

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



\$7,000,000
ABAG Finance Authority For Nonprofit Corporations
Variable Rate Demand Revenue Bonds
(The Urban School of San Francisco)
Series 2004

Dated: Delivery Date

CUSIP: 00037C GK 0*

Due: August 1, 2034

The Bonds will initially bear interest at a Weekly Rate payable on the first Business Day of each month, commencing August 1, 2004. The Bonds may be converted to a Term Mode or a Fixed Rate Mode. The Bonds are being issued pursuant to an Indenture, dated as of July 1, 2004 (the "Indenture"), by and between the ABAG Finance Authority For Nonprofit Corporations (the "Authority") and U.S. Bank National Association as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to The Urban School of San Francisco (the "Corporation"), pursuant to a Loan Agreement, dated as of July 1, 2004 (the "Loan Agreement"), between the Authority and the Corporation. The Bonds are limited obligations of the Authority payable solely from and secured by certain Revenues pledged under the Indenture, consisting primarily of Loan Payments made by the Corporation under the Loan Agreement and certain other funds as provided in the Indenture.

The Bonds will (a) refinance certain indebtedness of the Corporation and finance construction of a 19,000 square foot addition to the Corporation's existing facilities located in San Francisco, California and other miscellaneous construction, renovation, improvements, equipment acquisition and improvements thereto (the "Project") and (b) certain costs of issuance of the Bonds. See "THE PROJECT" herein.

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

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

Payment of the principal of and interest on, and purchase price of, the Bonds will initially have the benefit of an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued by Allied Irish Banks, p.l.c., New York Branch (the "Bank") as the initial Credit Facility pursuant to the Indenture. The initial expiration date of the Letter of Credit is July 15, 2008, as extended or earlier terminated prior thereto as described herein. The Letter of Credit and any Alternate Credit Facility is defined under the Indenture as the "Credit Facility." See "THE BANK" and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."



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

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

The Bonds are offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of legality and certain other legal matters by Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California, for the Bank by Sidley Austin Brown & Wood LLP, Los Angeles, California, domestic counsel to the Bank, and by the Bank's Legal Department, Irish counsel to the Bank, and for the Corporation by Nossaman Guthner Knox & Elliott LLP, San Francisco, California. Shearman & Sterling LLP, San Francisco, California, is serving as special disclosure counsel to the Corporation. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about July 15, 2004.

STONE & YOUNGBERG LLC

Dated: July 8, 2004

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

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

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

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

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

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OFFICIAL STATEMENT

\$7,000,000

**ABAG Finance Authority For Nonprofit Corporations
Variable Rate Demand Revenue Bonds
(The Urban School of San Francisco)
Series 2004**

INTRODUCTION

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

General

This Official Statement, including the cover page and the appendices hereto, is provided to furnish certain information in connection with the sale and issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of \$7,000,000 aggregate principal amount of the Authority's Variable Rate Demand Revenue Bonds (The Urban School of San Francisco) Series 2004 (the "Bonds").

The Bonds will (a) refinance certain indebtedness of the Corporation and finance construction of a 19,000 square foot addition to the Corporation's existing facilities located in San Francisco, California and other miscellaneous construction, renovation, improvements, equipment acquisition and improvements thereto (the "Project") and (b) certain costs of issuance of the Bonds. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Bonds will be issued pursuant to an Indenture, dated as of July 1, 2004 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to The Urban School of San Francisco, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a Loan Agreement, dated as of July 1, 2004 (the "Loan Agreement"), between the Authority and the Corporation.

The Corporation

The Corporation is a nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code that operates an independent, co-educational, college preparatory day school serving grades 9-12. See "APPENDIX A - THE URBAN SCHOOL OF SAN FRANCISCO" herein.

Security for the Bonds

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

Payment of the principal of and interest on, and purchase price of, the Bonds will initially have the benefit of an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued by Allied Irish Banks, p.l.c., New York Branch, (the "Bank") as the initial Credit Facility pursuant to the Indenture. The initial expiration date of the Letter of Credit is July 15, 2008, as extended or earlier terminated prior thereto as described herein. The Letter of Credit and any Alternate Credit Facility is defined under the Indenture as the "Credit Facility." See "THE BANK" and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

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No Continuing Disclosure

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

Other Matters

The brief descriptions of the Corporation, the Authority, the Project (defined below), the Bonds, the Indenture, the Loan Agreement, the Credit Facility, the Reimbursement Agreement

and other documents, statutes, reports, and other instruments included in this Official Statement do not purport to be complete, comprehensive, or definitive. All references to the Indenture, the Loan Agreement and other documents, statutes, reports, and other instruments are qualified in their entirety by reference to such document, statute, report, or instrument, and all references to the Bonds are qualified in their entirety by reference to the forms of the Bonds set forth in the Indenture.

During the period of the offering of the Bonds, copies of the Indenture, the Loan Agreement, the Credit Facility and the Reimbursement Agreement may be obtained at the offices of Stone & Youngberg LLC, One Ferry Building, Suite 275, San Francisco, California 94111, and thereafter at the office of the Trustee, U.S. Bank National Association, One California Street, Suite 2550, San Francisco, CA 94111.

THE PROJECT

The Authority will lend the proceeds of the Bonds to the Corporation to (a) refinance certain indebtedness of the Corporation and finance construction of a 19,000 square foot addition to the Corporation's existing facilities located in San Francisco, California and other miscellaneous construction, renovation, improvements, equipment acquisition and improvements thereto (the "Project") and (b) finance certain costs of issuance of the Bonds.

Description and Estimated Budget

The Project consists of a 19,000 square-foot 40-foot tall addition that will contain 8 general-purpose classrooms, 4 science labs, faculty and staff office spaces, a student center, and a new main entrance to the school. This addition will be constructed on the site of two residential buildings located immediately east of the school which were purchased in 1998 and 1999 by the Corporation. In addition, approximately 9,000 square feet in the existing school building will be remodeled to include the addition of music rehearsal facilities, enlarged college counseling offices, an extension to an existing library reading room, and faculty and staff offices. Upon completion of the Project, the square footage of the Corporation's facilities will increase by approximately 65%.

Demolition of the residential buildings commenced in mid-June 2004, and the Corporation expects that the new building will be completed in late July 2005. The building is expected to be ready for occupation in early September 2005, in time for the start of the 2005 academic year. There can be no assurances that the Project will be completed within the estimated budget and schedule. See "INVESTMENT CONSIDERATIONS" herein.

The total cost of the Project (including the price of the buildings purchased in 1998 and 1999 as the site for the Project and certain other amounts spent to date) is estimated to be approximately \$12 million, with approximately \$6.5 million to be funded from the proceeds of the Bonds and approximately \$5.5 million to be funded through private donations and other moneys. Certain improvements to the Corporation's facilities were financed by a bank loan currently outstanding in the amount of \$589,914, which loan will be retired with a portion of the proceeds of the Bonds.

Land Use Planning and Environmental Issues

All of the land use approvals necessary for construction of the Project have been obtained. In connection with the Project, the Corporation has complied with all relevant provisions of the California Environmental Quality Act ("CEQA").

Specifically, on October 25, 2003 the Planning Department of the City and County of San Francisco ("San Francisco") published a Preliminary Mitigated Negative Declaration that was adopted and issued as a Final Mitigated Negative Declaration on November 20, 2003. On January 25, 2004, the San Francisco Planning Commission approved a request for Conditional Use authorization as set forth in Planning Commission Motion No. 16709 to demolish two three-unit residential structures and construct a 19,000 square foot addition to the Corporation's facilities.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Par Amount of the Bonds	\$7,000,000.00
Total Sources	<u>\$7,000,000.00</u>
Uses of Funds:	
Deposit to Project Fund	\$6,495,000.00
Interest Account	270,542.80
Costs of Issuance ⁽¹⁾	234,457.20
Total Uses	<u>\$7,000,000.00</u>

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

THE BONDS

General Provisions

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

Terms of the Bonds

The Bonds will initially bear interest in the Weekly Mode, and interest will be calculated based on a 365 or 366 day year, as applicable, for the number of days actually elapsed during an Interest Period. Interest on the Bonds will be payable on the first Business Day of each month commencing August 1, 2004. The Bonds will continue to bear interest at a Weekly Rate until the conversion thereof to a different Term Mode or Fixed Rate Mode. Interest on the Bonds in a Term Mode or a Fixed Rate Mode will be calculated based on a 360-day year, consisting of twelve 30-day months. Ownership interests in the Bonds while in the Weekly Mode will be in denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000. Ownership interests in the Bonds while in the Term Mode or the Fixed Rate Mode will be in denominations of \$5,000 or any integral multiple thereof.

Weekly Mode

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

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

Notice of Adjustment to Weekly Mode. The Trustee is required to give notice by mail of an adjustment to the Bonds in a Weekly Mode to the Owners of such Bonds, with copies to the Bank and the Corporation, not less than 15 days prior to the effective date of such Weekly Mode. Such notice is required to state (1) that the interest rate on the Bonds will be adjusted to a Weekly Rate, (2) the effective date of such Weekly Mode, (3) the day by which the Weekly Rate will be determined and the manner by which such Weekly Rate may be obtained, (4) the Interest Payment Dates after such effective date, (5) that the Bonds is required to be purchased on such effective date pursuant to the Indenture, (6) the procedures for such purchase as provided in (5)

above, (7) that, subsequent to such effective date, the DTC Participants or the Owners of Bonds will have the right to tender and demand purchase of Bonds upon not less than seven days notice, (8) the procedures for a demand for tender and purchase as provided in (7) above, (9) the redemption provisions that will pertain to the Bonds during such Weekly Mode, (10) the ratings that are expected to be assigned to the Bonds on such date, and (11) that such portion of Bonds not in Authorized Denominations on such Mode Change Date will be purchased as provided in the Indenture.

Term Mode

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

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

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

Fixed Rate Mode

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

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

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

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

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

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

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

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

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

Redemption of the Bonds

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

Optional Redemption

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

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

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

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

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

Redemption Procedures

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

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

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

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

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

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

Optional and Mandatory Tender

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

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

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

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

Purchase and Remarketing of Bonds

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

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

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

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

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

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

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

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

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

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

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

REMARKETING AGREEMENT

The Corporation has entered into a Remarketing Agreement for the Bonds, dated as of July 1, 2004 (the "Remarketing Agreement"), with Stone & Youngberg LLC as the Remarketing Agent (the "Remarketing Agent"). Under the Remarketing Agreement, the Remarketing Agent

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

SECURITY FOR THE BONDS

General

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

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

OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

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

Assignment

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

Enforceability of Remedies

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

Amendment of Indenture and Loan Agreement

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

THE BANK

THIS FOLLOWING REPRESENTS ONLY A SUMMARY OF THE INFORMATION REFERRED TO HEREIN. EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN, THIS DOCUMENT DOES NOT ATTEMPT TO DESCRIBE THE BUSINESS OR ANALYZE

THE CONDITION, FINANCIAL OR OTHERWISE, OF ALLIED IRISH BANKS, p.l.c. ("AIB") OR OTHERWISE DESCRIBE ANY RISKS ASSOCIATED WITH AIB. EACH BONDHOLDER MUST RELY ON THAT HOLDER'S OWN KNOWLEDGE, INVESTIGATION AND EXAMINATION OF AIB AND AIB'S CREDITWORTHINESS.

AIB reports its financial information on a consolidated basis which includes AIB and certain affiliates and subsidiaries ("AIB Group"). AIB Group provides a diverse and comprehensive range of banking, financial and related services principally in Ireland, Britain, Poland and the United States. AIB Group is currently organized into five (5) divisions: Republic of Ireland; Great Britain & Northern Ireland; Poland; Capital Markets (which includes AIB's New York Branch) and Group Technology & E-Business.

AIB is the largest banking corporation organized under the laws of Ireland. As of December 31, 2003, AIB's total assets were EUR81 billion. Pre-tax profits for the year ended December 31, 2003 amounted to EUR1,011 million. Profit after tax was EUR677 million. Return on equity was 14.5% and return on assets was 0.90%.

Effective April 1st 2003, AIB Group acquired a 22.5% stake in M&T Bank Corporation [NYSE:MTB], Buffalo, New York as result of the merger of AIB's subsidiary Allfirst Financial Inc with M&T Bank Corporation, which merger has created a mid-Atlantic banking franchise with over 700 branches in six (6) states and the District of Columbia.

AIB's New York Branch files quarterly reports on Form FFIEC-002 ("Call Reports") with the Federal Reserve Bank of New York, 33 Liberty Street, New York, NY 10001, the Federal Deposit Insurance Corporation ("FDIC") at 20 Exchange Place, New York, NY 10005 and with the New York State Banking Department at 1 State Street, New York, NY 10004. The Call Reports are publicly available.

AIB is an Irish registered public limited company and its ordinary shares are quoted on the Dublin and London stock exchanges. The Group's ordinary shares (symbol AIB) and non-cumulative preference shares (symbol AIBPr) are traded in the USA on the New York Stock Exchange in the form of American Depositary Shares ("ADS") and each ADS is evidenced by an American Depositary Receipt ("ADR"). AIB, as a foreign private issuer of securities in the United States, is required to file an annual report on Form 20-F with the U.S. Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") within 6 months after the end of each fiscal year. Moreover, a foreign issuer, unlike domestic companies, is required to submit to the SEC under the Exchange Act on Form 6-K, only those interim reports and other materials that the issuer prepares in accordance with home country or home market requirements or delivers to its security holders. Exchange Act documents filed by AIB are publicly available at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549 and at its regional offices at 233 Broadway, New York, NY 10279 and 500 West Madison Street, Suite 1400, Chicago, IL 60661. Copies of documents filed by AIB with the SEC may also be accessed electronically by means of the SEC's home page on the Internet at "<http://www.sec.gov>".

Any of the documents referred to herein (other than exhibits to such documents) are available upon request, without charge, by writing to the Chief Financial Officer, Allied Irish Banks, p.l.c., New York Branch, 405 Park Avenue, New York, NY 10022. Additional information about AIB, including a copy of AIB Group's Annual Report and Form 20-F, is presently available on the Internet at "<http://www.aib.ie>".

Note: The rate as of 12/31/03 is EUR1 = \$1.2595.

The rate as of 7/5/04 is EUR1 = \$1.2283.

THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

Letter of Credit

On the date of issuance of the Bonds, the Bank will issue in favor of the Trustee the Letter of Credit with respect to the Bonds (the "Letter of Credit") in the initial amount of \$7,092,055 (the "Stated Amount"), of which up to \$7,000,000 may be drawn to pay the unpaid principal amount of or the portion of the purchase price corresponding to the unpaid principal amount of all of the Bonds Outstanding (other than Bonds presently held of record by the Corporation, or by or on behalf of the Bank or its nominee) (the "Principal Portion") and up to \$92,055 may be drawn upon to pay accrued and unpaid interest or the portion, if any, of the purchase price corresponding to the accrued and unpaid interest on all of the Bonds Outstanding (other than Bonds presently held of record by the Corporation, or by or on behalf of the Bank or its nominee) not in excess of 40 days' interest, computed at an assumed rate of twelve percent 12% per annum (computed on the basis of a 365 day year) (the "Interest Portion"), as such amounts may from time to time be reduced and reinstated as provided in the Letter of Credit. The Letter of Credit is only available to be drawn upon with respect to Bonds bearing interest at a weekly rate under the Indenture. The Stated Amount is comprised of the Principal Portion and the Interest Portion, as they may vary from time to time. Drawings by the Trustee under the Letter of Credit will reduce the amounts available for subsequent drawings under the Letter of Credit, subject to reinstatement as provided in the Letter of Credit. All drawings under the Letter of Credit will be paid with the Bank's own funds.

The Letter of Credit shall terminate on the date which is the earliest of (i) the Bank's honoring a final draft presented by the Trustee under the Letter of Credit, (ii) upon receipt by the Bank of a certificate signed by the Trustee stating that the Corporation has provided and Trustee has accepted an Alternate Credit Facility in accordance with the terms of the Indenture that is effective the date of such certificate, (iii) five days following the conversion of the interest rate applicable to the Bonds to a rate other than a weekly rate under the Indenture, (iv) upon receipt by the Trustee of written notice from the Bank that the Bank has purchased all of the Bonds Outstanding upon the occurrence and continuance of an Event of Default under the Reimbursement Agreement and that the Bank is terminating the Letter of Credit, or (v) July 15, 2008 (the "Stated Termination Date"). The Stated Termination Date of the Letter of Credit may be extended by the delivery by the Bank to the Trustee of a specified notice of extension.

The Reimbursement Agreement

General. The Corporation and the Bank have executed a Reimbursement Agreement, dated as of July 1, 2004 with respect to the Letter of Credit (the "Reimbursement Agreement") which, among other things, sets the terms and conditions whereby the Corporation is required to repay to the Bank any amounts drawn by the Trustee under the Letter of Credit and grants the Bank certain security interests in the funds and accounts held pursuant to the Indenture, subject to the rights of the Holders of the Bonds. Capitalized terms used in this section and not otherwise defined shall have the meanings given such terms as set forth in the Reimbursement Agreement.

Under the Reimbursement Agreement, the Corporation agrees to comply with various covenants, including but not limited to, covenants to: maintain its existence; comply with applicable laws; maintain insurance; maintain its status as an organization described in Section 501(c)(3) of the Internal Revenue Code; pay claims and indebtedness when due; provide financial statements and other operating reports to the Bank; and satisfy certain financial covenants. The Corporation has also agreed to certain restrictions on its cash and investments, liens and debt.

The Reimbursement Agreement and other agreements securing the Corporation's obligation to reimburse the Bank do not secure the Trustee, the Holders of the Bonds, or the Bonds.

Events of Default. The following is a summary of the circumstances set forth in the of the Reimbursement Agreement which constitute events of default thereunder. This summary is qualified by reference to the complete text of the Reimbursement Agreement. Capitalized terms used in this section and not otherwise defined shall have the meanings given to such terms in the Reimbursement Agreement.

As used below, "Material Adverse Effect" means the effect of any event or set of circumstances which, individually or collectively, would reasonably be expected to have a materially adverse effect on (i) the business, property, liabilities, operations, prospects or condition (financial or otherwise) of the Corporation or any person that directly or indirectly owns, controls or materially influences the Corporation or its management, (ii) the validity or enforceability of, or the authority or ability of the Corporation to perform its obligations under, the Reimbursement Agreement or any of the other Related Documents to which the Corporation is a party or to consummate any of the transactions contemplated thereby, (iii) the acquisition, construction or use of the Deed of Trust Property or the Project; (iv) the development or operation of the Deed of Trust Property or the Facilities, including any adverse change in the physical condition of the Deed of Trust Property, the income generated by the Deed of Trust Property or the value of the Deed of Trust Property; (v) the tax-exempt status of interest on the Bonds; or (vi) the rights of the Bank under the Reimbursement Agreement or under the Related Documents (including the pledge of the collateral under the Reimbursement Agreement and the first priority of the Liens created by the Reimbursement Agreement and by any Related Document).

As used below, "Related Documents" means the Reimbursement Agreement, the Letter of Credit, the Bonds, the Indenture, the Loan Agreement, the bond purchase agreement with respect to the Bonds, the remarketing agreement with respect to the Bonds, the construction contracts relating to the Project, the Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of July 1, 2004 (the "Deed of Trust"), executed by the Corporation for the benefit of the Bank, the Environmental Indemnity Agreement, dated as of July 1, 2004 (the "Environmental Indemnity Agreement"), between the Corporation and the Bank, the Control Agreements (the "Control Agreements") among the Corporation, the Bank and the depository institution or investment manager named therein relating to the disposition of moneys deposited or invested with such institutions, this Official Statement, the tax certificate with respect to the Bonds, and any financing statement, control agreement or any other agreement or instrument relating hereto or thereto.

"Facilities" means, as of any date, generally, all of the real and personal property constituting The Urban School of San Francisco, including, without limitation, the Project and the Deed of Trust Property. "Deed of Trust Property" means, generally, the real property subject to the Deed of Trust, as more particularly described therein.

If any of the following events occur, the Bank may do one or more of the following: declare an Event of Default and exercise any of the remedies set forth in the Reimbursement Agreement. If an event of default occurs under the paragraphs set forth in (c) and (d) below, then an Event of Default under the Reimbursement Agreement shall exist automatically without any action by the Bank and the remedies set forth below in the section entitled "- Remedies Upon an Event of Default under the Reimbursement Agreement" shall apply:

(a) Failure by the Corporation to pay when due any principal or interest when required to be paid under the Reimbursement Agreement or under any Bank Bonds or any other Related Document or failure by the Corporation to pay when due any Loan Payment;

(b) Failure by the Corporation to pay any fees, charges or other amount when due under the Reimbursement Agreement and such failure shall remain unremedied for 30 days; or

(c) The Corporation shall become or be the subject of any insolvency proceeding or shall file a petition or other pleading seeking an "order for relief" within the meaning of the United States Bankruptcy Code or shall file any petition or other pleading seeking any reorganization, composition, readjustment, liquidation or similar relief for itself under any present or future law or regulation, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of the Corporation, or of substantially all of its assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due; or

(d) If a petition or other pleading shall be filed against the Corporation, seeking an "order for relief" within the meaning of the United States Bankruptcy Code or any reorganization, composition, readjustment, liquidation or similar relief under any present or future law or regulation and shall remain undismissed or unstayed for an aggregate period of 60 days (whether or not consecutive), or if, by an order or decree of a court of competent jurisdiction, the Corporation shall become the subject of an "order for relief" within the meaning

of the United States Bankruptcy Code or relief shall be granted under or pursuant to any such petition or other pleading, and such order or decree continues unvacated or unstayed, on appeal or otherwise, and in effect for a period of 60 days; or if, by order or decree of such court, there shall be appointed, without the consent or acquiescence of the Corporation, a trustee in bankruptcy or reorganization or a receiver or liquidator of the Corporation, or of all or any substantial part of the property of the Corporation, and such order or decree continues unvacated or unstayed, on appeal or otherwise, and in effect for a period of 60 days; or

(e) The Reimbursement Agreement, the Indenture, the Loan Agreement, the Deed of Trust, the Environmental Indemnity Agreement, the Control Agreements, or the Bonds, or any material provision thereof, shall cease to be valid for any reason; or

(f) The failure of the Corporation to perform, observe, or comply with (i) certain affirmative covenants or any negative covenants contained in the Reimbursement Agreement or (ii) any other affirmative covenants contained in the Reimbursement Agreement or any other of the material terms, covenants, conditions or provisions contained in the Reimbursement Agreement, which failure (solely in the case of clause (ii)), continues for a period of 30 days after written notice specifying such failure and requesting that it be remedied shall have been given to the Corporation by the Bank; or

(g) Any material representation or warranty made by the Corporation in connection with the Reimbursement Agreement or the other Related Documents shall prove to have been materially false when made or deemed made; or

(h) One or more judgments, decrees or orders for the payment of money, which is not subject to insurance (or for which the carrier has denied or disputed coverage other than a routine reservation of rights) and for which adequate reserves have not been established in accordance with generally accepted accounting principles in a manner consistently applied, in excess of \$50,000 in the aggregate in any fiscal year of the Corporation, shall be rendered against the Corporation and either (i) enforcement proceedings shall have been commenced by any creditor upon any such judgment, decree or order, or (ii) there shall be a period of 20 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(i) Any payment or other material provision of the Reimbursement Agreement or any of the other Related Documents to which the Corporation is a party shall cease to be valid and binding on the Corporation, or the Corporation denies that it has any or further liability or obligation under or with respect to the Reimbursement Agreement, the Loan Agreement, the Bonds, the Deed of Trust, the Environmental Indemnity Agreement, the Control Agreements or the Indenture, as the case may be, or a proceeding is commenced by any governmental authority seeking to establish the invalidity or unenforceability thereof; or

(j) There is an unexcused default by the Corporation under any agreement or instrument to which the Corporation is a party relating to any debt in an aggregate principal amount of \$100,000 either (i) in failing to pay any installment of principal or interest on such debt, which default shall not have been waived or excused within any applicable grace period or

(ii) as a result of which such debt shall have been accelerated and declared to be due and payable prior to its date of maturity; or

(k) An event of default (however defined) shall have occurred and be continuing under any of the other Related Documents; or

(l) The independent accountant retained to audit the books of the Corporation fails or refuses to deliver an unqualified opinion with respect to the financial statements of the Corporation; or

(m) Any funds or investments on deposit in, or otherwise to the credit of, any of the funds or accounts established under the Indenture, the Loan Agreement or the Reimbursement Agreement shall become subject to any writ, judgment, warrant or attachment, execution or similar process (other than the rights of the Trustee under the Indenture and the lien of the Bonds); or

(n) Any pledge, security interest or lien created by the Reimbursement Agreement or by any Related Document to secure any amount due by the Corporation under the Reimbursement Agreement or with respect to the Bonds shall fail to be fully enforceable with the priority required thereunder; or

(o) A Material Adverse Effect occurs, and the Corporation fails to cure such condition within three (3) months after receipt by the Corporation of written notice thereof from the Bank; or

(p) Any change in the constitution of the State of California or any California law is made, or any legislation has passed either house of the California legislature, or any opinion of any court has been rendered interpreting any of the foregoing, the effect of which is to cause a Material Adverse Effect; or

(q) Any change in the Code or any allegation by the Internal Revenue Service is made which results, or could result in interest on the Bonds being included in gross income to the holders thereof; provided, however, it shall not be considered an Event of Default under the Reimbursement Agreement if the Bonds are remarketed, reissued as, or refunded with, obligations the interest on which is included in gross income for Federal income tax purposes, so long as any such remarketing, reissuance or refunding does not result in any amounts owing to the Bank under the Reimbursement Agreement and such interest is includable in gross income only from the date of remarketing, reissuance or refunding, and not retroactively; or

(r) The Corporation loses the legal right to peaceful and undisturbed possession of the Facilities.

Remedies Upon an Event of Default under the Reimbursement Agreement. If any Event of Default under the Reimbursement Agreement shall have occurred and be continuing, the Bank, may (a)(i) cause an acceleration of the principal of and interest on the Bonds under the Indenture, resulting in the Trustee drawing under the Letter of Credit by a final draft, whereupon all amounts drawn under the Letter of Credit, all Tender Advances, all interest thereon and all other amounts payable under the Reimbursement Agreement or in respect thereof shall

automatically be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are expressly waived by the Corporation, or (ii) cause a mandatory tender for purchase of Bonds at the direction of the Bank, resulting in the Trustee drawing on the Letter of Credit by a mandatory purchase draft and delivering the Bonds so purchased to the Bank, or its nominee, as Bank Bonds, or, at the discretion of the Bank, canceling the Bonds so purchased, whereupon all amounts drawn under the Letter of Credit, all Tender Advances, all interest thereon and all other amounts payable under the Reimbursement Agreement or in respect thereof shall automatically be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are expressly waived by the Corporation, (b) declare the tender advances and the corresponding Bank Bonds and all other principal amounts outstanding under the Reimbursement Agreement, all interest thereon and all other amounts payable under the Reimbursement Agreement to be forthwith due and payable, whereupon the tender advances and the corresponding Bank Bonds and all other principal amounts outstanding under the Reimbursement Agreement, all such interest and all such other amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Corporation, and (c) exercise any and all rights and remedies provided under the Reimbursement Agreement, under the Related Documents, at law or in equity; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Corporation under the United States Bankruptcy Code, (A) the obligation of the Bank to treat any portion of the purchase price corresponding to principal of the Bonds as a tender advance to the Corporation shall automatically be terminated, and (B) the tender advances and all amounts reimbursable pursuant to the Reimbursement Agreement, all interest accrued and unpaid thereon and all other amounts payable under the Reimbursement Agreement shall automatically become due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Corporation.

Alternate Credit Facility

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

INVESTMENT CONSIDERATIONS

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

General

The rating of the Bonds is principally based on the Credit Facility and the creditworthiness of the Bank. Except as noted herein under "THE LETTER OF CREDIT AND

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

Tax-Exempt Status

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

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

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

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

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

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

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

Exemption from Property Taxes. In recent years, State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt Corporations with respect to their real property tax exemptions. The management of the Corporation believes that its real property and the planned improvements thereon are and will continue to be exempt from California real property taxation.

Investment of Funds Risk

All funds and accounts held under the Indenture are required to be invested in Eligible Securities as provided under the Indenture. See Appendix C attached hereto for a summary of the definition of "Eligible Securities". See the financial statements of the Corporation attached as Appendix B for a summary of the investments of the Corporation as of the date of such financial statements. All investments, including the Eligible Securities and other investments made by the Corporation, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the Corporation could have a material adverse effect on the security of the Bonds.

Seismic Risks

The Project is located in a seismically active region of northern California. The Project has been designed to meet all applicable seismic standards. However, the occurrence of severe seismic activity in the area could result in substantial damage to the Project. The Loan Agreement does not require earthquake insurance on any property of the Corporation.

Bankruptcy and Other Factors that Could Affect Security for the Bonds

The ability of the Trustee to enforce the obligations of the Corporation under the Loan Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium and by other similar laws affecting creditors rights, including equitable principles. In addition, the Trustee's ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or may be limited.

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

The Trustee's security interest in the Revenues under the Indenture may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the Loan Agreement or pledge of Revenues, (vi) rights of third parties in Revenues converted to cash and not in the possession of the Trustee or a depository bank, (vii) commingling of proceeds of Revenues with other moneys of the Corporation not subject to the security interest in the Revenues; and (viii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect.

Enrollment

The Corporation's revenues and financial strength will depend in part upon the Corporation maintaining certain enrollment levels. The Corporation's enrollment may be adversely impacted by tuition increases which the Corporation expects to implement to maintain Revenues in the future. See "THE CORPORATION." Due to the costs associated with operating new facilities (including paying the Loan Payments), the Corporation may be required to increase tuition further to pay for these costs, in addition to allocating funds for further program development, with potential adverse consequences to the Corporation. The enrollment may also be impacted by adverse events affecting the Corporation, including future adverse reputation or publicity respecting the Corporation or its program, the administration, faculty or students,

receptivity to specific programs, requirements or educational methodologies adopted by the Corporation, receptivity to the philosophy and educational tenets of the Corporation and its approach to education, reduction in the number of school age children, reduction in the birth rate in the San Francisco Bay Area, general economic downturns, and similar adverse factors. In addition, the Corporation competes for enrollment with other private schools in the San Francisco Bay Area, as well as with the public schools.

General Risks

There are many diverse factors, not within the Corporation's control, which could have a substantial bearing on the risks generally incident to the operation of the Corporation. These factors include governmental regulation, policies and actions, adverse use of adjacent or neighboring real estate, the ability to maintain the Project, the Corporation's ability to attract and retain teachers (whether because of compensation or otherwise), community acceptance of the Corporation, changes in demand for private schools like the Corporation, changes in the number of competing facilities, changes in the costs of operation of the Corporation, changes in the recognition or accreditation of the Corporation, or withdrawal of accreditation, general economic conditions, and the ability to raise money through fundraising. There can be no assurance that the Corporation and the Corporation will not experience one or more of the adverse factors that caused other schools to fail. Many other factors may adversely affect the operation of the Corporation and cannot be determined at this time.

Project Completion

Before the Project can be occupied, certain approvals, permits, variances and/or licenses from governmental agencies are required. See "THE PROJECT" herein. As of the date hereof, the Corporation has acquired all necessary approvals, permits, variances and licenses required to complete construction of and occupy the Project, except for building permits expected to be administrative. However, a delay in completion of the Project may arise from any number of other causes, including but not limited to, adverse weather conditions, unavailability of subcontractors, negligence on the part of subcontractors, labor disputes, 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 Corporation's ability to complete the Project, or to complete it as planned and on the schedule as described herein.

Construction costs payable by the Corporation may exceed the budget for the Project. In such event, either the scope of the Project would be reduced or the Corporation would be required to provide moneys in addition to Bond proceeds to complete construction. In addition, the actual completion date may occur later than the scheduled completion date without any responsibility on the part of the contractor for liquidated damages. In addition, under certain circumstances, the contractor has the right to terminate the construction contract. Such termination could lead to increased construction costs and delays in completion of the Project.

Claims and Insurance Coverage

Litigation could also arise from the corporate and business activities of the Corporation including from its status as an employer. Many of these risks are covered by insurance, but some

are not. For example, some antitrust claims, claims arising from wrongful termination or sexual molestation and business disputes claims may not be covered by insurance or other sources and may, in whole or in part, be a liability of the Corporation if determined or settled adversely. See "THE CORPORATION – Insurance" herein.

Mismanagement and Change of Management

The viability of most independent schools is closely linked to the financial management of the institution. Failure to properly manage a school's financial affairs has been the basis for failures of private schools in the past. No assurances can be given that future administrations of the Corporation will properly manage the Corporation's finances.

Other Factors

The occurrence of any of the following events, or other unanticipated events, could affect adversely the financial conditions and operation of the Corporation:

- (a) shortages of teachers and other employees;
- (b) unionization, employee strikes or other adverse labor actions which could result in an increase in expenditures without a corresponding increase in revenue;
- (c) claims respecting the unauthorized behavior by employees, administration or students regarding other employees, administration or students;
- (d) reinstatement or establishment of mandatory wage or price controls;
- (e) increases in the limitations on the availability of insurance;
- (f) developments affecting the nonprofit or tax-exempt status of the Corporation;
- (g) uninsured events, including "Acts of God";
- (h) a decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market area; or
- (i) increased governmental regulation of private schools.

THE AUTHORITY

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

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

TAX MATTERS

Opinion of Bond Counsel

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

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from present State of California personal income taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action

taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

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

Certain Collateral Federal Tax Consequences

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

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

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds.

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

APPROVAL OF LEGALITY

The validity of the issuance of the Bonds under California law is subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, acting as Bond Counsel. The proposed form of the legal opinion of Bond Counsel is attached hereto as Appendix D. Certain

legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California, for the Bank by Sidley Austin Brown & Wood LLP, Los Angeles, California, domestic counsel to the Bank, and the Bank's Legal Department, Irish counsel to the Bank, and for the Corporation by Nossaman Guthner Knox & Elliott LLP, San Francisco, California. Shearman & Sterling LLP, San Francisco, California, has served as special disclosure counsel to the Corporation.

ABSENCE OF MATERIAL LITIGATION

The Authority

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

The Corporation

There is no material litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, which seeks to restrain or enjoin the issuance or the sale of the Bonds, which in any way contests or affects the validity of the Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bond proceeds or the existence or powers of the Corporation relating to the issuance of the Bonds. The Corporation will furnish to the purchasers a no-litigation opinion of Nossaman Guthner Knox & Elliott LLP, certifying to the foregoing at the time of delivery of the Bonds.

There is no litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, which if successful would materially adversely affect the operations or financial condition of the Corporation.

UNDERWRITING

The Bonds will be purchased from the Authority by Stone & Youngberg LLC, as the Underwriter. The Underwriter has agreed to purchase the Bonds from the Authority at a purchase price equal to the principal amount of the Bonds, less an Underwriter's discount of \$59,500.

The purchase contract between the Authority and the Underwriter provides that the Underwriter will purchase all of the Bonds, if any are purchased. Bonds may be offered and sold by the Underwriter to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page of this Official Statement, and such public offering prices may be changed by the Underwriter from time to time without notice.

RATINGS

Moody's Investors Service ("Moody's") has assigned ratings of "Aa3/VMIG 1" to the Bonds. Such ratings are based on the Letter of Credit issued for the benefit of the Bonds. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" herein. Such ratings reflect only the view of the agency assigning such rating, and any explanation of the significance of such ratings should be obtained from the assigning rating agency. The Corporation furnished Moody's with certain information and material relating to the Bonds and the Corporation that have not been included in this Official Statement. Generally, rating agencies base their ratings on information and materials furnished and on investigation, studies, and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain in effect for any given period of time, or that such rating might not be lowered or withdrawn entirely by the rating agency, if in the judgment of the rating agency circumstances so warrant. The Authority, the Corporation, and the Underwriter have not undertaken any responsibility either to bring to the attention of the Bondholders any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Corporation at June 30, 2003 are attached hereto as Appendix B and should be read in their entirety. Hood & Strong LLP, independent auditors, audited the Corporation's financial statements, as stated in their report appearing in Appendix B. Hood & Strong LLP has not reviewed or audited this Official Statement.

MISCELLANEOUS

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

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

APPENDIX A

THE URBAN SCHOOL OF SAN FRANCISCO

General

The Urban School of San Francisco (the “Corporation” or “Urban”) is a nonprofit public benefit corporation and an organization described in 501(c)(3) of the Internal Revenue Code that operates an independent, co-educational, college preparatory day school serving grades 9-12.

Urban began 38 years ago with 22 students and 7 teachers in rented space in the basement of a church on Divisadero Street. Today the school is a successful, thriving community of approximately 250 high school students and 35 teachers and 20 staff members who work at least half time. Since its founding in 1966, Urban has graduated over 1500 students. Urban has an outstanding record of preparing students for the finest colleges and universities while instilling in them a lifelong love of learning and a commitment to community service. The quality of Urban’s academic and co-curricular programs has never been stronger. Since its beginning, Urban has been at the forefront of educational innovation, pioneering such forward-looking pedagogical practices as block scheduling, collaborative learning, narrative evaluations and community service learning. During the past five years, the school has continued to break ground as an educational leader. Urban is among the first independent schools in the Bay Area to initiate a student laptop computer program that promotes a seamless integration of technology throughout the curriculum; the school supports and maintains an ongoing relationship with Aim High, a tuition free academic and cultural enrichment program for public middle-school students from financially disadvantaged backgrounds; and the school continues to strengthen its nationally recognized four-year service program by sending its students out into the community –extending their education beyond the classroom walls.

The Corporation is governed by a Board of Trustees (the “Board”) with a maximum of thirty members and a minimum of twenty-two members. The membership of the Board includes the Director of the School, two members of the faculty, two members of the student body, and a representative from the Parent Association. While the Board is responsible for policy decisions and the financial management of the Corporation, the Director of the School is responsible for the daily management and operations of the Corporation including the hiring of faculty and staff. The Board has several standing committees, including the Finance Committee, the Building and Grounds Committee, the Development Committee and the Committee on Trustees. In addition chairpersons of each committee (Committee of Chairs) meet regularly to plan the work of the Board. The Board members are primarily parents of students and alumni.

The Corporation

General Description of the Corporation. The Corporation is an independent, coeducational, college preparatory day school serving grades 9-12. With 257 enrolled students in the 2003-04 school year, several of whom are enrolled part time in off campus courses, the school has 55 faculty and staff members who work at least half time. Fifty percent of the faculty hold advanced degrees. The average class size is 13.

Current Facilities. The Corporation's facilities are located in the Haight Ashbury neighborhood of San Francisco, near the geographic center of the city. The facilities include a school building comprised of three co-joined properties, consisting of approximately 29,000 square feet. The Corporation has a long-term lease with St. Agnes Church for a gymnasium and additional classrooms located immediately across the street from the school. In addition the Corporation rents athletic facilities from the University of San Francisco, UC-San Francisco, and the City and County of San Francisco. In 1998 and 1999 the Corporation was able to acquire two adjacent properties to the East of the school, and began developing plans for a 19,000 square foot addition to the existing campus. The entire project, including the purchase of three adjacent properties, is 12.6 million dollars.

Student Body. Urban attracts students, families and faculty from a variety of racial, ethnic, cultural and socioeconomic backgrounds. Currently, twenty seven percent of the student body are students of color; twenty three percent receive financial aid.

Accreditations. Urban School is accredited by the Western Association of Schools and Colleges (WASC) and is a member of the National Association of Independent Schools (NAIS), the California Association of Independent Schools (CAIS), the Council for Advancement and Support of Education (CASE), and the Secondary School Admission Test Board (SSATB). Urban also holds memberships in A Better Chance, Inc. (ABC) and the Network of Complementary Schools.

Curriculum and Programs. The mission of Urban is to ignite a passion for learning and to inspire its students to become self-motivated, enthusiastic life-long learners. Urban offers a demanding college preparatory program in the arts, English, history, languages, mathematics and science. Urban fields interscholastic teams in the Bay Counties League and provides numerous extracurricular opportunities for student leaders, writers and performers. Reaching beyond the school, students explore and contribute to the larger community through fieldwork, community service and internships.

Community Service Program. All Urban students participate in the school's nationally recognized community service program, completing jobs, internships and apprenticeships each year. The program introduces students to the value of service and instills in them a sense of responsibility and commitment to the larger community. Through this program, students volunteer throughout the year in dozens of organizations, including Cole Street Clinic/Huckleberry House, Golden Gate Park, Haight Ashbury Food Program, Hamilton Family Shelter, William DeAvila Elementary School, Whitney Young Child Development Center and The Women's Community Clinic.

Technology Program. Beginning in the fall of 2002, Urban inaugurated a laptop program beginning with the ninth and tenth grade students. Urban integrates the use of technology throughout the curriculum rather than treating computer skills as a separate subject. Urban has installed a wireless network, giving students and faculty access to the internet in all areas of the school. In March 2004, as part of their Leading Edge Program, National Association of Independent Schools recognized Urban's achievement in the area of Technology.

Public/Private Partnerships. Urban is a partner, along with the San Francisco Unified School District, Lick-Wilmerding High School and others, in Aim High, a tuition-free summer program, and serves as one of the six San Francisco campuses each summer for approximately 90 middle school students. The school is also a partner with San Francisco Unified School District, San Francisco State University, and Lick-Wilmerding High School in the Bay Area Teachers Center, a teacher training and credentialing program.

Financial Aid. Central to the mission of the Urban is a commitment to diversity in the student body. As part of Urban's plan to ensure such diversity, Urban allocates approximately 15% of its annual tuition income to financial aid. Financial aid decisions are made independently from admission decisions, and in no way affect a candidate's chances for admission. The awards range from partial to full tuition grants and the amount of the award is based solely on a family's financial need. Every financial aid grant is made for one year and families must reapply for aid each year. Urban subscribes to the School and Student Service for Financial Aid, which analyzes family information and recommends an amount that each family can be expected to pay for educational expenses. Urban's Financial Aid Committee uses this figure as the basis of its calculations for financial awards. In the 2003-04 school year \$800,000 in total financial aid was awarded to 23% of the student body.

Admissions

Urban's Admissions Office uses a wide range of events and tools to recruit students. Beginning in late August, the school sends information packages to students attending traditional feeder schools. Prospective families are invited to attend one of three large open houses, this year attended by over 1000 parents and students. Everyone attending an open house has the opportunity to participate in two mini-classes, enabling families to experience directly the outstanding teaching at Urban, a hallmark of the institution since its founding. The classes are followed by an information session for the parents with a panel of school administrators. At the same time, prospective students meet with a panel of student leaders.

Urban also conducts a special open house devoted to issues of diversity. Conducted primarily by students, this event allows prospective students and parents of color to engage in conversation about life at Urban.

During the fall and early winter, Urban holds approximately 30 informal sessions at the school with prospective parents. These events include a tour of the school and question-and-answer session with the Admissions Director. Also in the fall, prospective students have the opportunity to schedule a half-day visit at the school providing them an opportunity to attend several classes and tour the campus with a student guide.

Urban's Admissions Director and Associate Director annually attend 8 to 10 school fairs in the Bay Area. In the fall of 2003, the Admissions Director was instrumental in organizing the first San Francisco High School Fair, held at San Francisco City College and targeted to students attending public and parochial schools, a segment of the market with whom it has been traditionally difficult to share the independent school story.

For school year 2003-04, Urban had 1310 inquiries, yielding 456 applications for admission. The applicant pool came from almost 100 schools, and while the majority of students come from San Francisco, the geographic range extends from San Rafael and San Anselmo in the North to Pinole and Castro Valley in the East, and as far south as Hillsborough and Portola Valley.

Table 1
The Urban School of San Francisco
Admissions History
For School Years 2000-01 to 2004-05

<u>School Year</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05*</u>
Inquiries	1061	1055	1054	1014	1310
Applications	452	458	453	406	456
Acceptances	132	127	126	176	202
Matriculations	62	66	55	73	80
Yield	47%	52%	44%	41%	40%

* These numbers are subject to change up to the beginning of the 2004/2005 school year.

Enrollment. Urban currently enrolls 257 students, and is meeting its current budgetary goal for enrolled students. Enrollment for the past five years is listed below in Table 2.

Table 2
The Urban School of San Francisco
Five-Year Summary of Enrollment Statistics

<u>School Year</u>	<u>Total Enrollment</u>
2000-01	252
2001-02	252
2002-03	253
2003-04	257
2004-05	270*

* This number is subject to change up to the beginning of the 2004/2005 school year.

Graduates

The graduates of Urban School are accepted to an array of highly selective colleges and universities across the country. Members of Urban's last five graduating classes matriculated to the colleges and universities listed in Table 3.

Table 3
The Urban School of San Francisco
College Matriculation for Classes of 2000, 2001, 2002, 2003 and 2004

American University (1)	San Francisco Art Institute (1)
American University of Paris (1)	Santa Clara (2)
Amherst (1)	Sarah Lawrence (3)
Bard (5)	School of the Museum of Fine Arts (3)
Barnard (7)	Scripps (2)
Boston University (3)	Seattle University (1)
Bowdoin (2)	Skidmore (3)
Brown (2)	Smith (6)
California College of the Arts (1)	St. Andrew's University (Scotland) (1)
California Institute of Technology (1)	St. John's College (2)
California State University	St. Louis University (1)
California State Polytechnic (2)	Southern Oregon University (1)
California State Polytechnic, Pomona (1)	Stanford (3)
Humboldt State (1)	Swarthmore (2)
San Diego State (1)	Temple (1)
San Francisco State (1)	Trinity (CT) (1)
Carleton (1)	Trinity (TX) (1)
Colby (1)	Tufts (2)
Colorado College (1)	Tulane (4)
Columbia (Chicago) (1)	Union (1)
Columbia University (6)	University of Arizona (4)
College of Santa Fe (1)	University of California
Connecticut College (2)	Berkeley (15)
Cooper Union (2)	Davis (8)
Dartmouth (1)	Los Angeles (6)
Deep Springs College (1)	Riverside (1)
Dominican College (1)	Santa Barbara (5)
Duke University (1)	Santa Cruz (24)
Emerson (3)	University of Chicago (2)
Fordham (1)	University of Colorado (4)
George Washington (4)	University of Miami (1)
Georgetown (1)	University of Oregon (1)
Grinnell (3)	University of the Pacific (1)
Hampshire (1)	University of Puget Sound (7)
Haverford (1)	University of San Francisco (1)
Indiana University (1)	University of Southern California (5)
Kenyon(2)	University of Washington (2)
Lewis and Clark (3)	University of Wisconsin (1)
Macalester (4)	Vanderbilt (1)
Middlebury (1)	Vassar (10)
Mills (1)	Washington State University (1)
New York University (16)	Washington University (4)
Oberlin (12)	Wellesley (1)
Occidental (3)	Wesleyan (5)
Pitzer (4)	Western Washington University (2)
Pomona (3)	Whitman (4)
Pratt (1)	Williams (1)
Reed (4)	Worcester Polytechnic Institute (2)
Rochester Institute of Technology (2)	Yale (6)

Independent School Marketplace; Competition for Students

In the last thirty years, the market for independent education has grown steadily in California. For example CAIS (California Association of Independent Schools) has grown from 54 member schools in 1972 to over 180 in 2003.

More specifically, there is a critical need for high quality secondary education in San Francisco. Concern about public school standards has made more families consider the option of an independent school education.

Competition for Students. The following table lists selected schools that serve the same geographic region as Urban. It is not intended to be comprehensive of all schools in the region, but rather it represents the schools that Urban most frequently competes with for students. Urban also competes for students with local public schools.

Table 4
The Urban School of San Francisco
Independent Schools in the Region
School Year 2003-04

SCHOOL	ENROLLMENT	GRADES	TUITION
Branson School	320	9-12	\$ 23,400
Drew School	246	9-12	21,500
French-American International	896	K-12	20,888
Lick-Wilmerding High School	395	9-12	21,500
Marin Academy	402	9-12	22,525
San Francisco University High School	406	9-12	22,200
Schools of the Sacred Heart	1018	K-12	19,975
Urban School of San Francisco	257	9-12	22,675

Fundraising

The Corporation's Board is actively involved in all aspects of the Corporation's fund raising efforts. The Development Committee meets regularly with the Development Director to plan and oversee fundraising activities.

Annual Fund and other Annual Giving. A successful Annual Giving Program is a key component of the Corporation's fundraising program. Solicitations occur through a direct mail campaign, parent telethon and personal solicitations. The Annual Fund has grown steadily over the last five years, and consistently 95% of the parents make contributions to the Annual Fund.

In addition, each year some donors give to current funds for specific purposes including technology, financial aid, and the athletic program. The Parents Association holds an annual fund raising auction, the proceeds of which benefit the Urban's financial aid program.

Building Our Future Campaign. Following lengthy deliberation the Board determined that the school's financial health depended on a larger enrollment. This will enable the school to pay its teachers competitive, livable salaries, maintain a strong financial aid program, and allow the school to expand its programs in key areas such as foreign languages, the sciences and social sciences, performing and studio arts, and athletics. To support this goal, the Board established the Building Our Future Campaign. Pledges to the Campaign are unrestricted. As of June 30, 2004 pledges to the Campaign totaled approximately \$7.9 million (unaudited), with approximately \$4.3 million (unaudited) received in cash.

Endowment Fund. The Endowment Fund consists of funds permanently restricted by donors as well as certain unrestricted net assets that the Board has designated as part of the School's Endowment Fund.

Table 5
The Urban School of San Francisco
History of Fundraising Activities*
Fiscal Years 1998-99 to 2002-03

	Annual Giving	Restricted to Scholarship	Endowment	Fund Raising	Total
1998-99	\$ 383,449	\$ 7,400	\$ 7,250	\$ 510,520	\$ 908,619
1999-00	522,408	15,875	61,118	269,389	868,790
2000-01	683,854	8,575	65,112	98,533	856,074
2001-02	586,242	62,625	47,211	937,730	1,633,808
2002-03	622,265	97,506	50,869	3,029,525	3,800,165

*Derived from audited financial statements.

Financial Information

The following financial information reflects the operating results and financial condition of the Corporation. The following information for the years ended June 30, 1999, 2000, 2001, 2002 and 2003 has been derived by management from the Corporation's consolidated financial statements.

The financial statements of the Corporation have been prepared on the accrual basis of accounting to conform to generally accepted accounting principles for non-profit educational institutions.

The Corporation's audited Financial Statements for the year ended June 30, 2003 have been included as Appendix B to the Official Statement and should be read in their entirety. The following table presents a summary of the Corporation's revenues and expenses for each of the last five fiscal years.

Table 6
The Urban School of San Francisco
Statement of Activities
Fiscal Year Ending June 30

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenue and support:					
Tuition and fees	\$ 3,627,075	\$ 4,116,998	\$ 4,536,354	\$ 4,953,285	\$ 5,573,737
Less financial aid awards	<u>(410,478)</u>	<u>(455,749)</u>	<u>(513,595)</u>	<u>(578,822)</u>	<u>(715,741)</u>
Net tuition and fees	3,216,597	3,661,239	4,022,759	4,374,463	4,857,996
Rental and other	31,560	97,533	101,445	115,020	117,452
Investment income	30,781	39,654	76,195	57,385	41,953
Gain on sale of real estate					185,489
Support and contributions	<u>908,619</u>	<u>868,790</u>	<u>760,198</u>	<u>696,078</u>	<u>920,640</u>
Total revenue and support	4,187,557	4,667,216	4,960,597	5,242,946	6,123,529
Expenses:					
Educational Program Expenses	2,789,899	3,636,347	3,865,107	4,420,163	4,805,766
Administration and general	826,461	563,741	669,676	675,809	801,017
Fund raising	<u>241,007</u>	<u>241,007</u>	<u>300,312</u>	<u>298,082</u>	<u>285,479</u>
Total Expenses	3,857,367	4,441,095	4,835,095	5,394,054	5,892,262
Change in Net Assets from Operations	406,391	226,121	125,502	(151,107)	231,268
Other Changes in Net Assets:					
Fundraising Campaign Contributions			95,876	937,730	2,879,525
Fundraising Campaign expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,781)</u>	<u>(57,235)</u>
Total changes in net assets	406,391	226,121	221,378	740,842	3,053,557
Net Assets, beginning of year	4,295,775	4,702,166	4,928,287	5,149,665	5,890,507
Net Assets, end of year	\$ 4,702,166	\$ 4,928,287	\$ 5,149,665	\$ 5,890,507	\$ 8,944,064

Table 7
The Urban School of San Francisco
Statement of Financial Position
As of June 30

	<u>1999*</u>	<u>2000*</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
ASSETS					
Cash & cash equivalents	\$ 446,149	\$ 1,488,961	\$ 1,893,954	\$ 2,667,514	\$ 3,633,434
Accounts receivable net	3,072,840	2,522,896	2,968,042	2,654,309	3,283,536
Prepaid expenses & other assets	29,272	41,875	59,930	61,279	90,778
Contributions receivable net	222,689	62,640	107,180	785,273	2,538,654
Investments	108,740	113,659	123,631	129,794	137,502
Land, building & equipment, net	5,771,455	6,387,096	6,092,407	5,804,336	6,861,916
Investment in real estate	<u>183,080</u>	<u>183,080</u>	<u>183,080</u>	<u>183,080</u>	<u>0</u>
Total Assets	9,834,225	10,800,207	11,428,224	12,285,585	16,545,820
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued liabilities	225,596	275,917	237,194	270,576	537,772
Deferred revenue	3,699,480	3,965,695	4,466,434	4,824,472	5,334,180
Notes payable	<u>1,236,983</u>	<u>1,630,308</u>	<u>1,574,931</u>	<u>1,300,031</u>	<u>1,729,802</u>
Total liabilities	5,162,059	5,871,920	6,278,559	6,395,079	7,601,754
Net assets:					
Unrestricted	4,535,880	4,722,706	4,804,661	4,616,343	4,720,246
Temporarily Restricted	113,198	91,575	156,885	1,038,834	3,937,621
Permanently Restricted	<u>53,088</u>	<u>114,006</u>	<u>188,119</u>	<u>235,330</u>	<u>286,199</u>
Total net assets	4,702,166	4,928,287	5,149,664	5,890,507	8,944,066
Total Liabilities and Net Assets	\$ 9,864,225	\$ 10,800,207	\$ 11,428,224	\$ 12,285,586	\$ 16,545,820

* Restated to make consistent with FY 2001-2003 audits

Insurance

The Corporation currently has general liability insurance policies, with annual aggregate coverage of \$2 million and an additional \$20 million of excess liability. Additionally, the Corporation maintains wrongful acts liability insurance with a limit of \$20 million and property insurance covering its real and personal property with a current limit of approximately \$7 million from The Hartford, business interruption extra expenses coverage in the amount of approximately \$500,000, tuition income insurance of approximately \$5 million, and a workers compensation policy from Oak River in the required statutory amounts. Upon construction of the Project, the Corporation will purchase property insurance for the Project as required by the Loan Agreement. The Corporation does not carry earthquake or flood insurance.

There can be no assurance that any of the aforementioned insurance can or will be renewed, what the costs of same will be or whether it will be adequate for any potential claim.

Financial Matters

As of June 30, 2003, the Corporation had four loans outstanding in the amounts of \$589,414, \$315,848, \$224,530 and \$600,000. The loan in the amount of \$589,414 financed certain capital improvements to the Corporation's main school building and will be refinanced with a portion of the proceeds of the Bonds. The loans in the amounts of \$315,848 and \$224,530 financed the purchase of two buildings, the sites of which are being used for the Project. These loans have been paid in full by the Corporation before demolition of the two buildings began in June 2004. See "THE PROJECT" in the forepart of the Official Statement. The loan in the amount of \$600,000 remains outstanding, and was used to finance the purchase of adjacent residential property that the Corporation rents to tenants.

CORPORATION MANAGEMENT

Board of Trustees

The Corporation is governed by the Board, which has a maximum of thirty and a minimum of twenty-two members. Trustees serve for a term of three years, and may serve three consecutive terms provided that the number of trustees serving beyond two consecutive terms shall not exceed seven at any time. The Director of the School serves as a trustee, the President of the Parent Association serves a one-year term, and representatives of the faculty and student body serve two-year terms.

The Board establishes policy, develops and approves strategic plans, develops and approves the Urban's operating budget, provides oversight on the school's facilities. The Board appoints the Director of the School who oversees the operations of the school, including the hiring of all faculty and staff.

Administration and Staff

Mark Salkind has been the Director of the School since 1987, and is responsible for implementing policy as determined by the Board of Trustees, and with managing all aspects of the Corporation's operations. He graduated *magna cum laude* from Yale University, and has served on the Board of Directors of Marin Country Day School, the Oxbow School, and the California Association of Independent Schools.

Susan Munn, Director of Finance and Operations, joined the School in 1991. She has a B.A. from Chatham College, Pittsburgh, PA, and an M.A. in Business Administration from the University of Wisconsin-Madison.

Employees

The Corporation employees approximately 55 full-time and part-time employees. Management believes that its relations with its employees are generally good. None of the Corporation's employees belong to a union.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF
THE URBAN SCHOOL OF SAN FRANCISCO**

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THE URBAN SCHOOL
OF SAN FRANCISCO

JUNE 30, 2003

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

The Urban School of San Francisco

Financial Statements and Independent Auditors' Report

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Independent Auditors' Report

THE BOARD OF TRUSTEES
THE URBAN SCHOOL OF SAN FRANCISCO
San Francisco, California

We have audited the accompanying statement of financial position of **THE URBAN SCHOOL OF SAN FRANCISCO (the School)** as of June 30, 2003, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2002 financial statements, and in our report dated August 9, 2002, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Urban School of San Francisco as of June 30, 2003, and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

August 8, 2003

Consultants and

Business Advisors

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San Francisco

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San Francisco

Menlo Park

The Urban School of San Francisco

Statement of Financial Position

<i>June 30,</i>	2003	2002
Assets		
Cash and cash equivalents	\$ 3,633,434	\$ 2,667,514
Investments	137,502	129,794
Accounts and other receivables (less allowance for doubtful accounts of \$24,202 in 2003)	3,283,536	2,654,309
Contributions receivable - net	2,538,654	785,273
Prepaid expenses and other assets	90,778	61,279
Property and equipment, net	6,861,916	5,804,336
Investment in real estate		183,080
Total Assets	\$ 16,545,820	\$ 12,285,585
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 537,772	\$ 270,576
Deferred tuition	5,334,180	4,824,472
Notes payable	1,729,802	1,300,030
Total liabilities	7,601,754	6,395,078
Net Assets:		
Unrestricted	4,720,246	4,616,343
Temporarily restricted	3,937,621	1,038,834
Permanently restricted	286,199	235,330
Total net assets	8,944,066	5,890,507
Total Liabilities and Net Assets	\$ 16,545,820	\$ 12,285,585

The Urban School of San Francisco

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2003 (with comparative totals for 2002)

	2003			Total	2002 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support:					
Tuition and fees	\$ 4,857,996			\$ 4,857,996	\$ 4,374,463
Contributions	772,265	\$ 97,506	\$ 50,869	920,640	696,078
Net investment income	227,442			227,442	57,385
Rental and other income	117,452			117,452	115,020
Net assets released from satisfaction restrictions	21,009	(21,009)			
Total revenue and support	5,996,164	76,497	50,869	6,123,530	5,242,946
Expenses:					
Educational program expenses	4,805,766			4,805,766	4,420,162
General and administrative	801,016			801,016	675,809
Development	285,479			285,479	298,082
Total expenses	5,892,261			5,892,261	5,394,053
Change in Net Assets from Operations	103,903	76,497	50,869	231,269	(151,107)
Other Changes in Net Assets:					
Capital campaign contributions (Note 11)		2,879,525		2,879,525	937,730
Release of capital campaign restrictions	57,235	(57,235)			
Capital campaign expenses	(57,235)			(57,235)	(45,781)
Total Changes in Net Assets	103,903	2,898,787	50,869	3,053,559	740,842
Net Assets, beginning of year	4,616,343	1,038,834	235,330	5,890,507	5,149,665
Net Assets, end of year	\$ 4,720,246	\$ 3,937,621	\$ 286,199	\$ 8,944,066	\$ 5,890,507

The Urban School of San Francisco

Statement of Cash Flows

<i>Year Ended June 30, 2003 (with comparative totals for 2002)</i>	2003	2002
Operating Activities:		
Change in net assets	\$ 3,053,559	\$ 740,842
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	385,148	433,253
Net realized and unrealized (gain) loss on investments	(185,489)	956
Contributions restricted for capital campaign	(2,879,525)	(984,940)
Stock contributions	(103,770)	
Changes in:		
Accounts and interest receivable	(336,727)	313,733
Contributions receivable	(35,075)	(40,452)
Prepays and other assets	(29,499)	(1,349)
Accounts payable and accrued expenses	267,196	33,382
Deferred tuition	509,708	358,038
Cash provided by operating activities	645,526	853,463
Investing Activities:		
Purchase of investments	(18,166)	(7,119)
Proceeds on sale of stocks	103,770	
Purchase of property and equipment	(1,442,729)	(145,182)
Cash used by investing activities	(1,357,125)	(152,301)
Financing Activities:		
Proceeds from promissory note	600,000	
Payments on note payable to bank	(83,700)	(274,901)
Capital campaign collections	1,161,219	347,299
Cash provided by financing activities	1,677,519	72,398
Increase in Cash and Cash Equivalents	965,920	773,560
Cash and Cash Equivalents, beginning of year	2,667,514	1,893,954
Cash and Cash Equivalents, end of year	\$ 3,633,434	\$ 2,667,514
Supplemental Information:		
Interest paid	\$ 98,084	\$ 109,701

The Urban School of San Francisco

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies:

The Urban School of San Francisco (the School) is a privately funded and operated school located in San Francisco, California. The School provides quality secondary education to students in grades 9 through 12.

Significant accounting policies include the following:

a. Basis of Presentation

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Description of Net Assets

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use of management, and the Board of Trustees has designated net assets of \$783,231 as reserves for maintenance and improvement of school facilities and for general operations of the School.

Temporarily Restricted Net Assets - the portion of net assets of which use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School.

Permanently Restricted Net Assets - the portion of net assets of which use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the School.

b. Revenue Recognition

- *Tuition* is recognized during the applicable school year. Tuition amounts billed and received for the 2003 - 2004 school year as of June 30, 2003 are recorded as deferred tuition.
- *Contributions* are recognized at their fair value when received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The School uses the allowance method to account for uncollectible tuition and contributions based on historical experience and an evaluation of the outstanding receivables at the end of the year.

The Urban School of San Francisco

Notes to Financial Statements

c. Cash and Cash Equivalents

For the purpose of cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

d. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures 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.

e. Investments

Investments consist of a mutual fund which invests primarily in intermediate term corporate and U.S. Government fixed income securities and are valued at fair market value with realized and unrealized gains and losses reflected in the Statement of Activities and Changes in Net Assets.

f. School Facilities

School facilities are stated at cost, or if donated, at estimated fair market value at the date of donation. Depreciation has been provided on the straight-line method over the estimated useful life of the assets, of 3 to 40 years.

g. Income Taxes

The School is a tax-exempt organization under Internal Revenue Service Code Section 501(c)(3) and the California tax code.

h. Functional Allocation of Expenses

The costs of providing various educational programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services that are benefited.

i. Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2002, from which the information was derived.

The Urban School of San Francisco

Notes to Financial Statements

j. Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform with the 2003 presentation. The reclassifications have no effect on combined financial position or statements of activities and changes in net assets.

Note 2 - Contributions Receivable:

Contributions receivable, net of allowance for uncollectible pledges and unamortized discounts, are summarized as follows at June 30, 2003:

Unconditional promises expected to be collected in:

Less than one year	\$ 1,054,900
One year to five years	1,599,800
After five years	40,000
	<hr/> 2,694,700
Less allowance for uncollectible pledges and unamortized discounts	156,046
	<hr/>
Total	\$ 2,538,654

Included in the above are \$2,533,500 of capital campaign contributions (Note 11).

Contributions to be received after one year are currently discounted at the six month interest rate or a discount rate of approximately 1.0%.

Note 3 - Land, School Facilities:

Land, school facilities at June 30, 2003 consist of:

Land and land improvements	\$ 978,599
Buildings and building improvements	7,239,228
Furniture and equipment	827,395
Construction in progress	551,467
	<hr/> 9,596,689
Accumulated depreciation and amortization	(2,734,773)
	<hr/>
Property and equipment	\$ 6,861,916

The Urban School of San Francisco

Notes to Financial Statements

Construction in progress of \$551,467 represents costs incurred for the future expansion of School facilities.

Included in land, buildings and equipment is rental property with a carrying value of \$1,181,856 (net of accumulated depreciation of \$135,669) which is being held for the future expansion of the School.

Note 4 - Notes Payable:

Notes payable, at June 30, 2003 collateralized by the School's real property are as follows:

Mortgage payable, interest rate adjustable semiannually (5.25% at June 30, 2003), due in monthly installments through February 2010.	\$ 589,414
Mortgage payable, interest rate adjustable monthly (4.625% at June 30, 2003), due in monthly installments through August 2028.	315,858
Mortgage payable, interest rate adjustable monthly (5.25% at June 30, 2003), due in monthly installments through May 2008.	224,530
Mortgage payable, interest only (5.50% annually fixed for the life of the loan), due in monthly installments through February 2008.	600,000
	<hr/>
	\$ 1,729,802

The principal amounts due by fiscal year for these mortgage notes at June 30, 2003 are as follows:

2008	\$ 600,000
Thereafter	1,129,802
	<hr/>
Total	\$ 1,729,802

Additionally, the School has a line of credit, collateralized by the School facilities, from First Republic Bank in the amount of \$800,000. The line of credit bears interest at the prime rate and expires in August 2008. As of June 30, 2003, there was no balance outstanding under this line of credit.

The Urban School of San Francisco

Notes to Financial Statements

Note 5 - Employee Benefit Plans:

Upon completing one year of service, employees may, on a voluntary basis, participate in a salary deferral 403(b) plan. The School contributes up to 5% of each employee's gross salary. The School's contribution was \$133,638 for the year ended June 30, 2003.

Note 6 - Operating Lease:

The School has non-cancelable operating leases for its school facilities and office equipment. Minimum future payments due under these operating leases are as follows:

Year Ending	
<u>June 30,</u>	
2004	\$ 324,000
2005	260,000
2006	171,000
2007	103,000
2008	98,000
Thereafter	98,000
<hr/>	
Total	\$ 1,054,000

The total rent expense for the non-cancelable operating leases in 2003 was \$340,270.

Note 7 - Financial Instruments:

The School has defined its financial instruments which are potentially subject to credit risk as cash, accounts and contributions receivable and investments.

At June 30, 2003, the School had approximately \$1,291,000 of uncleared cash deposits in excess of federally insured limits. The majority of investments are diversified into various mutual funds in order to limit the concentration of market risk. Accounts and pledges receivable are unsecured and concentrated in the San Francisco Bay Area. However, concentrations of credit risk with respect to these receivables are limited due to the number of students and donors.

The Urban School of San Francisco

Notes to Financial Statements

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets were restricted for use by donors for technology, financial aid and the school expansion. Net assets of \$78,244 were released from donor restrictions by incurring expenses satisfying the restricted purposes. Temporarily restricted net assets are available for the following purposes:

Financial aid	\$ 127,506
School expansion	3,810,115
<hr/>	
Total	\$ 3,937,621

Note 9 - Permanently Restricted Net Assets:

Permanently restricted net assets of \$286,199 are restricted to investment in perpetuity, the income of which is expendable, to support operations and special projects of the School.

Note 10 - Capital Campaign:

The School's Board of Trustees has launched a capital campaign, "Building our Future" to upgrade and expand the School's facilities. As of June 30, 2003, the School has recognized current year contributions of \$2,879,525 as capital campaign revenue.

Note 11 - Related Party Transaction:

Included in accounts and other receivable is a non-interest bearing note receivable of \$250,714, due from the School's Director.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS

"Act" means Article 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title I of the Government Code of the State of California.

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

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

"Alternate Credit Facility" means an alternate irrevocable letter of credit or similar credit facility issued by a commercial bank or savings institution, the terms of which shall be to the extent dictated by the terms of the Bonds, the same as or similar to those of the initial Credit Facilities, delivered to the Trustee pursuant to the Loan Agreement, and meeting the requirements of said Loan Agreement. The Alternate Credit Facility may include a bond insurance policy and a liquidity facility combined.

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

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

"Available Moneys" means:

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

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

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

(3) moneys drawn under the Credit Facility;

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

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

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

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

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

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

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

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

"Corporation" means The Urban School of San Francisco, a nonprofit public benefit corporation organized and existing under the laws of the State of California, and its successors or assigns permitted pursuant to the Loan Agreement.

"Date of Delivery" means the date of initial issuance and delivery of the Bonds.

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

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

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

"Fixed Rate Bonds" means the Bonds during the Fixed Rate Mode.

"Fixed Rate Mode" means the Mode during which the Bonds bear interest at a Fixed Rate.

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

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

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

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

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

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

"Moody's" means Moody's Investors Service, Inc. a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation

shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the Corporation and the Bank.

"Optional Tender Date" is defined in the Indenture.

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

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

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

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

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

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

(5) repurchase agreements with either a primary dealer on the reporting dealer list of the Federal Reserve or any bank, which, in either case, is rated "A" or better by S&P and Moody's, provided that (a) the term of such repurchase agreement is not greater than

thirty days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) there shall have been delivered to the Trustee and the Authority an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of public funds;

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

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

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

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

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

(11) federal funds, deposit accounts, or bankers acceptances with a maximum

term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(12) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended;

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

(14) the Common Fund.

"Principal Corporate Trust Office" means with respect to the Trustee, the office of the Trustee at One California Street, Suite 2550, San Francisco, California, 94111.

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

"Property" means, as of any date, all land, improvements, facilities, fixtures and equipment then owned by the Corporation, except for the real property and buildings located at 1565, 1567 and 1569 Page Street, San Francisco, California.

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

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

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

"Rating Agency" means Moody's, so long as such rating agency maintains a rating on the Bonds, and any other nationally recognized securities rating agency designated in writing by the Corporation with the written approval of the Authority and the Bank.

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

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

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

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

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

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

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

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

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

"State" means the State of California.

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

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

"Tax Agreement" means the Tax Regulatory Agreement executed by the Authority and the Corporation dated the date of issuance of the Bonds, as the same may be amended or supplemented in accordance with its terms.

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

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

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

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

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

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

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

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

INDENTURE

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

Establishment and Application of Project Fund.

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

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

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in such Indenture, the Authority pledges to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payments of amounts

owing to the Bank pursuant to the Reimbursement Agreement, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to such Indenture other than the Rebate Fund or Credit Facility Account or remarketing proceeds.

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

Allocation of Revenues.

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

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

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

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

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

Application of Redemption Fund.

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

Credit Facility Account.

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

Investment of Moneys in Funds and Accounts.

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

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

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

Rebate Fund.

Pursuant to the Indenture, the Trustee shall establish, maintain and hold in trust a separate fund designated as the Rebate Fund. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirements to make rebate

payments to the United States (the "Rebate Requirement") pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the "Rebate Regulations"). Such amounts shall be free and clear of any lien under the Indenture and shall be governed by the Indenture and by the Tax Agreement.

Tax Covenants.

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

Amendment of the Loan Agreement.

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

Events of Default; Acceleration.

The Indenture provides that if one or more of the following events ("Events of Default") shall happen:

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

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond of the related series when and as such interest installment shall become due and payable;

(3) if default shall be made in the due and punctual payment of the Purchase Price of any Bond of the related series subject to tender pursuant to the Indenture;

(4) if default shall be made by the Authority in the performance or observance of any other of the material covenants, agreements or conditions on its part in the Indenture or in the Bonds, and such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall 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 a majority in aggregate principal amount of such Bonds at the time Outstanding;

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

(6) if the Bank gives notice that an event of default shall have occurred and be continuing under the related Reimbursement Agreement and instructing the Trustee to accelerate the Bonds of the related series,

then and in each and every such case during the continuance of such Event of Default, unless the principal of all the Bonds of the related series shall have already become due and payable, the Trustee, by notice in writing to the Authority and the Corporation, may and, upon the written request of the Holders of not less than a majority in aggregate principal amount of such Bonds at the time Outstanding, or at the direction of the Bank or upon the occurrence of (6) above, shall declare the principal of all such Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding. Upon any such declaration the Trustee shall immediately draw upon any then existing Credit Facility in accordance with the terms thereof and apply the amount so drawn to pay the principal of and interest on the Bonds so declared to be due and payable.

This provision, however, is subject to the condition that if, at any time while the Bonds are in the Fixed Rate Mode after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses by the Trustee (including but not limited to those of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the

satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of such series of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Holders of all of such Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. No such rescission and annulment may occur while the Bonds are in the Weekly Mode.

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

Modification without Consent of Bondholders.

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

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

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

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

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

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

(f) for any other purpose.

Modification with Consent of Bondholders.

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

Discharge of Indenture.

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

- (1) by paying or causing to be paid the principal of and premium, if any, and interest on the Bonds Outstanding, as and when the same become due and payable;
- (2) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem Bonds Outstanding; or
- (3) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

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

Deposit of Money or Securities with Trustee.

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

- (1) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date, together with the redemption premium, if any; or
- (2) (a) noncallable direct obligations of the United States of America (including, without limitation, obligations issued or held in book-entry form on the books of the Department of Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States (including without limitation the interest component of Resolution Funding Corporation strips for which the separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form) of America or (b) securities the interest on which is excludable from gross income for federal tax

purposes which have been advance refunded pursuant to the Code for which a nationally recognized rating service is maintaining a rating within the highest rating category of such rating service and the principal of and interest on which, in the written opinion of an Accountant, when due will provide money sufficient to pay the principal of, and premium, if any, and all unpaid interest to maturity, or to the redemption date provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice,

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

Liability of Authority Limited to Revenues.

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

LOAN AGREEMENT

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

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

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

- (1) The surviving, resulting or transferee corporation, as the case may be:
 - (a) assumes in writing, if such corporation is not the Corporation, all of the obligations of the Corporation under the Loan Agreement;
 - (b) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement; and
 - (c) is an organization described in Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect.
- (2) The Authority, the Trustee and the Bank shall have received a Certificate of the Corporation to the effect that the covenants under the Loan Agreement will be met after such consolidation, merger, sale or transfer;
- (3) The Trustee and the Authority shall have received an Opinion of Bond Counsel to the effect that under existing law, such merger, consolidation, sale, acquisition or other transfer will not cause interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code; and
- (4) The written consent of the Bank has been received by the Trustee, together with an acknowledgement that the Credit Facility will remain in effect.

Events of Default.

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

- (A) The Corporation fails to make any Loan Payment by its due date; or
- (B) The Corporation fails to observe and perform any material covenant, condition or agreement on its part to be observed or performed under the Loan Agreement other than as referred to in paragraph (A) above for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Corporation by the Authority, the Bank or the Trustee, with a copy to the Bank; provided, however, if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Trustee, upon the prior written consent of the Bank, will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Corporation within the applicable period and diligently pursued until the default is corrected; or
- (C) Any of the representations or warranties of the Corporation made in the Loan Agreement or in any other document, certificate or writing furnished by the Corporation to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds was false or incorrect in any material respect when made; or
- (D) The Corporation applies for or consents to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property or admits in

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

Remedies on Default.

The Loan Agreement provides that in the event any of the Bonds shall at the time be Outstanding and unpaid (and provision for the payment thereof shall not have been made as provided in the Indenture) and any event of default referred to in the Loan Agreement shall have happened and be continuing the Authority or the Trustee may, with the consent of the Bank, and shall, at the direction of the Bank, take any one or more of the following remedial steps:

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

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

Amendment of the Loan Agreement

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

APPENDIX D
PROPOSED FORM OF BOND COUNSEL OPINION

July __, 2004

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

Re: *\$7,000,000 ABAG Finance Authority for Nonprofit Corporations
Variable Rate Demand Revenue Bonds (The Urban School of San
Francisco) Series 2004*

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Issuer") of \$7,000,000 aggregate principal amount of its Variable Rate Demand Revenue Bonds (The Urban School of San Francisco) Series 2004 (the "Bonds"), issued pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code (the "Act"), and an Indenture, dated as of July 1, 2004 (the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are being issued for the purpose of making a loan of the proceeds thereof to The Urban School of San Francisco (the "Borrower") pursuant to a Loan Agreement, dated as of July 1, 2004 (the "Loan Agreement"), between the Issuer and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

We have relied on the opinion of Nossaman Guthner Knox & Elliott LLP, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and

validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof.

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

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

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

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

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

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

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

Respectfully submitted,

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

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

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 security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating:

AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Trust Agreement and will not be conducted by the Authority or the Trustee.

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

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

NONE OF THE AUTHORITY, THE CORPORATION OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

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

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

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

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the Authority or the Trustee take any responsibility for the accuracy thereof.

None of the Authority, the Corporation or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices 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. None of the Authority, the Corporation or the Underwriter are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.