest Rate or (ii) Bonds bearing interest at the Long-Term Interest Rate, the Holder of which owns an aggregate principal amount of Bonds in excess of \$1,000,000 as shown on the registration books of the Trustee who, prior to the Record Date next preceding any Interest Payment Date, will have provided the Trustee with written wire transfer instructions, interest payable on such Bonds will be paid in accordance with the wire transfer instructions provided by the Holder of such Bonds and at the Holder's risk and expense.

(D) If available funds are insufficient on any Interest Payment Date to pay the interest then due on the Bonds, interest will continue to accrue thereon but will cease to be payable to the Holder on such Regular Record Date. If sufficient funds for the payment of such overdue interest thereafter become available, the Trustee will (i) establish a "special interest payment date" for the payment of the overdue interest and a Special Record Date (which will be a Business Day) for determining the Bondholders entitled to such payment and (ii) mail notices by first class mail of such dates as soon as practicable. Notice of each such date so established will be mailed to each Bondholder at least 10 days prior to the Special Record Date but not more than 30 days prior to the special interest payment date. The overdue interest will be paid on the special interest payment date to the Holders, as shown on the registration books of the Trustee as of the close of business on the Special Record Date. The form of such notice will be provided to the Trustee by the Corporation.

(E) Notwithstanding the provisions of the Indenture, Credit Facility Bonds will bear interest at the Credit Facility Rate and such interest will be calculated in accordance with the Reimbursement Agreement.

(F) The principal or Redemption Price of the Bonds will be payable in lawful money of the United States of America at the Principal Corporate Trust Office of the Trustee upon surrender of the Bonds to the Trustee for cancellation; provided that the Trustee may agree with the Holder of any Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on such Bond a record of partial payment of the principal of such Bond in the form set forth below (which will be typed or printed on such Bond):

PAYMENTS ON ACCOUNT OF PRINCIPAL

Payment Date	Principal Amount Paid	Balance of Principal Amount Unpaid	Signature of Holder
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The Trustee will maintain a record of each such partial payment made in accordance with the foregoing agreement and such record of the Trustee will be conclusive, absent manifest error. Such partial payment will be valid upon payment of the amount thereof to the Holder of such Bond, and the Authority and the Trustee will be fully released and discharged from all liability to the extent of such payment regardless of whether such endorsement will or will not have been made upon such Bond by the Holder thereof and regardless of any error or omission in such endorsement.

(G) The Bonds will be subject to redemption as provided in the Indenture.

(H) The Trustee will identify all payments (whether made by check or by wire transfer) of interest, principal, and premium by CUSIP number of the Bonds.

Initial Interest Rate; Subsequent Interest Rate

(A) The initial Interest Rate Period for the Bonds of each Series will be a Weekly Interest Rate Period.

(B) The interest rate on the Bonds of any Series may thereafter be adjusted to a Daily Interest Rate, a Weekly Interest Rate or a Long-Term Interest Rate, as provided in the Indenture.

(C) All Bonds of a Series will bear interest in the same Interest Rate Period and, except with respect to Bonds of a Series constituting Credit Facility Bonds, will bear the same interest rate.

Transfer of Bonds

Subject to the provisions of the Indenture, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Indenture, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds of the same Series and for a like aggregate principal amount. The Trustee will require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Trustee may also

require the Bondholder requesting such transfer to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer. Except for transfers of Bonds subject to optional or mandatory tender for purchase pursuant to the provisions of the Indenture regarding the redemption and purchase of bonds, the Trustee will not be required to transfer (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given, or (ii) any Bond called for redemption.

#### Exchange of Bonds

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for Bonds of the same Series and a like aggregate principal amount of Bonds of other authorized denominations. The Trustee will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange and, the Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such exchange. Except for exchanges of Bonds subject to optional or mandatory tender for purchase pursuant to the provisions of the Indenture regarding the redemption and purchase of bonds, the Trustee will not be required to exchange (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given or (ii) any Bond called for redemption.

#### **Application of Proceeds**

#### Establishment and Application of Costs of Issuance Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” Within such fund there will be established a “Series 2008A Costs of Issuance Account” and a “Series 2008B Costs of Issuance Account.” Moneys deposited in said fund will be used to pay Costs of Issuance with respect to the Bonds upon Requisition of the Corporation filed with the Trustee. At the end of six months from the date of initial execution and delivery of the Bonds, or upon earlier receipt of a Statement of the Corporation that amounts in said fund are no longer required for the payment of such Costs of Issuance, said fund will be terminated, and any amounts then remaining in said fund will be transferred to the Construction Fund. Upon such transfer, the Costs of Issuance Fund will be closed.

#### **Revenues and Funds**

#### Pledge and Assignment: Revenue Fund

(A) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, there are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (other than the Purchase Fund and the Rebate Fund). Said pledge will constitute a lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(B) 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, all of the Revenues and other assets pledged in the Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to reimbursement or indemnification, (iii) the obligation of the Corporation

to make deposits pursuant to the Tax Agreement and (iv) as otherwise expressly set forth in the Loan Agreement). The Trustee will be entitled to and will 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 will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to, subject to the provisions of the Indenture, and will take all steps, actions and proceedings to enforce all of the rights of the Authority (other than those specifically retained by the Authority) under the Indenture or Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and all of the obligations of the Corporation under the Loan Agreement.

(C) All Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which pursuant to the Indenture the Trustee is directed to establish, maintain and hold in trust. All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

#### Allocation of Revenues

On or before the dates specified below, the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is will directed to establish and maintain within the Revenue Fund) 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 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:

- (1) on or before each Interest Payment Date, to the Interest Fund, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest;
- (2) to the Principal Fund, on or before each June 1, commencing June 1, 2009, the amount of the Sinking Account Payment becoming due and payable on such June 1, until the balance in said account is equal to said amount of such Sinking Account Payment; and
- (3) to reimburse the Credit Facility Provider for any amount payable under the Reimbursement Agreement, but not yet reimbursed to the Credit Facility Provider.

Any moneys remaining in the Revenue Fund after the foregoing transfers will be retained in the Revenue Fund and will be allocated and applied as provided in the Loan Agreement and the Indenture.

#### Interest Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Interest Fund." While the Bonds bear interest at the Daily Interest Rate or the Weekly Interest Rate, all amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of reimbursing the Credit Facility Provider for drawings under the Credit Facility to pay interest on the Bonds pursuant to the Indenture or, if and only if the Credit Facility Provider is in default with respect to payments under the Credit Facility, to pay interest on the Bonds when due. The Trustee will pay such reimbursement to the Credit Facility Provider subsequent to the draw on the Credit Facility by 3:00 p.m., New York City time, on the same day as the proceeds of such draw are received.

### Principal Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the “Principal Fund.” While the Bonds bear interest at the Daily Interest Rate or the Weekly Interest Rate, all amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purpose of reimbursing the Credit Facility Provider for drawings under the Credit Facility to pay principal of the Bonds pursuant to the Indenture or, if and only if the Credit Facility Provider is in default with respect to payments under the Credit Facility, to pay principal of the Bonds when due. The Trustee will pay such reimbursement to the Bank subsequent to the draw on the Credit Facility by 3:00 p.m., New York City time, on the same day as the proceeds of such draw are received.

### Redemption Fund

(A) The Trustee will establish, maintain and hold in trust a separate fund designated as the “Redemption Fund” in which there is further established an “Optional Redemption Account” and a “Special Redemption Account.” All amounts deposited in the Optional Redemption Account and in the Special Redemption Account will 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, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and in the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee may on the written instructions of the Corporation apply such amounts in the Optional Redemption Account to Loan Payments in the order of their due dates or such amounts in the Optional Redemption Account or the Special Redemption Account to the purchase of 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 Fund) as the Trustee 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.

(B) Notwithstanding the foregoing, as long as a Credit Facility is outstanding, the Trustee will withdraw amounts from the Optional Redemption Account and in the Special Redemption Account as needed to reimburse the Credit Facility Provider for the amount of any draws made under the Credit Facility for the purpose of paying the Redemption Price of Bonds.

### Rebate Fund

All amounts at any time on deposit in the Rebate Fund will 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 will be free and clear of any lien under the Indenture and will be governed by the Indenture and by the Tax Agreement.

### Alternate Credit Facility

At any time, the Corporation may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility in substitution for the Credit Facility then in effect. The Corporation will give written notice of the Corporation’s intention to exercise such option to the Trustee, the Authority and the Remarketing Agent not fewer than 35 days prior to the proposed effective date of such Alternate Credit Facility. On or prior to the date of the delivery of an Alternate Credit Facility to the Trustee, the Corporation will furnish to the Trustee and the Authority (i) a Favorable Opinion of Bond Counsel, (ii) an Opinion of Counsel acceptable to the Authority stating that the delivery of such Alternate Credit Facility will not adversely affect the exemption of the Bonds from registration under the Securities Act of 1933, as

amended, or that the Bonds have been so registered; (iii) an Opinion of Counsel in substantially the same form as the opinion delivered by counsel to the Credit Facility Provider in connection with the delivery of the Initial Credit Facility; and (iv) evidence that the Bonds secured by such Alternate Credit Facility are rated not lower than “BBB+” by S&P and “Baa1” by Moody’s. Not fewer than 30 days prior to the proposed substitution date, the Trustee will mail a written notice to the Holders of the Bonds at their addresses as they appear on the registration books of the Trustee on the day on which notice is received by the Trustee from the Corporation. Such notice will set forth the following: (a) the Credit Facility Provider of the Alternate Credit Facility; (b) the rating proposed to be assigned to the Bonds upon the substitution of the Alternate Credit Facility; (c) the substitution date; and (d) that the Bonds will be subject to mandatory tender for purchase on the substitution date pursuant to the Indenture. The Corporation will furnish information, upon request of the Trustee to the Corporation necessary for the Trustee to prepare such notice.

## **Covenants**

### Tax Covenants

(A) General. The Authority covenants with the Holders of the Bonds that, notwithstanding any other provisions of the Indenture, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. The Authority will not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code) or an organization described in Section 501(c)(3) of the Code in pursuit of such organization’s exempt purpose and other than in an “unrelated trade or business” (as such term is defined in Section 513 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Bonds.

(B) Qualified 501(c)(3) Bonds. The Authority will not take any action, or fail to take any action, if any such action or failure to take action would cause the Bonds to be other than “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code, and in furtherance thereof, will not make any use of the proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, or any other funds of the Authority, that would cause the Bonds to be other than “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code. To that end, so long as any Bonds are outstanding, the Authority, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The Authority will establish reasonable procedures necessary to ensure continued compliance with Section 145 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Bonds as “qualified 501(c)(3) bonds.”

(C) Arbitrage. The Authority will not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced twill, or other funds of the Authority, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the Authority will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds.

(D) Federal Guarantee. The Authority will not make any use of the proceeds of the Series 2007 Bonds or any other funds of the Authority, or take or omit to take any other action, that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(E) Compliance with Tax Agreement. In furtherance of the foregoing tax covenants of the Indenture, the Authority covenants that it will comply with the provisions of the Tax Agreement and the covenants thereunder. These covenants will survive payment in full or defeasance of the Bonds.

## **EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS**

### Events of Default

The following events will be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption from Mandatory Sinking Account Payments, by declaration of acceleration or otherwise;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment will become due and payable;

(C) failure to pay the Purchase Price of any Bond required to be purchased pursuant to the Indenture when due and payable;

(D) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such default will have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, will have 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 25% in aggregate principal amount of the Bonds at the time Outstanding; or

(E) a Loan Default Event will have occurred and will not have been remedied or waived; or

(F) receipt of notice from the Credit Facility Provider that (i) an event of default will have occurred and be continuing under the Reimbursement Agreement or (ii) the Credit Facility Provider has not been reimbursed for an interest drawing and that the interest portion of the Credit Facility will not be reinstated and, in either case, instructing the Trustee to accelerate the Bonds.

Upon actual knowledge of the existence of any Event of Default, the Trustee will notify the Corporation, the Authority, and the Credit Facility Provider, if any, in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Trustee, the Corporation, the Authority, and the Credit Facility Provider, if any.

Notwithstanding anything to the contrary in the Indenture, the Authority will have no obligation to and instead the Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than those specifically retained by the Authority pursuant to the Indenture) under the Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Corporation under the Loan Agreement.

### Acceleration of Maturities

Whenever any Event of Default referred to in the Indenture will have happened and be continuing, the Trustee may take the following remedial steps:

(A) In the case of (1) an Event of Default described above in paragraphs (A), (B) or (C) under the heading “Events of Default,” the Trustee may, or upon the written direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding will, or (2) an Event of Default described in above in paragraph (F) under the heading “Events of Default,” will occur, the Trustee will, upon notice in writing to the Authority, the Credit Facility Provider and the Corporation 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 will become and will be immediately due and payable, anything in the Indenture to the contrary notwithstanding;

(B) In the case of an Event of Default described above in paragraph (D) under the heading “Events of Default,” the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture; and

(C) In the case of an Event of Default described above in paragraph (E) under the heading “Events of Default,” the Trustee may take whatever action the Authority would be entitled to take, and will take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the Corporation or the Credit Facility Provider, if any, will deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Authority and the Trustee or provision deemed by the Trustee to be adequate will have been made therefore, and the Credit Facility, if any, has been reinstated, then, and in every such case, the Trustee will, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

Immediately after any acceleration under the Indenture, the Trustee, to the extent it has not already done so, will notify in writing the Authority, the Corporation, the Credit Facility Provider, if any, the Tender Agent and the Remarketing Agent of the occurrence of such acceleration.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Indenture or in the Bonds to the contrary notwithstanding, interest will cease to accrue on such Bonds from and after the date set forth in such notice (which will be not more than seven days from the date of such declaration).

### Application of Revenues and other Funds After Default

If an Event of Default will occur and be continuing and the principal of the Bonds having been declared due and payable pursuant to the Indenture, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the requirements hereof relating to the use of moneys in the Credit Facility Account and other than moneys

required to be deposited in the Purchase Fund or the Rebate Fund) will be applied by the Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses and other amounts owed to the Trustee under the Indenture or under the Loan Agreement (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(B) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(1) Unless the principal of all of the Bonds will have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which will have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: To the payment to the Credit Facility Provider, if any, amounts payable under the Reimbursement Agreement.

(2) If the principal of all of the Bonds will have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(3) To the payment of Rebate Amounts then due to the federal government of the United States of America.

Notwithstanding any of the foregoing, funds drawn under the Credit Facility, proceeds derived from the remarketing of Bonds tendered for purchase pursuant to the Indenture and any other Available Moneys necessary for redemption of Bonds will only be used to pay principal and interest on the Bonds.

### Trustee to Represent Bondholders

The Trustee is will irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Loan Agreement, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Credit Facility Provider, if any, or the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding (but with the consent of the Credit Facility Provider, if any) and upon being indemnified to its satisfaction therefore, will, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Loan Agreement, the Act or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee will follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

### Bondholders' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Credit Facility Provider, if any, or the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, but with the consent of the Credit Facility Provider, if any, (unless the Credit Facility Provider has failed to honor a properly presented and conforming drawing under the Credit Facility) will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefore, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

### Limitation on Bondholders' Right to Sue

No Holder of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to such Bond, unless (1) such Holder will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee will follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%; (3) such Holder or said Holders will have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be

incurred in compliance with such request; and (4) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are will declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement, the Act or other applicable law with respect to the Bonds, except in the manner therein provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

## **Modification or Amendment of the Indenture**

### Amendments Permitted

(A) The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into when the written consent of (i) the Credit Facility Provider, if any, or (ii) if there is no Credit Facility Provider or the Credit Facility Provider is in default under the Reimbursement Agreement, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding will have been filed with the Trustee. No such modification or amendment will

(1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the amount of any Mandatory Sinking Account Payments, or extend the time of payment therefore, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or

(2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to paragraph (A) above, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to each Rating Agency then rating the Bonds, the Credit Facility Provider, if any, and the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(B) The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into with the consent of

the Credit Facility Provider, if any, but 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 contained in the Indenture 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 in the Indenture reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender will 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 Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, if required by such act or statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Holders of the Bonds;

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(5) to facilitate (i) the transfer of Bonds from one Depository to another in the succession of Depositories, or (ii) the withdrawal from a Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Depository;

(6) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(7) to make any amendments appropriate or necessary to provide for any Alternate Credit Facility delivered to the Trustee and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of the Bonds or (iii) both (i) and (ii);

(8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; or

(9) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

(C) The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise. The Trustee and the Authority will be fully protected in entering into any modification or amendment to the Indenture in reliance on an opinion of counsel that such amendment or modification complies with the Indenture.

(D) Copies of all Supplemental Indentures will be provided to the Credit Facility Provider, if any, by the Trustee. Additionally, copies of any proposed Supplemental Indenture will be forwarded by the Trustee to each Rating Agency then rating the Bonds at least 10 days prior to the effective date thereof.

## **Defeasance**

### Discharge of Indenture

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

(A) by paying or causing to be paid (with Available Moneys while the Bonds of such Series are in a Daily Interest Rate Period or a Weekly Interest Rate Period and such Bonds are secured by a Credit Facility) the principal or Redemption Price of and interest on all Bonds of such Series Outstanding, as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem (with Available Moneys while the Bonds of such Series are in a Daily Interest Rate Period or a Weekly Interest Rate Period and such Bonds are secured by a Credit Facility) all Bonds of such Series then Outstanding; or

(C) by delivering to the Trustee, for cancellation by it, all Bonds of such Series then Outstanding.

If the Authority will also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Corporation will have paid all Administrative Fees and Expenses and any other fees and expenses of the Authority payable to the Authority pursuant to the Loan Agreement, 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), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption (1) to the Credit Facility Provider to the extent of any amounts owed under the Reimbursement Agreement and (2) otherwise to the Corporation; provided that in all events moneys in the Rebate Fund will be subject to the provisions of the Indenture. Notwithstanding the foregoing, moneys in the Credit Facility Account of the Purchase Fund will in all cases be transferred to the Credit Facility Provider and money in the Remarketing Proceeds Account of the Purchase Fund will be retained by the Trustee under the Indenture until all Bonds have been retired, after which such funds may be paid over to the Corporation.

### Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be

redeemed prior to maturity, notice of such redemption will have been given pursuant to the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Authority in respect of such Bond will cease, terminate and be completely discharged and satisfied, except only that thereafter the Holder thereof will be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority will remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

#### Deposit of Money or Securities with Trustee.

When the Indenture provides or permits that there be deposited with or held in trust by the Trustee money or securities in the necessary amount 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 and accounts established pursuant to the Indenture (other than the Project Fund, the Purchase Fund and the Rebate Fund) and will be:

(A) 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 will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations (not callable by the Authority thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of this Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, that while the Bonds of either Series bear interest at the Daily Interest Rate or the Weekly Interest Rate, the actual interest rate, if such rate has been determined, or the Maximum Bond Interest Rate, for periods for which the actual interest rate on the Bonds cannot be determined, will be used in calculating the amount of interest due on such Bonds to maturity or early redemption and if the Bonds of such Series are not to be redeemed at the first possible redemption date after such deposit, the Trustee will have received written confirmation from Moody's or S&P that such action will not result in a reduction or withdrawal of the ratings then applicable to such Series, and provided further, that with respect to the deposit of United States Government Obligations pursuant to this subsection (B), the Trustee will have received (i) a verification report from an independent firm of nationally recognized certified public accountants addressed to the Authority, any Rating Agency rating the Bonds and the Trustee acceptable in form and substance to the Authority and the Trustee verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date, (ii) an escrow deposit agreement in form and substance acceptable to the Trustee, (iii) an Opinion of Bond Counsel addressed to the Authority and the Trustee acceptable in form and substance to the Authority and the Trustee to the effect that the Bonds are no longer Outstanding under this Indenture, (iv) a certificate of discharge from the Trustee with respect to the Bonds, and (v) an Opinion of Counsel to the effect that the escrow deposit agreement has been duly authorized, executed and delivered by the Corporation (or other appropriate party) and that such agreement is valid and enforceable against the Corporation (or such other party) with such exceptions as are acceptable to the

Trustee. If a forward purchase agreement will be employed in connection with such deposit, such agreement will be subject to the approval of the Authority and the Trustee and will be accompanied by such opinions of counsel as may be reasonably requested by the Authority and the Trustee.

#### Payment of Bonds After Discharge of Indenture

Notwithstanding any provisions of the Indenture but subject to the unclaimed property laws of the State of California, any moneys held by the Trustee in trust for the payment of the principal of, premium, if any, or interest on, any Bonds and remaining unclaimed for two years (or if shorter and to the extent permitted by law, one day before such moneys would escheat to the State of California under the applicable California law) after such principal or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two years (or, if shorter and to the extent permitted by law, one day before such moneys would escheat to the State of California under the applicable California law) after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, will be repaid to the Corporation free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Authority and the Trustee with respect to claims of Holders of Bonds which have not yet been paid and containing the agreement of the Corporation to remain liable for the amount so repaid to the Corporation, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee may (at the cost of the Corporation) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof.

**APPENDIX E**  
**FORM OF BOND COUNSEL OPINION**

November \_\_, 2008

ABAG Finance Authority for  
Nonprofit Corporations  
Oakland, California

\$ \_\_\_\_\_  
ABAG Finance Authority for Nonprofit Corporations  
Variable Rate Refunding Revenue Bonds  
(Schools of the Sacred Heart – San Francisco)  
Series 2008 A and B

Ladies and Gentlemen:

We have acted as bond counsel to ABAG Finance Authority for Nonprofit Corporations (the “Authority”) and in such capacity have examined a record of proceedings relating to the issuance of \$ \_\_\_\_\_ aggregate principal amount of the Authority’s Variable Rate Refunding Revenue Bonds (Schools of the Sacred Heart – San Francisco), Series 2008 A and B (the “Bonds” and each, a “Series” of Bonds), dated their date of issuance. The Bonds are issued under and pursuant to the Joint Powers Act, commencing with Section 6500 of the Government Code of the State of California, and an Indenture of Trust, dated as of November 1, 2008 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”), for the purpose of providing funds, together with other available funds, to (i) refund the Authority’s Revenue Bonds (Schools of the Sacred Heart – San Francisco), Series 2007 A and the Authority’s Revenue Bonds (Schools of the Sacred Heart – San Francisco), Series 2007 B, and issued to (ii) pay certain costs and expenses incurred in connection with the issuance of the Bonds. Capitalized terms not defined herein shall have the respective meanings assigned to them in the Indenture.

The Bonds bear interest from their date of issuance and are subject to redemption prior to their respective stated maturities in the manner and upon the terms and conditions set forth therein and in the Indenture. The Bonds initially will bear interest at Weekly Interest Rates. While the Bonds of either Series bear interest at Weekly Interest Rates, such Bonds will be issued as fully registered Bonds in denominations of \$100,000 and any multiple of \$5,000 in excess thereof.

The Bonds are secured by, among other things, payments to be made by the Corporation under a Loan Agreement, dated as of November 1, 2008 (the “Loan Agreement”), between the Authority and the Corporation and delivered to the Authority as evidence of the Corporation’s obligation to repay the loan of the proceeds of the Bonds. The Authority will assign to the Bond Trustee, for the benefit of bondholders, its right, title and interest in the Loan Agreement.

The Loan Agreement and the Indenture and the rights and obligations of the Authority, the Corporation, the Bond Trustee and the registered owners of the Bonds may be amended or modified in the manner and subject to the conditions and terms set forth in the Loan Agreement and the Indenture.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and officials of the Corporation furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Indenture has been duly authorized and executed by the Authority and is valid and binding in accordance with its terms. The Indenture creates a valid pledge, 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, of all of the Revenues and any other amounts (including the proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture, excepting only any amounts held in the Rebate Fund or the Purchase Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the Holders from time to time of the Bonds, of all of the right, title and interest of the Authority in the Loan Agreement (to the extent and as more particularly described in the Indenture).
3. The Bonds are valid and binding limited obligations of the Authority payable solely from the Revenues and other assets pledged and assigned therefor under the Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the State of California nor the Authority shall be obligated to pay the Bonds or the interest thereon except from the Revenues, and neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
4. The Loan Agreement has been duly authorized and executed by the Authority and the Corporation and is valid and binding in accordance with its terms.
5. Under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Corporation with certain covenants of the Indenture, the Loan Agreement, the Tax Certificate and other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and operation of the Corporation, the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In rendering the foregoing opinion, we have relied upon the opinion of Chapman and Cutler LLP, San Francisco, California, regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. We can give no opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or 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 cause interest on the Bonds

to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds is, however, included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may, therefore, affect a corporation's alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by the ownership of or the receipt of interest on the Bonds.
7. Under existing law, interest on the Bonds is exempt from State of California personal income taxes.

The Indenture provides that either Series of Bonds may be converted to bear interest at a Daily Interest Rate or Long-Term Interest Rate, under the circumstances and subject to the conditions set forth in the Indenture. Additionally, certain requirements and procedures contained or referred to in the Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than Sidley Austin LLP with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

With respect to the opinions expressed herein, the enforceability of the rights and obligations under the Bonds, the Loan Agreement and the Indenture and the liens and security interest described above are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally and to the application of such principles of equity as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or at law. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Further, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated November 13, 2008, issued in connection with the marketing of the Bonds and express no opinion with respect thereto.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events. In rendering this opinion, we also have relied upon the opinion of Chapman and Cutler LLP, San Francisco, California, with respect to the authorization, execution and delivery by the Corporation of the Loan Agreement.

Respectfully submitted,

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# CONVENT & STUART HALL

*Academics for life, values for living*

