

In the opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, 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"). 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 addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."

\$35,700,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Refunding Revenue Bonds
(Point Loma Nazarene University)
Series 2006
(Auction Rate Securities)

Dated: Date of Delivery**Price:** 100%**CUSIP No.** 00037CJB7**Due:** October 1, 2033

The \$35,700,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Point Loma Nazarene University), Series 2006 (the "Bonds") will be issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") pursuant to an Indenture, dated as of July 1, 2006 (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 Point Loma Nazarene University (the "University") pursuant to a Loan Agreement, dated as of July 1, 2006 (the "Loan Agreement"), by and between the Authority and the University. The proceeds of the Bonds will be applied by the University to refund all outstanding maturities of the Prior Bonds (as defined herein), to fund a reserve for the Bonds and to pay costs of issuing the Bonds. See "PLAN OF FINANCE."

The Bonds will initially be issued as auction rate securities ("ARS") in a 7-day Auction Period in denominations of \$25,000 and any integral multiple thereof. While the Bonds are ARS, the interest rate (the "ARS Rate") on the Bonds will be initially determined for generally successive 7-day Auction Periods. Each ARS Rate will be equal to the annual interest rate that results from the implementation of the Auction Procedures set forth in Appendix D attached hereto. A beneficial owner of a Bond may sell, transfer or dispose of a Bond only in accordance with the Auction Procedures while the Bonds are ARS. Under the Indenture, the Auction Period for the ARS may be adjusted to a daily Auction Period, a 28-day Auction Period, a 35-day Auction Period, a different 7-day Auction Period or the Bonds may be converted from an ARS Rate to bear interest pursuant to another Interest Rate Determination Method. **This Official Statement describes the terms of the Bonds only when the Bonds are ARS. There are significant changes in the terms of the Bonds not described in this Official Statement when the Bonds are not ARS.**

THE BONDS ARE SUBJECT TO REDEMPTION AND MANDATORY TENDER FOR PURCHASE ON CONVERSION TO ANOTHER INTEREST RATE DETERMINATION METHOD PRIOR TO MATURITY AS DESCRIBED HEREIN. SEE "THE BONDS."

The scheduled payment of principal of and interest on the Bonds when due will be insured under a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" and APPENDIX H—"FORM OF FINANCIAL GUARANTY INSURANCE POLICY."



This cover page contains information for quick reference only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF 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 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 AND INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its special counsel, Nixon Peabody LLP, San Francisco, California, for the Underwriter by its counsel Fulbright & Jaworski L.L.P., Los Angeles, California, and for the University by its counsel Parker & Irwin, San Diego, California. It is expected that the Bonds will be available for delivery through the facilities of The Depository Trust Company, New York, New York, on or about August 1, 2006.

Banc of America Securities LLC

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”), Point Loma Nazarene University, a California nonprofit corporation (the “University”), or Banc of America Securities LLC (the “Underwriter”) to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth herein under the caption “THE AUTHORITY” and ABSENCE OF MATERIAL LITIGATION – The Authority” has been obtained from the Authority. All other information set forth herein has been obtained from the University, The Depository Trust Company, New York, New York and other sources which are believed to be current and reliable. The accuracy or completeness of any information other than that contained under the captions “THE AUTHORITY” and ABSENCE OF MATERIAL LITIGATION – The Authority” is not guaranteed by, and is not to be construed as a representation by, the Authority.

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

CUSIP Copyright 2006, American Bankers Association. CUSIP numbers herein are provided by Standard & Poor’s CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The Authority, the Trustee, the Auction Agent (as defined herein), the Underwriter, the Broker-Dealer (as defined herein) and the Market Agent (as defined herein) assume no responsibility for the accuracy of such numbers.

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 does not guarantee the accuracy or completeness of such information.

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

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\$35,700,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Refunding Revenue Bonds
(Point Loma Nazarene University)
Series 2006
(Auction Rate Securities)

INTRODUCTION

This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of the Official Statement, and a full review should be made of the entire Official Statement, including the cover page and the Appendices. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of laws of the State of California or any other documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. For definitions of certain words and terms used, but not otherwise defined herein, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

General

This Official Statement, including the cover page and appendices hereto, contains certain information relating to the issuance of \$35,700,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Point Loma Nazarene University), Series 2006 (the “Bonds”) by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”). The Bonds will be issued pursuant to an Indenture, dated as of July 1, 2006 (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 Point Loma Nazarene University, a California nonprofit public benefit corporation (the “University”), pursuant to a Loan Agreement, dated as of July 1, 2006 (the “Loan Agreement”), by and between the Authority and the University. For certain information regarding the University, see APPENDIX A – “POINT LOMA NAZARENE UNIVERSITY.”

The proceeds of the Bonds will be applied by the University to refund all outstanding maturities of the California Educational Facilities Authority (Point Loma Nazarene University) Refunding Revenue Bonds, Series 1998 (the “1998 Bonds”), the California Educational Facilities Authority (Point Loma Nazarene University) Variable Rate Demand Revenue Bonds, Series 1999 (the “1999 Bonds”) and the ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Revenue Bonds (Point Loma Nazarene University), Series 2003 (the “2003 Bonds” and, together with the 1998 Bonds and the 1999 Bonds, the “Prior Bonds”), to fund a reserve for the Bonds and to pay certain costs of issuing the Bonds. See “PLAN OF FINANCE – The Refunding.”

The Bonds

The Bonds will be dated their date of delivery, initially be issued as auction rate securities (“ARS”) and mature on October 1, 2033. The Bonds while ARS will be in authorized denominations of \$25,000 and any integral multiple thereof. The interest rate (the “ARS Rate”) on the Bonds will initially be determined for generally successive 7-day Auction Periods as provided in the Indenture. See APPENDIX D – “AUCTION AND SETTLEMENT PROCEDURES.” Under the Indenture, the Auction Period for the ARS may be adjusted to a daily Auction Period, a 28-day Auction Period, a 35-day Auction Period, a different 7-day Auction Period or may be converted from an ARS Rate to bear interest pursuant

to another Interest Rate Determination Method. **This Official Statement describes the provisions of the Bonds only when the Bonds are ARS. There are significant changes in the terms of the Bonds not described in this Official Statement when the Bonds are not ARS.**

The Bonds are subject to redemption and mandatory tender for purchase on conversion to another Interest Rate Determination Method prior to maturity as described herein. See “THE BONDS.”

Book-Entry System

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of the Bonds. Payments of principal of and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. See APPENDIX E – “BOOK-ENTRY SYSTEM.”

Auction Agent, Broker-Dealer and Market Agent

Deutsche Bank Trust Company Americas has been appointed as the auction agent (the “Auction Agent”) for the Bonds under the Auction Agent Agreement, dated as of July 1, 2006 (the “Auction Agent Agreement”), by and among itself, the Trustee and the University. Banc of America Securities LLC has been appointed as the broker-dealer (the “Broker-Dealer”) for the Bonds under the Broker-Dealer Agreement, dated as of July 1, 2006 (the “Broker-Dealer Agreement”), by and among itself, the Auction Agent and the University, and as market agent (the “Market Agent”) for the Bonds under the Market Agent Agreement, dated as of July 1, 2006 (the “Market Agent Agreement”), by and between itself and the Trustee. See “CERTAIN RELATIONSHIPS.”

Security and Sources of Payment

Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Owners all of the Revenues received thereunder. The Authority is obligated to pay the Bonds solely from the Revenues received from the University under the Loan Agreement and certain other funds available therefor under the Indenture. Under the Loan Agreement, the University has pledged its full faith and credit to the payment of the Base Loan Payments to be made thereunder, which are due in amounts and at the times necessary to pay the principal of and interest on the Bonds when due. The University’s payment obligations under the Loan Agreement are general unsecured obligations of the University. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Continuing Disclosure

The University has agreed to provide, or to cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State of California as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Securities Act of 1934, as amended (the “Rule”), certain annual financial information and operating data relating to the University and notices of certain events if material. These covenants have been made in order to assist the Underwriter in complying with the Rule. See “CONTINUING DISCLOSURE” and APPENDIX G – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement, including in Appendix A attached hereto, constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. The Authority and the University are not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Additional Information

The brief descriptions of the Bonds, the Indenture, the Loan Agreement, the Escrow Instructions, the Broker-Dealer Agreement, the Auction Agent Agreement, the Market Agent 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 Bonds, the Indenture, the Loan Agreement, the Escrow Instructions, the Broker-Dealer Agreement, the Auction Agent Agreement, the Market Agent Agreement, and other documents, statutes, reports and other instruments and other instruments are qualified in their entirety by reference to such document, statute, report or instrument. Copies of the Bonds, the Indenture, the Loan Agreement, the Escrow Instructions, the Broker-Dealer Agreement, the Auction Agent Agreement, the Market Agent Agreement may be obtained, upon written request, from the Trustee.

PLAN OF FINANCE

The Refunding

The Bonds are being issued to refund the Prior Bonds identified in the table below.

<u>Series</u>	<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u> <u>Outstanding</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
Series 1998	10/1/21	\$21,220,000	10/1/08	101%
Series 1999	10/1/29	\$4,000,000	8/1/06	100%
Series 2003	10/1/33	\$7,300,000	8/1/06	100%

Pursuant to the terms of the respective indentures for the Prior Bonds, the refunding of the Prior Bonds will be effected by prepaying all remaining Base Loan Payments (as defined in the prior indentures) for the 1999 Bonds and the 2003 Bonds on August 1, 2006 and with respect to the 1998 Bonds, by depositing a portion of the proceeds of the Bonds together with other monies in an escrow fund (the “Escrow Fund”) pursuant to Escrow Instructions, dated as of July 1, 2006, from the University to U.S. Bank National Association, as escrow agent for the 1998 Bonds. Investments acquired with a portion of the proceeds of the Bonds and other monies deposited in the Escrow Fund are scheduled to be sufficient to pay when due the principal amounts of the 1998 Bonds through October 1 2008 and to

prepay on October 1, 2008 the principal amount of the 1998 Bonds maturing on and after October 1, 2009 at the redemption price of 101% of the principal amount thereof plus accrued and unpaid interest thereon. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

The Swap

The University has entered into an interest rate swap pursuant to an agreement (the “Swap Agreement”) with Bank of America, N.A. (the “Swap Provider”) in connection with the issuance of the Bonds. See “CERTAIN RELATIONSHIPS.” The Swap Agreement provides that the University will pay to the Swap Provider an amount based on the interest accruing at a fixed rate of interest on an amount equal to the principal amount of the outstanding Bonds covered by the Swap Agreement and that the Swap Provider will pay to the University an amount based on the interest accruing at a variable rate of interest on an amount equal to the principal amount of the outstanding Bonds covered by the Swap Agreement. Any arrangements made in respect of the Swap Agreement will not alter the University's obligation to pay the principal of and interest on the Bonds. The University and the Swap Provider each have the right to terminate the Swap Agreement prior to its stated termination date under certain conditions, in which event termination payments may be outstanding. Such termination payments could be substantial. Neither the Trustee nor the Owners of the Bonds will have any rights under the Swap Agreement or against the Swap Provider. Certain of the amounts which may be due from the University to the Swap Provider under the Swap Agreement will be insured under an interest rate swap insurance policy issued by the Insurer contemporaneously with the delivery of the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The University anticipates that the proceeds of the Bonds and certain other amounts will be applied approximately as follows:

Estimated Sources of Funds

Principal Amount of Bonds	\$35,700,000
Amounts from 1998 Bonds Debt Service Reserve Fund	<u>1,908,500</u>
Total	<u>\$37,608,500</u>

Estimated Uses of Funds

Amount for Refunding	\$33,247,125
Deposit to Debt Service Reserve Fund	2,764,776
Deposit to Costs of Issuance Fund ⁽¹⁾	<u>1,596,599</u>
Total	<u>\$37,608,500</u>

⁽¹⁾ Includes Underwriter’s discount, legal fees, fees and expenses of the Trustee, initial administration fee of the Authority, bond insurance premium, rating agency fees, printing costs, and other costs incurred in connection with the issuance of the Bonds.

THE BONDS

General

The Bonds will be dated their date of delivery, initially be issued as ARS and mature on October 1, 2033. The Bonds while ARS will be in authorized denominations of \$25,000 and any integral multiple thereof. The ARS Rate will initially be determined for generally successive 7-day Auction Periods as provided in the Indenture. See APPENDIX D – “AUCTION AND SETTLEMENT PROCEDURES.” Under the Indenture, the Auction Period for the ARS may be adjusted to a daily Auction Period, a 28-day Auction Period, a 35-day Auction Period, a different 7-day Auction Period or may be converted from an

ARS Rate to bear interest pursuant to another Interest Rate Determination Method. **This Official Statement describes the provisions of the Bonds only when the Bonds are ARS. There are significant changes in the terms of the Bonds not described in this Official Statement when the Bonds are not ARS.**

Auction Rate Securities

Interest on the Bonds will be payable on August 7, 2006 and thereafter on the Business Day immediately following each Auction Period (generally, every Tuesday) therefor (each an “ARS Interest Payment Date”), while the Bonds remain in a 7-day Auction Period. So long as the Bonds are ARS, such Bonds will bear interest at rates (the “Applicable ARS Rate”) established pursuant to the Auction Procedures set forth in APPENDIX D – “AUCTION AND SETTLEMENT PROCEDURES.” An “ARS Interest Period” begins on and includes an ARS Interest Payment Date and ends on and includes the day immediately preceding the next succeeding ARS Interest Payment Date. The first ARS Interest Period will commence on the date of original delivery of the ARS. The Applicable ARS Rate will not exceed the ARS Maximum Rate. Interest with respect to ARS will be computed on the basis of a 360-day year for the actual number of days elapsed during the applicable ARS Interest Period. If the Auction Agent, the University, the Broker-Dealer or the Trustee fails to receive a Notice of Percentage Change or an opinion of Bond Counsel authorizing an adjustment in the percentages used to determine certain rates relevant to, among others, the Applicable ARS Rate, the Auction Agent will cancel the succeeding Auction and determine the applicable ARS Maximum Rate in accordance with the Auction Agent Agreement. The Auction Agent will also suspend the Auction Procedures upon occurrence of any default in the payment of the principal of and interest with respect to the ARS. If an ARS Payment Default shall have occurred, the Applicable ARS Rate for the ARS Interest Period commencing on or immediately after such ARS Payment Default and for each ARS Interest Period thereafter, to and including the ARS Interest Period, if any, during which, or commencing less than two Business Days after, such ARS Payment Default is cured in accordance with the Indenture, shall equal the lesser of (i) 265% of the Index on such date, as such percentage may be adjusted pursuant to the Indenture, or (ii) 15% per annum; provided, that in no event shall such amount be more than the Maximum Lawful Rate; and provided further, that if an Auction occurred on the Business Day immediately preceding any such ARS Interest Period, the Non-Payment Rate for such ARS Interest Period shall apply. If the ARS are no longer book-entry bonds, the Applicable ARS Rate for any ARS Interest Period commencing after the delivery of bonds representing the ARS shall equal the ARS Maximum Rate.

The University may elect to convert the Bonds to another Interest Rate Determination Method. Upon such Conversion, the Bonds may accrue interest based on a Daily Rate Period, a Weekly Rate Period, a Commercial Paper Rate Period or a Fixed Rate Period. To effect such Conversion, the University shall provide a written direction to the Trustee, the Auction Agent and the Broker-Dealer of the University’s election to convert the Bonds to another Interest Rate Determination Method. The Bonds while ARS are subject to mandatory tender for purchase only on the first day of any Conversion to another Interest Rate Determination Method; provided, however, that if a Conversion does not occur, the ARS will not be subject to mandatory purchase. The purchase price shall be equal to the principal amount of the ARS tendered for purchase, without premium, plus accrued interest from and including the immediately preceding ARS Interest Payment Date.

Redemption

Optional Redemption. The Bonds will be subject to redemption upon prepayment of the Base Loan Payments at the option of the University, in whole, or in part by lot in Authorized Denominations, prior to their maturity dates, on any ARS Interest Payment Date at a redemption price equal to the principal amount of the Bonds called for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory redemption from sinking fund payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, in the amounts and on the dates set forth below:

<u>Payment Date</u> <u>(October 1)</u>	<u>Principal Amount</u>	<u>Payment Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
2006	\$ 675,000	2020	\$1,125,000
2007	650,000	2021	1,175,000
2008	675,000	2022	1,225,000
2009	725,000	2023	1,275,000
2010	750,000	2024	1,350,000
2011	775,000	2025	1,400,000
2012	800,000	2026	1,450,000
2013	850,000	2027	1,525,000
2014	875,000	2028	1,575,000
2015	925,000	2029	1,650,000
2016	950,000	2030	1,725,000
2017	1,000,000	2031	1,800,000
2018	1,050,000	2032	1,900,000
2019	1,075,000	2033*	4,750,000

*Maturity.

If October 1 is not an ARS Interest Payment Date, the redemption shall occur on the ARS Interest Payment Date immediately preceding such October 1. If any Bonds are redeemed pursuant to the optional redemption provisions set forth above, the remaining mandatory sinking fund redemption amounts with respect to the Bonds so redeemed shall be reduced, in an aggregate amount equal to the principal amount of the Bonds so redeemed, as directed in writing by the University, and in the absence of such direction, as proportionally as possible in integral multiples of Authorized Denominations.

Notwithstanding anything to the contrary in the Indenture, no amount of Bonds may be redeemed (other than pursuant to a sinking fund redemption) unless a proportionate amount of any related swap agreement is terminated or reduced so that upon such redemption the remaining notional amount of the swap agreement is no greater than the principal amount of Bonds outstanding, unless the Insurer waives the requirement for such reduction of the notional amount of the swap agreement.

Notice of Redemption. The Trustee will give notice of any redemption of Bonds by first-class mail, postage prepaid, to the Owners of all Bonds to be redeemed, at the addresses appearing in the registration books of the Trustee, not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption. Each notice of redemption will state, among other things, the date fixed for redemption, the redemption price and the place of redemption. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, redemption notices will be sent to Cede & Co. Notice of redemption will also be sent to the Authority, the Auction Agent, certain information

services that disseminate redemption notices, and to certain nationally recognized municipal securities information repositories.

In the event the Bonds are bearing interest at an ARS Rate, the notice of redemption delivered to the Securities Depositories shall also include: (A) under an item entitled “Publication Date for Securities Depository Purposes,” the Interest Payment Date prior to the Redemption Date, and (B) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Participants whose Securities Depository positions will be redeemed and the principal amount of such ARS to be redeemed from each such position (the “Securities Depository Redemption Information”), and (y) notify the Auction Agent immediately after such determination of (1) the positions of the Participants in such ARS immediately prior to such Auction settlement, (2) the positions of the Participants in such ARS immediately prior to following such Auction settlement and (3) the Securities Depository Redemption Information. As used in this paragraph, “Publication Date” shall mean three Business Days after the Auction Date next preceding such Redemption Date.

Effect of Redemption. Notice of redemption having been given and moneys for the payment of the redemption price being held by the Trustee, the Bonds so called for redemption will on the date fixed for redemption designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds to be redeemed will cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under the Indenture and the Owners thereof will have no rights except to receive payment of the redemption price thereof including interest, if any, accrued to the date fixed for redemption, without interest accrued on any funds held after the date fixed for redemption to pay such redemption price.

Selection of Bonds to be Redeemed. If less than all the outstanding Bonds are called for redemption, the Trustee will select the Bonds or portions thereof to be redeemed from the outstanding Bonds or such portion thereof not previously called for redemption, by lot. If less than all of the outstanding Bonds are to be redeemed and so long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, selection of Bonds for redemption will be in accordance with DTC’s customary practices. If less than all the Bonds are to be redeemed, the Bonds that remain outstanding must be in Authorized Denominations.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Revenues and Base Loan Payments

The Authority is obligated to pay principal of and interest on the Bonds solely from the Revenues received from the University under the Loan Agreement and certain other funds available therefor under the Indenture. Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Owners all of the Revenues received thereunder. “Revenues” mean all payments received by the Authority or the Trustee from the University pursuant to or with respect to the Loan Agreement (except Additional Payments and certain payments for expenses incurred by the Authority and the Trustee, indemnification payments, and amounts received for or on deposit in the Bond Purchase Fund and Rebate Fund) including, without limiting the generality of the foregoing, the Base Loan Payments (including both timely and delinquent payments), amounts received under the Insurance Policy to pay principal of and interest on the Bonds, prepayments, all income derived from the investment of any money in any fund or account established pursuant to the Indenture and, all income derived from the investment of any money in the Bond Fund established pursuant to the Indenture.

Under the Loan Agreement, the University has pledged its full faith and credit to the payment of the Base Loan Payments, which payments are due in amounts and at the times necessary to pay the principal (whether at maturity or upon acceleration or prior redemption) of and interest on the Bonds, when due, and any Additional Payments. The University's payment obligations under the Loan Agreement are general, unsecured obligations of the University.

As additional security for the benefit of the Owners from time to time of the Bonds, the University will execute a Deed of Trust for the benefit of the Trustee as Trustee for the Owners, and the Trustee shall be entitled to and shall (subject to the provisions of the Indenture) take all steps, actions and proceedings reasonably necessary in its judgment to enforce all rights (as Trustee for the Owners) and all of the obligations of the University under the Deed of Trust. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

Debt Service Reserve Fund

The Debt Service Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer such fund as provided in the Indenture. "Debt Service Reserve Requirement" (a) initially, an amount equal to \$2,764,775.61 and (b) as of any date of calculation, an amount which shall be equal to the least of (i) ten percent (10%) of the proceeds of the Bonds; (ii) Maximum Annual Debt Service with respect to the Bonds Outstanding, or (iii) one hundred twenty-five percent (125%) of average annual debt service with respect to the Bonds. Annual debt service, for purposes of this definition, shall be assumed to be the amount required to pay all principal of and interest on a series of Bonds in any Fiscal Year. "Maximum Annual Debt Service" means the greatest amount of aggregate (without duplication) principal and interest scheduled to become due (either by maturity or by mandatory redemption) on all Long Term Debt in any Fiscal Year, including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year. All amounts in the Debt Service Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the interest subaccount or the principal subaccount in the Bond Fund, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds. In lieu of maintaining and depositing moneys in the Debt Service Reserve Fund, the Borrower may deposit with the Trustee a letter of credit or an irrevocable surety bond policy. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

Limited Obligations

The Bonds are special obligations of the Authority, payable solely from and secured by the pledge of Revenues pursuant to the Indenture. None of the Authority, the Association of Bay Area Governments ("ABAG") or the members of the Authority or ABAG shall be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the Authority, ABAG or any of 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 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 and interest on the Bonds. Neither the Authority nor ABAG has any taxing power.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (the “Insurer”) for use in this Official Statement. Reference is made to Appendix H for a specimen of the Insurer’s policy (the “Insurance Policy”).

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurance Policy and the Insurer set forth under the heading “BOND INSURANCE.” Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

The Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurance Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts

due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of the Insurer are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, the Insurer is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for the Insurer, limits the classes and concentrations of investments that are made by the Insurer and requires the approval of policy rates and forms that are employed by the Insurer. State law also regulates the amount of both the aggregate and individual risks that may be insured by the Insurer, the payment of dividends by the Insurer, changes in control with respect to the Insurer and transactions among the Insurer and its affiliates.

The Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of the Insurer

Moody's Investors Service, Inc. rates the financial strength of the Insurer “Aaa.”

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Insurer “AAA.”

Fitch Ratings rates the financial strength of the Insurer “AAA.”

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, the Insurer had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2006, the Insurer had admitted assets of \$11.2 billion (unaudited), total liabilities of \$7.5 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning the Insurer, see the consolidated financial statements of the Insurer and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of the Insurer and its subsidiaries as of March 31, 2006 and for the three month period ended March 31, 2006 and March 31, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by the Insurer with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to the Insurer at its principal executive offices.

Incorporation of Certain Documents by Reference

The Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement.

The following documents filed by the Company with the SEC are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

Any documents, including any financial statements of the Insurer and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the

Company's Annual Report on Form 10-K for the year ended December 31, 2005 and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to the Insurer at its principal executive offices.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

INVESTMENT CONSIDERATIONS

Source of Payment for the Bonds

The Bonds are payable from and secured by the Authority's pledge of Revenues, which consist primarily of Base Loan Payments to be made by the University under the Loan Agreement. There can be no assurance that income and receipts will be realized by the University in amounts sufficient to make Base Loan Payments under the Loan Agreement and thus provide Revenues sufficient to pay the principal of and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Future economic and other conditions, including, without limitation, the loss by the University of its accreditation, destruction or loss of a substantial portion of the University's facilities, construction risks, litigation, competition, reduction in the amounts received by the University through fundraising efforts, reduction of the value of endowment funds and changes in the demand for post-high school education, may adversely affect income and receipts of the University. There can be no assurance that University income and receipts will not decrease.

The Auction Rate Securities Market

In May 2006, the Securities and Exchange Commission ("SEC") announced the institution of proceedings against 15 broker-dealers for engaging in one or more practices in the auction rate securities market between January 2003 and June 2004, that were not adequately disclosed to investors. While neither admitting nor denying the findings in the order, Banc of America Securities LLC, the underwriter and Broker-Dealer for the Bonds, along with the other broker-dealers named in the order, consented to the entry of the order which censured each firm and required each firm to (1) cease and desist from committing or causing any violations and future violations of Section 17(a)(2) of the Securities Act; (2) pay a penalty; (3) provide certain disclosures of its material and current auction practices and procedures; and (4) have its CEO or general counsel certify, not later than six months after the date of the order, that it has implemented procedures that are reasonably designed to prevent and detect failures to conduct the auction process in accordance with the auction procedures disclosed in the disclosure documents and other supplemental disclosures, and that the firm is in compliance with the order. Banc of America Securities LLC's penalty of \$750,000 (rather than the \$1,500,000 penalty assessed to the other broker-dealers with relatively larger shares of the auction rate securities market) was, according to the SEC, based on the quality of Banc of America Securities LLC's self-monitoring capabilities in the auction rate securities area that it demonstrated to the SEC. No assurances are given as to how the settlement may affect the market for auction rate securities or the Bonds.

The ability to sell an ARS in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all of the Auction Rate Securities at an interest rate equal to or less than the ARS Maximum Rate. The Broker-Dealer has advised the Authority that it intends to make a market in

the ARS between Auctions; however, the Broker-Dealer is not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop. The Bonds will not be supported by a liquidity facility. If, for example, an Existing Owner were to submit a Sell Order or a Bid subject to an interest rate that is determined to be greater than the ARS Maximum Rate for such Auction Date, and Sufficient Clearing Bids are not obtained on such Auction Date, such Existing Owner may not have its Bonds purchased through the Auction Procedures on such Auction Date. In such event, no assurance can be given that a Broker-Dealer will purchase or will otherwise be able to locate a purchaser or that Sufficient Clearing Bids will be obtained on any succeeding Auction Date. Also, if you place a Bid Order to retain Auction Rate Securities at an Auction only at a specified rate, and that specified rate exceeds the rate set at the auction, you will not retain your Auction Rate Securities. If you submit a Hold Order for Auction Rate Securities, and the Auction sets a below-market rate, you may receive a below-market rate of return on your Auction Rate Securities. See APPENDIX D – “AUCTION AND SETTLEMENT PROCEDURES.”

The Broker-Dealer routinely submits orders in auctions for its own accounts, and may do so in any particular auction. The Broker-Dealer submitting an order for its own account in any Auction will have an advantage over other Bidders in that it would have knowledge of some or all other Orders placed through it in that Auction (but it would not have knowledge of Orders placed through other broker-dealers, if any). As a result of the Broker-Dealer bidding, the Auction clearing rate is likely to be higher or lower than the rate that would have prevailed if the Broker-Dealer had not bid. Any such bid may be designed to prevent what would otherwise be (i) a failed Auction; or (ii) an Auction clearing at a rate that the Broker-Dealer believes, in its discretion, and at the time of making its bid, is not a market rate given prevailing market conditions; however, the Broker-Dealer is not obligated to continue to place such bids or to place such a bid in connection with any particular auction. A bid by the Broker-Dealer is likely to affect the allocation of the securities being auctioned (including displacing other prospective owners); and in certain instances is likely to prevent the Auction clearing rate from becoming the ARS Maximum Rate. A Broker-Dealer may also encourage additional or revised investor bidding in order to prevent an “all-hold” Auction or an Auction clearing at a rate which the Broker-Dealer deems, in its discretion, to be too low given prevailing market conditions. The Broker-Dealer may, but is not obligated to, advise Owners of the ARS that the rate that will apply in an “all hold” auction is often a lower rate than would apply if Owners submit bids, and such advice, if given, may facilitate the submission of bids by existing Holders that would avoid the occurrence of an “all hold” Auction. A Broker-Dealer may, but is not obligated to, encourage additional or revised investor bidding in order to prevent an “all-hold” Auction.

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 Joint Exercise of Powers Act of the State (constituting Chapter 5, commencing with Section 6500, of Division 7 of Title 1 of the California Government Code), 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 UNIVERSITY

The University is a California nonprofit public benefit corporation organized and existing under the laws of the State of California and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The University was founded in Los Angeles in 1902 by Dr. Phineas F. Bresee. In 1910, the University moved to Pasadena and began offering a four-year, liberal arts degree. In 1973, the University relocated to Point Loma peninsula in San Diego. The University is located on

cliffs overlooking the Pacific Ocean near San Diego and currently offers undergraduate and graduate degrees. See APPENDIX A – “POINT LOMA NAZARENE UNIVERSITY.”

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority in connection with the issuance of the Bonds, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, 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”). 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 and the University and others in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the University with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinion of counsel to the University regarding, among other matters, the current qualification of the University as an organization described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel to the Authority in connection with the issuance of the Bonds, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

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 hereafter 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, or under state and local tax law.

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 University 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

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.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The University has undertaken all responsibilities for continuing disclosure to Owners, as described below, and the Authority shall have no liability to Owners of the Bonds or any other person with respect to the Rule.

The University has covenanted for the benefit of the Owners and beneficial owners of the Bonds to cause to be provided Annual Reports to each Repository, including its audited financial statements and certain operating and other information as described in the Continuing Disclosure Agreement. The University will, or will cause the Dissemination Agent to, not later than seven months after the end of the University's fiscal year, provide to each Repository an Annual Report pursuant to the requirements of the Continuing Disclosure Agreement. The University has covenanted to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the University to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) modifications to rights of Owners; (4) optional, contingent or unscheduled bond calls; (5) defeasances; (6) rating changes; (7) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds; (8) unscheduled draws on the debt service reserves reflecting financial difficulties; (9) unscheduled draws on credit enhancements reflecting financial difficulties; (10) substitution of credit or liquidity providers, or their failure to perform; and (11) release, substitution or sale of property securing repayment of the Series Bonds. These covenants have been made in order to assist the Underwriter in complying with Rule. The University has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. See APPENDIX G – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

CERTAIN RELATIONSHIPS

Bank of America, N.A., the Swap Provider, and Banc of America Securities LLC, the Underwriter, Broker-Dealer and Market Agent, are owned by Bank of America Corporation.

ABSENCE OF MATERIAL LITIGATION

The Authority

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

The University

There is no litigation of any nature now pending or threatened against the University, which seeks to restrain or enjoin the issuance or the sale of the Bonds or which in any way contests or affects the validity of the Bonds and proceedings of the University 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 proceeds of the Bonds or the existence or powers of the University relating to the Bonds.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Owners upon an Event of Default under the Indenture or the Loan Agreement are in many respects dependent upon judicial actions which 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 by the Authority, by or against the University or by or against any of their affiliates. 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. 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.

FINANCIAL STATEMENTS

The Consolidated Financial Statements of Point Loma Nazarene University Years Ended June 30, 2005 and 2004 and the Independent Auditor's Report regarding the financial statements are included in this Official Statement as Appendix B. The Consolidated Financial Statements of Point Loma Nazarene University Years Ended June 30, 2005 and 2004 have been audited by Ernst & Young LLP, independent certified public accountants, as stated in their report. Ernst & Young LLP was not requested to consent to the inclusion of its report as Appendix B and it has not undertaken to update the financial statements included as Appendix B or their report, and no opinion is expressed by Ernst & Young LLP with respect to any event subsequent to their report.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Causey Demgen & Moore, Inc., independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the investments acquired with a portion of the proceeds of the Bonds and other monies deposited in the Escrow Fund are scheduled to be sufficient to pay when due the principal amounts of the 1998 Bonds through October 1 2008 and to prepay on October 1, 2008 the principal amount of the 1998 Bonds maturing on and after October 1, 2009 at the redemption price of 101% of the principal amount thereof plus accrued and unpaid interest thereon. See “PLAN OF FINANCE – The Refunding.”

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “Aaa” to the Bonds, based on the understanding that the Insurance Policy will be delivered by the Bond Insurer simultaneously with the issuance of the Bonds. Such ratings reflect only the view of Moody’s, and an explanation of the significance of such ratings may be obtained from Moody’s. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by Moody’s if in the judgment of Moody’s circumstances so warrant. Any downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Authority and the University have entered into a purchase contract with Banc of America Securities LLC, as Underwriter, pursuant to which the Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority. The Underwriter has agreed to purchase the Bonds from the Authority at a purchase price equal to the aggregate principal amount thereof, less an Underwriter’s discount of \$357,000. The Underwriter is obligated under the purchase contract to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriter to certain dealers and others at yields lower than the public offering prices indicated on the inside cover hereof, and such public offering prices may be changed from time to time by the Underwriter.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the Authority. The proposed form of opinion of Bond Counsel is attached hereto as Appendix F. Certain Legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California, the University by Parker & Irwin, San Diego, California, for the Authority by its special counsel Nixon Peabody LLP, San Francisco, California.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the University and Owners of any of the Bonds.

APPENDIX A

POINT LOMA NAZARENE UNIVERSITY

General

Point Loma Nazarene University was founded in Los Angeles in 1902 by Dr. Phineas F. Bresee and first incorporated as Pacific Bible College. In 1910 the University moved to Pasadena and began offering a four-year, liberal arts degree. The name, Pasadena College, was adopted in 1924. In 1973, the University relocated to the Point Loma peninsula in San Diego with the new name Point Loma College. In 1998 the school's name was changed to Point Loma Nazarene University. The University is located on cliffs overlooking the Pacific Ocean only ten minutes from the center of metropolitan San Diego. The Point Loma peninsula is two and one-half hours driving time south of Los Angeles, 30 minutes north of Mexico, immediately to the east of the ocean, and west of San Diego Bay and the Laguna Mountains.

The University is owned and operated by a self-perpetuating board of 41 members of the Church of the Nazarene, the sponsoring denomination. Its Board of Trustee members are selected from the eleven Districts of the region located in Arizona, California, Hawaii, New Mexico, and parts of Texas and Nevada. Two of the districts are comprised of non-English-speaking congregations.

The University's main campus is located on approximately 77 acres. There are 37 buildings with approximately 830,000 square feet, of which 17 buildings and approximately 230,000 square feet is academic space (classrooms, laboratories, faculty offices). The University enrolls approximately 2,300 undergraduate students on its main campus and approximately 1,100 graduate students at regional centers in Arcadia, Bakersfield, and Corona, as well as at a separate graduate center off the main campus in San Diego. Seventy-nine percent of the University's students are from California, 20% are from other states and 1% is from outside the United States. Women and minority students who are United States citizens comprise 59% and 18% of the total student body, respectively. Ninety-six percent of the students are under the age of 25, while 3% are ages 25 to 54, and 1% are age 55 and over. The University faculty includes approximately 378 full- and part-time members. The Alumni Association includes 16,542 graduates and 32,569 other alumni who live throughout the world.

University Administration

The University administration consists of the following principal officers:

President	Bob Brower, Ph.D.
Provost and Chief Academic Officer	John Hawthorne, Ph.D.
Vice President for Finance and Administrative Services	George Latter, Jr., MBA
Vice President for University Advancement	Dan Martin, Ed.D.
Vice President for Community Development	Joe Watkins, Ph.D.
Vice President for Spiritual Development	Michael Pitts, Ed.D.
Vice President for Student Development	Gordon Golsan, Ed.D.

Dr. Bob Brower Ph.D., was inaugurated as the 14th president of Point Loma Nazarene University in April, 1998. Before being elected to the presidency at Point Loma, Dr. Brower was CEO of Nazarene Publishing House where he was responsible for the leadership, planning, direction and operation of NPH and its four trade-name companies (Lillenas Publishing Company, Beacon Hill Press, WordAction Publishing and Casa Nazarena de Publicaciones.) Before his position at NPH, Dr. Brower was Vice President for Institutional Advancement at MidAmerica Nazarene University in Olathe, Kansas. From 1989-1995, he was responsible for financial development efforts, church relations, public relations, special events and publications. He was dean of innovative education and graduate studies and professor at MANU from 1986-1989 and developed programs in management and human relations, Master of Education, and Master of Business Administration. Dr. Brower was Associate Academic Dean at the University from 1983-1986, Director of Title III programs and Professor of Communications at the University from 1979-1983. Dr. Brower was previously Director of Title III, Admissions and an Assistant Professor at Trevecca Nazarene University from 1974-1979.

John Hawthorne, Ph.D., Provost and Chief Academic Officer, joined the University in June 2006. Dr. Hawthorne came to PLNU from Warner Pacific College, where he served as Assistant to the President from July 2005 to June 2006, and as Vice President for Academic Affairs from July 1995 to June 2005. During his tenure at Warner Pacific, and particularly in the position of Assistant to the President, Dr. Hawthorne worked to enhance institutional leadership and vision through institutional research, program assessment, strategic planning, and non-traditional programming. Prior to coming to Warner Pacific, Dr. Hawthorne served as Vice President and Dean of Continuing Education at Sterling College, where he was instrumental in the renovation of Sterling's adult education programs. Dr. Hawthorne also taught at Olivet Nazarene University from 1981 through 1990.

George Latter, Jr., MBA, Vice President for Finance and Administrative Services, joined the University in March 1988. He was appointed University Controller in July 1989 and served in that capacity until 2002, when his title was changed to Associate Vice President for Finance to reflect his expanded responsibilities. In July 2004, Mr. Latter was appointed Vice President for Finance & Administrative Services. His area of responsibility at the University includes finance and accounting, student financial services, information and telecommunications systems, physical plant, human resources, and auxiliary services. Prior to joining PLNU, Mr. Latter spent nine years in increasingly responsible accounting and management positions.

Dan Martin, Ed.D., Vice President for University Advancement, has served in this capacity since 2000 and previously has served in other institutions as Director of Annual Giving, Executive Assistant to the President, Vice President for Enrollment Development, and Acting Vice President for Finance. In his current position, Martin has responsibility and oversight for Annual, Planned and Capital giving, Admissions and Recruitment, Graduate Administrative Services, Marketing and Creative Services, Public Relations, Alumni, and Strategic Planning. He has earned a B.S. in Business Administration at Southern Nazarene University and his graduate degrees from the University of Kansas include an MBA, a J.D. and an Ed.D. in Higher Education Policy and Leadership. Additionally, he has earned an Ed.D from the University of Pennsylvania in Higher Educational Management.

Joe Watkins, Ph.D., Vice President for Community Development, was appointed to his current position in July, 2005, after serving as the University's Associate Vice President for Community Development at PLNU since 2003, and its Director of Development from 2001 to 2003. Dr Watkins is responsible for expanding the University's community profile, giving oversight to the University's legal and political interactions related to land use matters, and working with the president in coordinating the development and work of the university's Board of Trustees, and President's Community Council (a group of 13 San Diego community leaders who advise the president). Watkins is also a Professor of Management in the University's Fermanian School of Business and teaches at the undergraduate and graduate levels. Prior to joining PLNU in February, 2001, Watkins served on a variety of local, regional and national committees and boards for the University's affiliated denomination, the Church of the Nazarene, and provided pastoral and associate pastoral leadership in three different congregations in Idaho and Arizona. From 1997 to 2001 Watkins served on the University's Board of Trustees and served as Chairman of the Student Development Committee and as a member of the board's executive committee.

Michael Pitts, Ed.D., Vice President for Spiritual Development and University Chaplain, joined the University in 1992 as a counselor and Director of the University's Wellness Center. His work previous to PLNU includes two other Nazarene institutions, Mid-America Nazarene University where he served as Campus Pastor with the Olathe, Kansas, Church of the Nazarene, and Northwest Nazarene University, where he served as Campus Ministries Director. His work in the university setting has included adjunct teaching in the undergraduate and graduate programs, co-curricular program development and administration, counseling, crisis intervention and care, and pastoral care and counseling. Professional involvement includes the American Counseling Association, American Association of Christian Counselors, International Critical Incident Stress Foundation, Int., Viktor Frank Institute of Logotherapy, and CCCU Campus Ministries Division.

Gordon Golsan, Ed.D., Vice President for Student Development, joined the University as Dean of Graduate Studies and Administration in 1988. He came to the University from Adams State College in Colorado as Dean of the School of Education and Behavioral Science and Professor of Psychology. In this position he had responsibility for budget planning, faculty development, curriculum planning and management; certification decision, faculty and staff selection, professional planning and evaluation liaison with public schools, state department of education, other colleges, and national accreditation groups; long range planning; scheduling; program development and administration of eleven off-campus masters programs. Professional involvement has been in a variety of areas *i.e.*, counseling, human rights, teacher education, and Nazarene graduate deans.

Board of Trustees

The following are the members of the University's Board of Trustees as of June 1, 2006:

W. Thomas Battin Ruidoso, New Mexico	Craig K. Furusho Kailua, Hawaii	Gary W. Morris Bradbury, California	Rev. Steven R. Scott Stockton, California
Rev. Randal Benefiel Clovis, California	Esther Frejo Flagstaff, Arizona	Rev. John Nells Winslow, Arizona	Rev. Orlando R. Serrano Santa Fe Springs, California
Jennifer Bentley Escondido, California	Rev. Gregory A. Garman Valencia, California	Daryl C. Nicholson Porterville, California	Dr. Daniel W. Spait Chandler, Arizona
Robert Best Yuba City, California	Daryl L. Hawkins Monterey, California	Harold Potter Placentia, California	Dr. Woodie J. Stevens Clovis, New Mexico
Dr. John Calhoun Concord, California	Barbara A. Hornbeck Arcadia, California	Dr. Melvin F. Rich Bakersfield, California	Jan Stone Whittier, California
Rev. Nancy Clayton Palo Alto, California	Rev. Robert C. Killen Honolulu, Hawaii	Georgina Rico Chandler, Arizona	Jim Swanson San Diego, California
W. James Cullumber Chandler, Arizona	Janine Metcalf California	Dr. David Runion Payson, Arizona	Linda Talbert Arcadia, California
Rev. John L. Denney Temecula, California	Alfred (Joe) McCoy Butte Valley, California	Rev. Alejandro Sandoval Chandler, Arizona	Carol Van Buskirk Saratoga, California
Dr. Ray L. Doane Orange, California	Frank McHodgkins Pasadena, California	Dr. Donald Schengel Visalia, California	Craig Van Hulzen Rancho Murrieta, California
Rev. Jerry L. Ferguson Pasadena, California	Dr. Janine Metcalf El Cajon, California	Dr. Byron Shortinghouse Chandler, Arizona	John T. Watkin Anaheim, California

Academic Programs

The University's goal is to provide an education in the liberal arts tradition and in professional areas that balance a broadening experience in its general education program with the depth necessary to concentrate in one of the major programs.

The University is divided into eighteen curricular schools or departments, with undergraduate baccalaureate degrees offered in more than two dozen majors. Graduate, degrees are offered in Education, Biology, Business, Nursing, and Theology.

The University has summer sessions for both undergraduate and graduate students.

Tuition and Room and Board Rates

Tuition Rates

Tuition rates are determined in the budgeting process in conjunction with an analysis of projected expenses and the revenues necessary to satisfy such expenses, as well as a comparison with other universities in Southern California.

The following table sets forth the tuition rates for full-time undergraduate students and the annual percentage changes for the five most recent academic years:

TUITION RATES

<u>Academic Year</u>	<u>Annual Tuition</u>	<u>Percentage Change</u>
2001-02	\$14,080	+ 1.3%
2002-03	15,760	+11.9
2003-04	18,000	+14.2
2004-05	19,040	+ 5.8
2005-06	20,200	+ 6.1

Room and Board Rates

70% of all University undergraduate students and 96% of freshmen were housed in campus residence facilities in the Fall of 2005. The following table sets forth the room and board rates and the annual percentage changes for the five most recent academic years:

ROOM AND BOARD RATES

<u>Academic Year</u>	<u>Annual Room and Board</u>	<u>Percentage Change</u>
2001-02	\$6,080	+5.6%
2002-03	6,380	+4.9
2003-04	6,380	0.0
2004-05	6,680	+4.7
2005-06	6,880	+3.0

Financial Aid

Approximately 73% of all undergraduate students receive some financial assistance. Sources for these funds are institutional (general operating), private donors and foundations and federal and state programs. Funds are awarded in the form of scholarships, loans and work-study programs.

Federal and state financial aid programs are subject to changing laws and regulations, and accordingly, future financial assistance from these sources is difficult to forecast. Should there be a material reduction in federal or state financial aid, there could be a negative impact on the University's enrollment or financial condition.

Undergraduate Application Pool

The following table presents applications, accepts and matriculations for the undergraduate application pool for academic years 2001-02 through 2005-06:

UNDERGRADUATE APPLICATION POOL					
(Fall Semester)					
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Applications (freshmen and transfers only)	1,821	1,857	2,180	2,278	2,383
Accepts	1,320	1,289	1,362	1,373	1,425
Accepts as a percentage of applications	73%	69%	63%	60%	59%
Matriculations	710	712	744	678	683
Matriculations as a percentage of accepts	54%	55%	55%	49%	48%

The University continues its efforts to attract better qualified students and has seen an increase in high school Grade Point Averages ("GPA'S") and average scholastic Aptitude Test ("SAT") scores. The following table presents the average SAT scores and average high school GPA's for academic Fall semester 2001 through 2005 for the first-time freshman class:

AVERAGE SAT SCORES* AND GPA					
(Fall Semester)					
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
SAT composites	1,110	1,127	1,144	1,155	1,163
High school GPA	3.62	3.65	3.72	3.72	3.75

* All scores have been converted to the re-centered scale.

In addition to steady growth in undergraduate applications, the University has also experienced an increase in undergraduate retention rates. During the past academic year, approximately 84% of undergraduates continued to be enrolled at the University at the end of the freshman year, as compared to a national average of approximately 74%.

Enrollment

Enrollment has nearly tripled since the University moved to San Diego, from 1,273 in 1973 to nearly 3,400 in Fall 2005. Approximately three-fourths of all students are located on the main campus in San Diego. The main campus operates under a Conditional Use Permit (due to its location in a residential neighborhood), which limits the number of full-time-equivalent (FTE) students who may be enrolled and attending classes on campus during the regular academic year. The University hit this enrollment “cap” approximately six years ago.

The following tables present the University’s Fall semester enrollments by headcount and by full-time-equivalent for the past five academic years:

STUDENT HEADCOUNT (Fall Semester)

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Undergraduate	2,353	2,390	2,375	2,361	2,360
Credential	146	287	364	359	364
Graduate	382	321	431	488	721
Total Headcount	<u>2,881</u>	<u>2,998</u>	<u>3,170</u>	<u>3,208</u>	<u>3,445</u>

FULL-TIME EQUIVALENT STUDENTS (Fall Semester)

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Undergraduate	2,211	2,259	2,245	2,243	2,225
Credential	81	149	176	171	167
Graduate	182	152	191	221	346
Total Full-Time Equivalent students	<u>2,474</u>	<u>2,560</u>	<u>2,612</u>	<u>2,635</u>	<u>2,738</u>

The following table presents the University's Fall semester headcount by location for the past five academic years:

**STUDENT HEADCOUNT – By Location
(Fall Semester)**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Point Loma campus	2,373	2,396	2,393	2,372	2,374
Mission Valley campus	203	248	267	294	375
Arcadia campus	186	217	306	300	320
Bakersfield campus	119	137	194	238	284
Other	0	0	10	4	92
Total	<u>2,881</u>	<u>2,998</u>	<u>3,170</u>	<u>3,208</u>	<u>3,445</u>

Degrees Conferred

The following table sets forth the number of degrees conferred over the past five academic years.

**DEGREES GRANTED BY LEVEL
(Academic Year)**

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Bachelor of Arts	401	399	506	456	506
Bachelor of Science in Nursing	36	45	42	45	39
Master of Arts (Business)	*	*	*	8	4
Master of Arts (Education)	51	45	70	80	120
Master of Arts (Religion)	1	2	2	3	1
Educational Specialist		1	2		3
Master of Science (Nursing)	*	*	*	*	7
Total	<u>489</u>	<u>492</u>	<u>622</u>	<u>592</u>	<u>680</u>

* Degree not offered

Faculty

The University presently has 139 full-time faculty. Approximately 78% of the ranked faculty obtained a Ph.D. or other terminal degree in their field. The University also has a significant number of part-time faculty, primarily in its graduate programs. The following table sets forth the faculty composition for the past five academic years.

**FACULTY COMPOSITION – Headcount & FTE
(Fall Semester)**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Full Time Faculty **	124	128	134	141	139
Part Time Faculty	132	141	145	151	170
Total FTE - instructional faculty	150.9	157.3	158.5	160.9	165.9

** Excludes non-teaching faculty, e.g., librarians, coaches, academic administrators.

Employee Relations

As of Fall 2006, the University had approximately 674 employees, including the 139 full-time faculty members, 170 part-time faculty members and 24 non-teaching faculty members. The staff includes, 306 full time staff and 35 part-time staff.

Risk Management

The University's current insurance coverage includes all-risk property in the amount of \$143,936,000 (which includes boiler and machinery coverage), general and excess liability coverages totaling \$28,000,000, and educators legal liability in the amount of \$1,000,000. These coverages exclude earthquake insurance because the availability and pricing of such coverage prevents it from being a viable option. In addition, the University secures automobile coverage, crime coverage, workers compensation coverage, assorted accident coverages, and various professional liability coverage. Subject to the provisions of the legal documents to which the University is a party, these coverage may change from time to time.

University Facilities

The University's main campus includes 37 buildings on approximately 77 acres. The campus was first established as an educational site by the Theosophical Society of America and has been occupied since by Balboa University, California Western College, and United States International University. The early occupants of this campus erected a number of wooden buildings, several of which are still in use. Since 1953 numerous additional buildings have been constructed on the campus and today the campus includes art facilities, a theatre physical education complex, the Fermanian Business Center, and the state-of-the-art Cooper Music Center with its 400-seat Crill Performance Hall. Several campus buildings are of historical interest. Among these are the Greek Amphitheater, first of its type to be built in the United States; Mieras Hall, built by the Spalding family; and Cabrillo Hall, originally the home of Madame Tingley, leader of the Theosophical Society. The Ryan Library and Learning Center is the major book and periodical repository of the campus. These facilities contain approximately 150,000 volumes and 129,015 microforms.

Athletic Programs

The University is a member of the National Association of Intercollegiate Athletics (“NAIA”) and participates in intercollegiate competition in the Golden State Athletic conference (“GSAC”) Intercollegiate sports for women include basketball, volleyball, cross-country, softball, tennis, and track and field. Intercollegiate sports for men include basketball, soccer, cross-country, tennis, baseball, golf, and track and field. Athletic teams have won 21 GSAC and NAIA District II championships during the past five years producing a number of NAIA All-Americans and Academic All-Americans. A vigorous intramural sports program includes competitive events such as flag football, basketball, volleyball, softball, tennis, and ping-pong.

Accreditation

The University has been continuously accredited since it was first accredited by the Northwest Association of Secondary and Higher Schools in 1943 date. The accrediting function was assumed by the Western College Association in 1949. Accreditation was reaffirmed in 1996 by the Western Association of Schools and Colleges, and is scheduled for reaffirmation in 2007. The University is currently conducting an Institutional Capacity and Preparatory Review as the first step in the accreditation renewal process.

The nursing program had an accrediting visit in the winter of 1998 to reaffirm their accreditation by the Commission of Collegiate Nursing Education, and the education program was last reaccredited in 2003 by the California Commission on Teacher Credentialing.

FINANCIAL CONDITION OF THE UNIVERSITY

Financial Statements

The financial statements of the University are presented in Appendix B and consist of audited statements for the fiscal year ended June 30, 2005. The University maintains its accounts in accordance with generally accepted accounting principles as applicable to educational institutions. See APPENDIX B – “CONSOLIDATED FINANCIAL STATEMENTS OF POINT LOMA NAZARENE UNIVERSITY YEARS ENDED JUNE 30, 2005 AND 2004” and Note 1 thereto.

For a summary of the University’s liabilities at June 30, 2005, please see the financial statements (including notes 7, 8, and 9) contained in APPENDIX B – “CONSOLIDATED FINANCIAL STATEMENTS OF POINT LOMA NAZARENE UNIVERSITY YEARS ENDED JUNE 30, 2005 AND 2004.”

Investments

The majority of the investments of the University are managed by the Point Loma Nazarene University Foundation. Within the management purview of the Foundation are marketable securities, real estate, and trust deed notes receivable which are invested for the benefit of the University’s endowment.

The University's endowment policy is to maximize long-term total return consistent with prudent levels of risk. The asset allocation targets established by this investment policy have been developed using long-term objectives. Endowment assets are diversified among classes of assets so that an adequate rate of return can be realized without unnecessarily exposing the endowment to excessive risk of capital loss. Investments are made in accordance with the target percentages shown in the table below. These policy targets and ranges are reviewed in depth at least every three years and may be changed by the Foundation Board at its discretion.

The following is the current asset allocation targets for the University's endowment.

**POINT LOMA NAZARENE UNIVERSITY
ENDOWMENT
ASSET ALLOCATION TARGETS**

<u>Asset Class</u>	<u>Target Percent</u>
US Equity	50%
International Equity	22
Real Assets	15
Fixed Income	12
Cash	3
TOTAL PORTFOLIO	100%

Property, Facilities and Equipment

The following table summarizes the University's "Property, Facilities and Equipment" for the past five fiscal years. Real property purchased is stated at cost, and properties acquired by gift or bequest are stated at fair value at date of gift or request. The University continuously invests in its property, facilities and equipment through a variety of capital improvement projects. The University believes that the market value of these assets exceeds book value.

**PROPERTY, FACILITIES AND EQUIPMENT SUMMARY
At June 30,**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Land	\$ 6,387,718	\$ 6,321,498	\$ 6,097,581	\$ 6,042,875	\$ 5,308,219
Buildings and Improvements	94,250,493	80,086,612	77,114,094	74,916,598	69,154,530
Furniture, fixtures and equipment	<u>19,718,570</u>	<u>18,192,639</u>	<u>16,768,116</u>	<u>15,696,054</u>	<u>15,073,689</u>
Total cost	120,356,781	104,600,749	99,979,791	96,655,527	89,536,438
Less accumulated depreciation	<u>(43,781,309)</u>	<u>(39,938,766)</u>	<u>(36,191,023)</u>	<u>(32,675,356)</u>	<u>(28,845,953)</u>
Total	\$76,575,472	\$64,661,983	\$63,788,768	\$63,980,171	\$60,690,485

Fundraising

The University is currently involved in fundraising efforts for the construction of a new Science Complex and a new School of Theology building. The estimated cost of the Science Complex is approximately \$20 million, and is in the early stages of a fundraising campaign that is targeted at the University's science alumni, various foundations, and specific other individuals. The School of Theology building has an estimated cost of \$3.5 million, of which \$1.5 million has been received from donors. An ad hoc committee of the University's Board of Trustees is leading efforts to raise most of the remaining funds from individuals and churches in the southwestern United States.

APPENDIX B

**CONSOLIDATED FINANCIAL STATEMENTS OF POINT LOMA NAZARENE UNIVERSITY
YEARS ENDED JUNE 30, 2005 AND 2004**

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CONSOLIDATED FINANCIAL STATEMENTS

Point Loma Nazarene University
Years ended June 30, 2005 and 2004

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Report of Independent Auditors

Board of Trustees
Point Loma Nazarene University and
Point Loma Nazarene University Foundation

We have audited the accompanying consolidated statements of financial position of Point Loma Nazarene University and Point Loma Nazarene University Foundation (collectively referred to as the "University") as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Point Loma Nazarene University and Point Loma Nazarene University Foundation at June 30, 2005 and 2004, and the consolidated changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

September 30, 2005

Point Loma Nazarene University

Consolidated Statements of Financial Position

	June 30,	
	2005	2004
Assets		
Cash and cash equivalents	\$ 1,690,646	\$ 2,037,076
Marketable securities	35,412,873	40,454,565
Student and other accounts receivable, less allowance of \$429,796 and \$436,444 at June 30, 2005 and 2004, respectively	1,712,252	1,654,325
Student and other notes receivable, less allowance of \$437,078 and \$405,575 at June 30, 2005 and 2004, respectively	4,468,143	3,929,068
Equity participation notes receivable	3,356,468	3,014,093
Trust deed notes receivable	1,062,303	1,329,668
Inventories and other assets	2,455,959	2,309,208
Investment in real estate	1,010,305	1,025,305
Property, plant and equipment, net of depreciation	76,575,472	64,661,983
Construction in progress	627,957	7,754,251
Bond issuance costs, net of amortization	1,136,277	1,218,104
Total assets	\$ 129,508,655	\$ 129,387,646
Liabilities and net assets		
Accounts payable	\$ 2,636,993	\$ 4,893,803
Accrued expenses and other liabilities	2,761,127	2,519,076
Deposits and deferred revenue	1,558,550	1,455,493
Annuities payable	1,443,306	1,574,071
Long-term debt	33,628,499	34,688,499
Capital lease obligation	339,682	423,568
Federal student loan obligations	2,453,569	2,700,787
Total liabilities	44,821,726	48,255,297
Net assets:		
Unrestricted	68,845,116	65,998,608
Temporarily restricted	2,754,557	2,578,371
Permanently restricted	13,087,256	12,555,370
Total net assets	84,686,929	81,132,349
Total liabilities and net assets	\$ 129,508,655	\$ 129,387,646

See accompanying notes.

Point Loma Nazarene University

Consolidated Statements of Activities

	Year ended June 30, 2005			Year ended June 30, 2004				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Student tuition and fees	\$ 50,815,373	\$ -	\$ -	\$ 50,815,373	\$ 47,767,506	\$ -	\$ -	\$ 47,767,506
Less student aid	(10,805,324)	-	-	(10,805,324)	(10,451,507)	-	-	(10,451,507)
	40,010,049	-	-	40,010,049	37,315,999	-	-	37,315,999
Private gifts and grants	3,115,474	1,211,406	506,807	4,833,687	3,324,832	973,725	1,028,030	5,326,587
Income on long-term investments	753,657	95,379	14,041	863,077	708,294	120,525	2,788	831,607
Net realized gain on investments	1,872,133	23,561	11,038	1,906,732	2,065,551	75,569	7,728	2,148,848
Other income	4,278,766	-	-	4,278,766	4,673,160	57,497	-	4,730,657
Auxiliary services	13,790,785	-	-	13,790,785	12,800,170	-	-	12,800,170
	63,820,864	1,330,346	531,886	65,683,096	60,888,006	1,227,316	1,038,546	63,153,868
Net assets released from restrictions	1,262,664	(1,262,664)	-	-	1,861,546	(1,861,546)	-	-
Total revenues, gains, and other support	65,083,528	67,682	531,886	65,683,096	62,749,552	(634,230)	1,038,546	63,153,868
Expenses:								
Instruction	17,767,109	-	-	17,767,109	16,454,653	-	-	16,454,653
Academic support	9,020,956	-	-	9,020,956	7,669,657	-	-	7,669,657
Student development	7,355,601	-	-	7,355,601	7,142,472	-	-	7,142,472
Institutional support	12,947,853	-	-	12,947,853	12,163,083	-	-	12,163,083
Operation and maintenance of plant	5,342,981	-	-	5,342,981	5,420,873	-	-	5,420,873
Auxiliary services	7,876,092	-	-	7,876,092	8,157,711	-	-	8,157,711
Other expenses	616,444	-	-	616,444	728,321	-	-	728,321
Organized research	417,326	-	-	417,326	472,971	-	-	472,971
Total expenses	61,344,362	-	-	61,344,362	58,209,741	-	-	58,209,741
Excess (deficiency) of revenues over expenses	3,739,166	67,682	531,886	4,338,734	4,539,811	(634,230)	1,038,546	4,944,127
Net unrealized (loss) gain on investments	(892,658)	108,504	-	(784,154)	2,593,772	217,138	-	2,810,910
Changes in net assets	2,846,508	176,186	531,886	3,554,580	7,133,583	(417,092)	1,038,546	7,755,037
Net assets at beginning of year	65,998,608	2,578,371	12,555,370	81,132,349	58,865,025	2,995,463	11,516,824	73,377,312
Net assets at end of year	\$ 68,845,116	\$ 2,754,557	\$ 13,087,256	\$ 84,686,929	\$ 65,998,608	\$ 2,578,371	\$ 12,555,370	\$ 81,132,349

See accompanying notes.

Point Loma Nazarene University

Consolidated Statements of Cash Flows

	Years ended June 30,	
	2005	2004
Operating activities		
Changes in net assets	\$ 3,554,580	\$ 7,755,037
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,924,370	3,721,353
Net unrealized loss (gain) on investments	784,154	(2,810,910)
Net realized gain on investments	(1,762,087)	(2,148,848)
Provision for doubtful accounts	125,598	44,403
Adjustment to actuarial liability for annuities	(130,765)	(77,871)
Equity participation note converted to short-term receivable	68,750	-
Changes in operating assets and liabilities:		
Student and other accounts receivable	(164,891)	73,260
Student and other notes receivable	(557,709)	(675,804)
Inventories and other assets	(146,751)	325,077
Accounts payable	(2,256,810)	2,387,024
Accrued expenses and other liabilities	242,051	180,578
Deposits and deferred revenue	103,057	(380,169)
Federal student loan obligations	(247,218)	(55,655)
Restricted contributions, investment income and other	(531,886)	(1,038,546)
Net cash provided by operating activities	3,004,443	7,298,929
Investing activities		
Purchases of property, plant and equipment	(8,629,737)	(8,962,321)
Sales of marketable securities, net	5,652,230	575,398
Net proceeds from sale of real estate	20,043	502,666
Collections on trust deed notes receivable	267,365	186,530
Issuance of equity participation notes receivable	(760,125)	(230,461)
Proceeds from equity participation notes receivable	711,351	647,533
Net cash used in investing activities	(2,738,873)	(7,280,655)
Financing activities		
Payments of bonds and notes payable	(1,060,000)	(975,259)
Payments on capital lease obligation	(83,886)	(62,789)
Restricted contributions, investment income and other	531,886	1,038,546
Net cash (used in) provided by financing activities	(612,000)	498
Net (decrease) increase in cash	(346,430)	18,772
Cash and cash equivalents at beginning of year	2,037,076	2,018,304
Cash and cash equivalents at end of year	\$ 1,690,646	\$ 2,037,076
Supplemental cash flow information		
Interest paid	\$ 1,264,224	\$ 1,212,536
Supplemental non-cash information		
Gain on equity participation note included as short-term receivable	\$ 144,645	\$ -
Issuance of note receivable for sale of real estate	\$ -	\$ 685,364
Acquisition of property, plant and equipment through a capital lease	\$ -	\$ 286,914

See accompanying notes.

Point Loma Nazarene University

Notes to Consolidated Financial Statements

June 30, 2005

1. Accounting Policies

Basis of Presentation

The consolidated financial statements of Point Loma Nazarene University include the accounts and operations of Point Loma Nazarene University and Point Loma Nazarene University Foundation (collectively referred to as the "University"). Both entities are nonprofit corporations affiliated with the Church of Nazarene. Point Loma Nazarene University has consolidated Point Loma Nazarene University Foundation ("Foundation") for financial reporting purposes since the Board of Trustees of Point Loma Nazarene University appoints a majority of the Board of Trustees of the Foundation and since the Foundation is for the exclusive benefit of Point Loma Nazarene University.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Fund Accounting and Net Asset Classification

To ensure compliance with restrictions placed on the resources available to the University, the University's accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting, into funds established according to their nature and purpose. In the financial statements, funds that have similar characteristics are combined into three net asset categories:

- *Unrestricted net assets* are not restricted by donors or the donor-imposed restrictions have expired.
- *Temporarily restricted net assets* contain donor-imposed restrictions that permit the University to use or expend the assets as specified. These restrictions are satisfied either by the passage of time or by actions of the University.
- *Permanently restricted net assets* contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Revenue Recognition

The University records tuition and other fees as earned. In addition, the University records gifts of long-lived assets as revenue when they are received unconditionally, at their fair value. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on net assets is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net assets class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrences of events specified by the donors or by the change of restrictions specified by the donors.

Concentration of Credit Risk

The University invests its excess cash in various types of investments. The University has established guidelines relative to diversification and maturities that maximize safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

Cash and Cash Equivalents

The University considers short-term highly liquid investments with a maturity date of three months or less from the date of purchase to be cash equivalents.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Marketable Securities

Marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the Statement of Activities.

Equity Participation Notes Receivable

The Housing Co-Investment program is an incentive program designed to help qualifying full-time faculty and staff employees purchase their primary residence.

Equity participation note agreements are entered into with the employees at the discretion of the University's Administrative Cabinet. The University's maximum investment in any particular property is based on its location, the purchase price and the participant's annual gross family income. The University holds second trust deeds on the properties and will, in addition to its original investment, share on a pro rata basis any increases or decreases in the market value upon sale of any property.

Inventories

Bookstore inventory is valued at the lower of cost or market, and accounted for on a first-in, first-out basis.

Property, Plant and Equipment

Land, buildings, equipment and library books are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Equipment received from federal projects is not reflected in these consolidated financial statements. Depreciation is computed by the straight-line method with estimated useful lives as follows:

Buildings	60 years
Building renovations	40 years
Library books	15 years
Building and land improvements	10 years
Equipment	5 – 7 years

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Impairment of Long-Lived Assets

The University assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset's fair value.

Income Tax Status

The Internal Revenue Service has ruled that both Point Loma Nazarene University and Point Loma Nazarene University Foundation qualify as nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not subject to tax under present income tax laws except to the extent of income received which is unrelated to the University's tax exempt purpose.

Bond Issuance Costs

Bond issuance costs are being amortized over the outstanding obligation period using the interest method and are reported net of the related accumulated amortization. Bond issuance cost amortization totaled \$81,827 and \$81,827 for each of the years ended June 30, 2005 and 2004, respectively.

Annuities Payable

Annuities are paid to individuals who have entered into annuity contracts with the University. Standard annuity tables are used to estimate the present value of future payments due to annuitants based on the annuitant's age and gender, the frequency and amount of payment, and the principal amount of the annuity.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Student Loans

Student loans consist of federal and private donated funds loaned to students. Private donated funds are recorded as temporarily restricted net assets. Federal funds are recorded as a liability. In accordance with the Federal Perkins and Federal Nursing loan agreements, the University contributes a portion of its operating fund to the Federal loan programs. In general, the University's contribution is equal to 10% of the total Federal loan balance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The University's significant accounting estimates include allowances for uncollectible accounts for students accounts and notes receivable and student loans, as well as, estimated trust liabilities and annuities payable.

2. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets at June 30, 2005 and 2004 are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Temporarily restricted:		
Annuity/life income plans	\$ 1,557,342	\$ 1,600,781
Student aid	513,909	503,244
Research grants and other	683,306	474,346
Total temporarily restricted	<u>\$ 2,754,557</u>	<u>\$ 2,578,371</u>
Permanently restricted:		
Endowed scholarship funds	\$ 11,188,952	\$ 10,686,108
Annuity scholarship funds (upon the demise of the annuitants or beneficiaries)	1,898,304	1,869,262
Total permanently restricted	<u>\$ 13,087,256</u>	<u>\$ 12,555,370</u>

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

2. Temporarily and Permanently Restricted Net Assets (continued)

Net assets released from restrictions during the years ended June 30 are as follows:

	<u>2005</u>	<u>2004</u>
	Temporarily Restricted	Temporarily Restricted
Purpose:		
Instruction	\$ 12,657	\$ 41,261
Academic support	11,186	13,783
Student development	53,150	27,225
Institutional support	468	20,419
Scholarships and grants	34,483	43,193
Research	28,866	103,132
Payments to annuitants	238,888	175,667
Construction of long-lived assets	882,966	1,436,866
	<u>\$ 1,262,664</u>	<u>\$ 1,861,546</u>

3. Marketable Securities

Marketable securities are recorded at fair market value. The following is a summary of investments at June 30:

	<u>2005</u>	<u>2004</u>
Short-term investments	\$ 6,065,438	\$ 5,390,774
Equity securities	21,423,812	18,468,412
Fixed income securities	7,923,623	16,595,379
	<u>\$ 35,412,873</u>	<u>\$ 40,454,565</u>

Short-term investments consist of amounts held in a common fund for colleges and universities which invests in commercial paper, corporate bonds and government securities. Approximately \$2,000,000 and \$20,000 of fixed income securities are restricted as related to the 1998 CEFA and 2003 ABAG bond issuances, respectively.

Investment income as listed in the consolidated statements of activities is net of management fees and loan cancellation costs. Investment fees amounted to approximately \$283,000 and \$209,000 during the years ended June 30, 2005 and 2004, respectively.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

4. Trust Deed Notes Receivable

The following is a summary of trust deed notes receivable at June 30:

	<u>2005</u>	<u>2004</u>
8.25% trust deed note, \$21,695 principal and interest due monthly, unpaid balance due February 2008	\$ 526,173	\$ 752,220
8% trust deed note, \$3,577 principal and interest due monthly, through October 2024	428,330	436,863
6% trust deed note, interest only due semi-annually, due September 2008	107,800	107,800
Other	-	32,785
	<u>\$ 1,062,303</u>	<u>\$ 1,329,668</u>

5. Real Estate Investments

Real estate investments are carried at the lower of cost or fair market value. Real estate investments consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
University adjacent properties	\$ 2,000	\$ 2,000
Other properties	1,008,305	1,023,305
Total	<u>\$ 1,010,305</u>	<u>\$ 1,025,305</u>

6. Property, Plant and Equipment

The following is a summary of property, plant and equipment at June 30:

	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 6,387,718	\$ 6,321,498
Buildings	94,250,493	80,086,612
Equipment	15,235,193	13,907,428
Library books	4,483,377	4,285,211
	<u>120,356,781</u>	<u>104,600,749</u>
Less accumulated depreciation	<u>(43,781,309)</u>	<u>(39,938,766)</u>
	<u>\$ 76,575,472</u>	<u>\$ 64,661,983</u>

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

6. Property, Plant and Equipment (continued)

Depreciation expense totaled \$3,842,543 and \$3,639,527 for the years ended June 30, 2005 and 2004, respectively.

The total amount of assets recorded under capital lease totaled \$488,692 and \$488,692 at June 30, 2005 and 2004, respectively. Accumulated depreciation of such assets amounted to \$155,803 and \$74,354 at June 30, 2005 and 2004, respectively.

7. Long-Term Debt

The following is a summary of long-term debt at June 30:

	<u>2005</u>	<u>2004</u>
California Educational Facilities Authority (CEFA) Bonds, Series 1998, original amount of \$26,800,000. Principal payments due annually on October 1. Interest payable semi-annually on April 1 and October 1, ranging from 4% to 5%.	\$ 22,115,000	\$ 22,975,000
California Educational Facilities Authority (CEFA) Bonds, Series 1999, original amount of \$4,500,000. Principal payments are due annually on October 1. Interest payable monthly at variable rates.	4,100,000	4,200,000
ABAG Finance Authority for Nonprofit Corporations (ABAG) Bonds, Series 2003, original amount of \$7,500,000. Principal payments are due annually starting on October 1, 2004. Interest payable monthly at variable rates.	7,400,000	7,500,000
Other	13,499	13,499
	<u>\$ 33,628,499</u>	<u>\$ 34,688,499</u>

During fiscal 1999, the University issued \$26,800,000 in 1998 Series CEFA Bonds net of offering costs of \$1,157,026. The 1998 Series CEFA Bonds consist of \$15,540,000 of serial bonds with maturities beginning in October 1999 and continuing through October 2014, and \$11,260,000 of term bonds maturing in October 2021.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

The 1998 Series CEFA Bonds are fully secured by an insurance policy (the "Policy") obtained through an insurance corporation. The Policy unconditionally and irrevocably guarantees to any owner or holder of the obligation the full and complete payment required to be made by or on behalf of the University.

In October 1999, the University issued \$4,500,000 in 1999 Series CEFA Bonds net of offering costs of \$192,472. Principal payments in amounts ranging from \$100,000 to \$300,000 are due annually beginning October 2001 through October 2029.

In February 2003, the University issued \$7,500,000 in 2003 Series ABAG Bonds, net of offering costs of \$278,082. Principal payments in amounts ranging from \$100,000 to \$500,000 are due annually beginning in October 2004 through October 2033.

Interest expense totaled \$1,338,240 and \$1,304,160 for the years ended June 30, 2005 and 2004, respectively. Included in interest expense are bank fees associated with letters of credit totaling approximately \$108,190 and \$95,087 for the years ended June 30, 2005 and 2004, respectively.

Scheduled payments to sinking funds and other repayments of debt for the next five fiscal years and for all years thereafter are as follows:

<u>Year ending June 30,</u>	
2006	\$ 1,095,000
2007	1,130,000
2008	1,170,000
2009	1,310,000
2010	1,350,000
Thereafter	27,573,499
	<u>\$ 33,628,499</u>

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

8. Annuities Payable

Annual payments of the various annuities are computed at rates varying from 4% to 12% of the contributed amount and are payable at approximately \$320,000 annually. In addition, the University is the trustee and current beneficiary of various living trusts for which the original donor receives the investment income. Payments under these trusts are approximately \$140,000 annually. Certain of these trusts allow a change in the trustee or beneficiary at the donor's discretion.

9. Lease Commitments

The University leases its Arcadia, California and Bakersfield, California campuses and certain equipment under non-cancelable operating lease agreements. The University leases certain equipment under capital leases. Future minimum lease payments under non-cancelable operating and capital leases with initial terms of one year or more are as follows for the year ending June 30:

	Capital Leases	Operating Leases
2006	\$ 105,941	\$ 649,504
2007	105,941	548,191
2008	105,941	514,490
2009	58,721	457,108
2010	-	380,313
Thereafter	-	368,580
Total minimum lease payments	376,544	<u>\$ 2,918,186</u>
Less amount representing interest	<u>(36,862)</u>	
Present value of net minimum lease payments	<u>\$ 339,682</u>	

Total rent expense was \$930,052 and \$837,937 for the years ended June 30, 2005 and 2004, respectively.

Future minimum rentals to be received under non-cancelable subleases as of June 30, 2005 totaled approximately \$270,200.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

10. Agreement with San Diego First Church of the Nazarene

The University had an agreement with San Diego First Church of the Nazarene (the "Church") to provide approximately one-half of the construction cost for joint ownership of a sanctuary building ("chapel") on the Point Loma campus. The chapel was completed at a cost of approximately \$5.6 million of which the University's share was \$2,676,643. These costs are reported as property, plant and equipment in the accompanying consolidated financial statements. The University paid certain amounts on behalf of the Church and the related note receivable of \$107,800 is included in the trust deed notes receivable (see Note 4).

The agreement contains certain requirements, including a provision that the land shall be leased to the Church at a nominal amount by the University until such time that a one-half interest in the land is conveyed to the Church by the University. The agreement further requires that the chapel be under the control of the Church while the University maintains the right to use the facility for appropriate University functions.

11. Employee Benefit Plans

The University maintains a contributory pension plan (the "Plan") for eligible full-time employees. Participants may contribute up to the maximum limit by federal law. The University contributes a base of 2.5% with no required contribution by the participant, and matches up to 5% of participant contributions. The University's contributions were \$1,516,747 and \$1,387,114 for the years ended June 30, 2005 and 2004, respectively.

The employees may elect to contribute to a Tax Deferred Annuity (the "TDA Plan"). The University does not provide for contributions to the TDA Plan.

Point Loma Nazarene University

Notes to Consolidated Financial Statements (continued)

12. Fair Values of Financial Instruments

The carrying value of the following financial instruments approximates their fair value:

- Cash equivalents
- Marketable securities
- Student and other accounts receivable
- Student and other notes receivable
- Equity participation notes receivable
- Trust deed notes receivable
- Annuities payable
- Long-term debt

13. Subsequent Events

On August 31, 2005, the University entered into a ten-year capital lease for equipment with a fair market value of \$1.0 million. On July 20, 2005, the University entered into a five-year non-cancelable operating lease for photocopiers. Future minimum lease payments under the lease are \$609,900.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS

“Act” means Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Act of Bankruptcy” means with respect to any entity the entry of an order or decree, by a court having jurisdiction in the premises, for relief against such entity in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, conservator, assignee, custodian, trustee, sequestrator (or other similar official) of such entity or of any substantial part of its property, or ordering the winding up or liquidation of its affairs; or the institution or commencement by or against such entity of a voluntary or involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by it to the entry of an order for relief against it in any involuntary case under any such law, or to the appointment of a receiver, liquidator, conservator, assignee, custodian, trustee, sequestrator (or other similar official) of such entity or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the failure of it generally to pay its debts as they become due, or the admission by it in writing of such failure, or the taking of any action by such entity in furtherance of any such action, or if a receiver of the business or of the property or assets of such entity shall be appointed by any court.

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

“Agreement” or **“Loan Agreement”** means that certain loan agreement, dated as of the date hereof, between the Authority and the Borrower and relating to the Bonds, as originally executed or as it may from time to time be supplemented, modified or amended subject to and in accordance with the terms thereof and of the Indenture.

“Alternate Liquidity Facility” means any letter of credit, guarantee, standby purchase agreement, or other support arrangement with respect to the Purchase Price of the Bonds or any combination of the foregoing, provided by the Borrower with respect to the Bonds replacing an existing Liquidity Facility pursuant to the Loan Agreement and the Indenture. An Alternate Liquidity Facility and the related Liquidity Agreement may be a single document.

“Amendment” means any amendment or modification of the Agreement.

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

“Authorized Denomination” means (a) with respect to the Bonds during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, \$100,000 and any integral multiple of \$5,000 (\$1,000 in a Commercial Paper Rate Period) in excess thereof; (b) with respect to the Bonds during any Fixed Rate Period, \$5,000 or any multiple of \$5,000 in excess thereof; and (c) with respect to the Bonds during any ARS Period, \$25,000 and any integral multiple thereof.

“Authorized Representative” means (i) with respect to the Authority, its President, Chief Financial Officer, Secretary or any other person as may be designated and authorized to sign for the Authority; and (ii) with respect to the Borrower, its President, Vice President for Financial Affairs, Controller, or any officer of the

Borrower or person or persons at the time designated to act on behalf of the Borrower by a written certificate signed by the Borrower and approved by the Insurer, furnished to the Trustee, the Authority, the Insurer and the Liquidity Provider (if any), containing the specimen signature of each such person.

“Available Amounts” means, except as provided in the immediately succeeding sentence (a) funds received by the Trustee pursuant to any Liquidity Facility; (b) moneys which have been continuously on deposit with the Trustee (i) held in any separate and segregated fund, account or subaccount established hereunder in which no other moneys which are not Available Amounts are held, and (ii) which have so been on deposit with the Trustee for at least 123 consecutive days from their receipt by the Trustee and not commingled with any moneys so held for less than said period and during and prior to which period no Act of Bankruptcy of the Borrower or the Authority has occurred; (c) proceeds from the sale of bonds, notes or other evidences of indebtedness received by the Trustee directly and contemporaneously with the issuance and sale or remarketing of such bonds, notes or other evidences of indebtedness and held in any separate and segregated fund, account or subaccount established hereunder in which no other moneys which are not Available Amounts are held; (d) any other moneys if there is delivered to the Trustee and the Insurer at the time such moneys are deposited with the Trustee an Opinion of Counsel (which may assume that no owner of Bonds is an “insider” within the meaning of the Bankruptcy Code) from a firm experienced in bankruptcy matters to the effect that the use of such moneys to pay amounts due on the Bonds would not be recoverable from the Owners pursuant to Section 550 of the Bankruptcy Code as avoidable preferential payments under Section 547 of the Bankruptcy Code in the event of the occurrence of an Act of Bankruptcy of the Borrower or the Authority; and (e) proceeds of the investment of funds qualifying as Available Amounts under the foregoing clauses. During each ARS Period and after the Fixed Rate Conversion Date, Available Amounts means any moneys provided by the Borrower pursuant to the Agreement.

“Bank Rate” means with respect to Liquidity Provider Bonds the interest rate to be borne by such Bonds pursuant to the terms of the related Liquidity Agreement, but in no event in excess of 25% per annum.

“Bankruptcy Code” means Title 11 of the United States Code, as amended.

“Base Loan Payments” means the payments required to be made by the Borrower to the Trustee for the account of the Authority in accordance with the Loan Agreement for the payment of the principal (whether at maturity or upon acceleration or prior redemption) of, premium, if any, and interest to the date of maturity or redemption on the Bonds.

“Beneficial Owner” means, with respect any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of the Securities Depository for the Bonds.

“Bond Counsel” means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest on, bonds issued by states and political subdivisions and duly admitted to practice law before the highest court of any state of the United States and acceptable to the Authority, the Insurer and any Liquidity Provider.

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

“Bond Payment Date” means an Interest Payment Date and any other date on which the principal of Outstanding Bonds is due and payable (whether by reason of maturity, mandatory redemption from sinking fund payments, optional redemption or the acceleration of maturity) or a date on which any redemption premium or interest on Outstanding Bonds is due and payable.

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

“Bond Register” means the books of registration of the ownership of the Bonds maintained by the Trustee pursuant to the Indenture.

“Bonds” means the ABAG Finance Authority for Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Point Loma Nazarene University) Series 2006, authorized and issued pursuant to the

Indenture, and any bonds issued in exchange or replacement thereof in accordance with the Indenture.

“Book-Entry Bonds” means any Bonds which are then held in book-entry form as provided in the Indenture.

“Borrower” means Point Loma Nazarene University, a Nonprofit Public Benefit Corporation organized and existing under the laws of the State, and its successors or assigns or any co-obligor permitted pursuant to the Loan Agreement.

“Business Day” means any day other than (i) a Saturday, a Sunday or (ii) a day on which the Insurer or banks located in the cities in which the Principal Offices of the Trustee, the Tender Agent, any Remarketing Agent, any Liquidity Provider, any Auction Agent or any Market Agent, are located, are not required or authorized to be closed or (iii) a day on which the New York Stock Exchange is closed.

“Calendar Week” means the period of seven (7) days from and including Thursday of any week to and including Wednesday of the next following week; provided, however, that the initial Calendar Week with respect to each Weekly Rate Period shall commence on the first day of such Weekly Rate Period and shall end on the next succeeding Wednesday; and provided further that the final Calendar Week with respect to each Weekly Rate Period shall commence on the Thursday immediately preceding the last day of such Weekly Rate Period and shall end on the last day of such Weekly Rate Period.

“Certified Resolution” means a copy of a resolution or ordinance of the Authority certified by the Secretary or other duly authorized officer of the Authority to have been duly adopted by the Authority and to be in full force and effect on the date of such certification.

“Change of Law” means, with respect to any ARS Beneficial Owner, any amendment to the Code or other statute enacted by the Congress of the United States of America or any temporary, proposed or final regulation promulgated by the United States Treasury after the Issuance Date, which (i) changes or would change any deduction, credit, or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduce or reduces or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of Tax-Exempt Securities.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commercial Paper Rate” means the interest rate on the Bonds established from time to time pursuant to the Indenture.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of July 1, 2006 between the Borrower and the Trustee.

“Conversion” or **“Convert”** means the adjustment from time to time in accordance with the terms of the Indenture from one Interest Rate Determination Method for the Bonds to another.

“Conversion Date” means the date any Conversion becomes effective in accordance with the Indenture (or, with respect to notices, time periods and requirements in connection with the proceedings for such Conversion, the day on which it is proposed that such Conversion occur).

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Borrower and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees, expenses and charges of the Trustee and Authority, including the Authority’s initial bond administration fee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, bond insurance premium, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

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

“Daily Rate” means the interest rate on any Bond established from time to time pursuant to the Indenture.

“Debt Service Coverage Ratio” means the ratio of Maximum Annual Debt Service to annual estimated Gross Unrestricted Revenues.

“Debt Service Reserve Fund” shall mean the Debt Service Reserve Fund established pursuant to the Indenture.

“Debt Service Reserve Requirement” means (a) initially, an amount equal to \$2,764,775.61 and (b) as of any date of calculation, an amount which shall be equal to the least of (i) ten percent (10%) of the proceeds of the Bonds; (ii) Maximum Annual Debt Service with respect to the Bonds Outstanding, or (iii) one hundred twenty-five percent (125%) of average annual debt service with respect to the Bonds. Annual debt service, for purposes of this definition, shall be assumed to be the amount required to pay all principal of and interest on a series of Bonds in any Fiscal Year. For purposes of calculating the Annual debt service on the Bonds the interest rate borne by which is not fixed to the maturity thereof on any date, for any period during which an interest swap or similar agreement shall be in effect whereunder the Borrower pays a fixed rate and the swap provider pays a floating rate that, in the judgment of the Authorized Representative of the Borrower (as evidenced by a certificate delivered to the Trustee) approximates the variable rate payable on such series of Bonds, the interest rate on such Bonds shall be deemed to be equal to the fixed rate payable by the Borrower under such interest swap or similar agreement and for any period during which such an agreement shall not be in effect the interest rate on such Bonds during the immediately preceding twelve (12) month period, or if such Bonds has borne a floating rate for less than twelve (12) months, such series of Bonds shall be treated as if it bears interest at the 30-year Revenue Bond Index as published by *The Bond Buyer* on the date of determination.

“Deed of Trust” means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of July 1, 2006, executed by the Borrower, as trustor, in favor of the Deed Trustee for the benefit of the Trustee as Beneficiary as amended, modified and supplemented from time to time.

“Deed of Trust Property” means all property subject to the Deed of Trust, as set forth on Exhibit A thereto.

“Deed Trustee” means the person at the time serving as such under the Deed of Trust.

“Determination of Taxability” means a determination that interest on the Bonds, or any of them, is determined not to be Tax-Exempt by a final administrative determination of the Internal Revenue Service or a final judicial decision of a court of competent jurisdiction.

“DTC” means The Depository Trust Company and its successors and assigns.

“DTC Representation Letter” has the meaning specified in the Indenture.

“Electronic Notice” means notice given through means of telecopy, telegraph, telegram, telex, facsimile transmission or other similar electronic means of communication confirmed by writing or written transmission.

“Eligible Securities” means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held hereunder and then proposed to be invested therein:

- (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any

Federal Reserve Bank 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 Eligible Securities only if they have been stripped by the agency itself); U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures-U.S. government guaranteed debentures, U.S. public housing notes and bonds-U.S. government guaranteed public housing notes and bonds), Government National Mortgage Association (GNMA-guaranteed mortgage-backed bonds, GNMA-guaranteed pass-through obligations), and Federal Housing Administration Debentures;

(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 Eligible Securities only if they have been stripped by the agency itself): Federal Home Loan Bank System (Senior debt obligations), Federal Home Loan Mortgage Corporation ("FHLMC") (Participation Certificates, Senior debt obligations), Federal National Mortgage Association ("FNMA") (Mortgage-backed securities and senior debt obligations), Student Loan Marketing Association (Senior debt obligations), Resolution Funding Corp. (obligations) or Farm Credit System (Consolidated system wide bonds and notes);

(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 (30) 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, the Authority, the Borrower and the Insurer 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") forward purchase agreements and reserve fund put agreements acceptable to the Insurer;

(7) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2 including funds for which the Trustee or an affiliate provides services or receives compensation;

(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 Trustee on behalf of the Owners has 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 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 “A-3” or better by Moody’s and “A-1” or “A” or better by S&P; and

(12) any other investments approved in writing by the Authority and the Insurer, provided that such investment does not adversely affect the ratings of any Rating Agency then rating the Bonds.

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

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

“**ERISA Plan**” means any “employee pension benefit plan,” as such term is defined in ERISA, from time to time in effect for the benefit of employees of the Borrower.

“**Escrow Monitor**” means Hawkins Delafield & Wood LLP.

“**Event of Default**” as used with respect to the Indenture has the meaning specified in the Indenture.

“**Existing Owner**” means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Owner Registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with a Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of the Bonds.

“**Existing Owner Registry**” means, with respect to ARS, the registry of Persons who are Broker-Dealers, maintained by the Auction Agent as provided in the Auction Agent Agreement.

“**Facilities**” means, as of any date, (i) the real property on which the Borrower’s educational facilities are located; (ii) all buildings, structures, fixtures and improvements to the aforesaid real property; and (iii) all personal property owned by the Borrower and used in, around or about the aforesaid real property, whether now existing or hereafter constructed, installed or acquired.

“**Favorable Opinion of Bond Counsel**” means an Opinion of Counsel which is a Bond Counsel to the effect that the action proposed to be taken is authorized or permitted by the Indenture and will not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds.

“**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 by the Borrower as the official fiscal year period of the Borrower.

“**Fitch**” means Fitch, Inc., 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, Fitch shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s and S&P) designated by the Authority with the approval of the Borrower and the Insurer, by notice to the Trustee, any Auction Agent, each Broker-Dealer, if any, any Market Agent, any Liquidity Provider, any Tender Agent and any Remarketing Agent.

“**Fixed Rate**” means the fixed rate borne by any Bond from the Fixed Rate Conversion Date relating to such Bond, which rate shall be established in accordance with the Indenture.

“Fixed Rate Conversion Date” means the Conversion Date on which the interest rate on any Bond shall be Converted to a Fixed Rate.

“GAAP” or **“Generally Accepted Accounting Principles”** means the uniform accounting and reporting procedures set forth in the opinions, pronouncements and publications of the Accounting Principles Board, the American Institute of Certified Public Accountants and the Financial Accounting Standards Board or in such other statements by such other entity as may be of general use by significant segments of the accounting profession as in effect on the date hereof.

“Government Obligations” means, to the extent provided by applicable law, any of the following:

- (a) U.S. Treasury Certificates, Notes, and Bonds (including State and Local Government Series;
- (b) Direct obligations of the Treasury which have been stripped by the Treasury itself, including CATS, TIGRS and similar securities;
- (c) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;
- (d) Pre-funded municipal obligations rated “Aaa” by Moody’s and “AAA” by S&P. If however, the bonds are only rated by S&P, then the pre-funded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipal obligations; and
- (e) Obligations issued by the following agencies which are backed by the full faith and credit of the United States: (a) Direct obligations or fully guaranteed certificates of beneficial ownership of U.S. Export-Import Bank (Eximbank), (b) Certificates of beneficial ownership of the Farmers Home Administration (FHA); obligations issued by the Federal Financing Bank; (d) Participation certificates of the General Services Administration; (e) U.S. Maritime Administration Guaranteed Title XI financing; and (f) Project Notes, Local Authority Bonds, New communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds of the U.S. Department of Housing and Urban Development.

“Hazardous Materials” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Facilities or to Persons on or about the Facilities or (ii) cause the Facilities to be in violation of any Environmental Law; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Law including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 *et seq.*; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 *et seq.*; the Hazardous Materials Transportation Act, 49 USC §§ 1801 *et seq.*; the Federal Water Pollution Control Act, 33 USC §§ 1251 *et seq.*; the California Environmental Quality Act (“CEQA”), Cal. Public Resources Code § 21000 *et seq.*; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety §§ 25100 *et seq.*; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 *et seq.*; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 *et seq.*; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 *et seq.*, the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Facilities or the owners and/or occupants of property adjacent to or surrounding the Facilities, or any other Person coming upon the Facilities or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“Indenture” means the Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions hereof.

“Information Securities Depositories” means The Depository Trust Company, 55 Water Street, New York 10041, Fax-(212) 855-7320, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other Information Securities Depositories, or no such depositories, as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Information Services” means Financial Information, Inc.’s “Financial Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Service’s, “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314; and Standard & Poor’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other services providing information with respect to called bonds, as the Borrower may designate in a Written Certificate to the Trustee and the Insurer.

“Insurance Agreement” means the Insurance and Reimbursement Agreement, dated as of July 1, 2006, between the Borrower, the Trustee and the Insurer.

“Insurance Policy” means the financial guaranty insurance policy issued by the Insurer with respect to the Bonds including any endorsements thereto.

“Insurer” means MBIA Insurance Corporation and its successors and assigns.

“Interest Payment Date” means each Conversion Date and (i) with respect to each Liquidity Provider Bond, each date for the payment of interest thereon as set forth in the applicable Liquidity Agreement; (ii) with respect to each Bond bearing interest at a Daily Rate or Weekly Rate, the first Wednesday of each calendar month (or the next succeeding Business Day if such Wednesday is not a Business Day); (iii) with respect to each Bond bearing interest at a Commercial Paper Rate, the day immediately succeeding the last day of each Commercial Paper Rate Term applicable to such Bond; (iv) with respect to any Fixed Rate Period, each Semi-Annual Interest Payment Date, (v) with respect to each ARS Period other than a daily Auction Period, the ARS Interest Payment Date immediately following such ARS Interest Period, (vi) with respect to each daily Auction Period, the first Business Day of the month immediately following such Auction Period, and (vii) as to each Bond, the final maturity date of such Bond.

“Interest Rate Determination Method” means any of the methods of determining the interest rate on the Bonds from time to time as described in the Indenture.

“Issuance Date” means, with respect to the Bonds, August 1, 2006.

“Liquidity Agreement” means, with respect to any Liquidity Facility, the agreement or agreements between the Borrower and the applicable Liquidity Provider, as originally executed or as it or they may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the issuance of the Liquidity Facility and the reimbursement of the Liquidity Provider for payments thereunder, together with any related pledge agreement, security agreement or other security document.

“Liquidity Facility” means any initial letter of credit, guarantee, standby purchase agreement, or other support arrangement with respect to the Purchase Price of the Bonds, or any combination of the foregoing, satisfying the requirements of the Loan Agreement, provided by the Borrower with respect to the Conversion of Bonds to a Variable Rate pursuant to the Loan Agreement and the Indenture and any Alternate Liquidity Facility for such initial Liquidity Facility. A Liquidity Facility and the related Liquidity Agreement may be a single document.

“Liquidity Facility Purchase Account” means the account by that name established within the Bond Purchase Fund.

“Liquidity Provider” means the issuer or issuers or other provider or providers of a Liquidity Facility with respect to the Bonds as permitted under the Loan Agreement and the Indenture (except the Borrower), and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its business.

“Liquidity Provider Bonds” means any Bonds purchased pursuant to a Liquidity Facility as provided in the Indenture for so long as such Bonds are held by or for the account of, or are pledged to, the applicable Liquidity Provider in accordance with the Indenture.

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

“Long Term Debt” means:

(1) twenty-five percent (25%) of the outstanding principal of all indebtedness of Persons, other than the Borrower, for which the Borrower is a guarantor, unless the guarantee of such Person’s indebtedness has been drawn upon within the two most recent Fiscal Years,

(2) all indebtedness of Persons, other than the Borrower, for which the Borrower is a guarantor if the guarantee of such Person’s indebtedness has been drawn upon within the two most recent Fiscal Years,

(3) all other indebtedness of the Borrower (including the obligation of the Borrower to make Base Loan Payments and any installment purchase and lease rental obligations) which:

(a) in accordance with Generally Accepted Accounting Principles is classified as a liability on a balance sheet or statement of financial position, and

(b) which has a final maturity (or which, pursuant to the terms of a revolving credit or similar agreement or otherwise, is renewable or extendable at the option of the Borrower to a date or for a period or periods ending) more than one year after the date of creation thereof, notwithstanding the fact that payments in respect thereof (whether installment, serial maturity or sinking fund payments or otherwise) are required to be made less than one year after the date of the creation thereof, excluding any indebtedness which is renewable or extendable pursuant to the terms of a revolving credit or similar agreement if, by the terms of such agreement, no indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each period of twelve (12) consecutive months beginning with the effective date of such revolving credit or other similar agreement.

“Mandatory Tender Bonds” has the meaning specified in the Indenture.

“Maximum Annual Debt Service” means the greatest amount of aggregate (without duplication) principal and interest scheduled to become due (either by maturity or by mandatory redemption) on all Long Term Debt in any Fiscal Year, including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year.

“Maximum Interest Rate” means: (i) with respect to Bonds other than Liquidity Provider Bonds and ARS, the lesser of (a) twelve percent (12%) per annum and (b) the Maximum Lawful Rate; (ii) with respect to Liquidity Provider Bonds, the Maximum Lawful Rate; and (iii) with respect to ARS, the ARS Maximum Rate.

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

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and, if such entity 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 (other than S&P or Fitch) designated by the Authority, with the approval of the Borrower and the Insurer, by notice to the Trustee, any Auction Agent, each Broker-Dealer, if any, any Market Agent, any Liquidity Provider, any Tender Agent and any Remarketing Agent.

“National Accountant Firm” means an independent certified public accountant of recognized national standing or a firm of independent certified public accountants of recognized national standing, selected by the Borrower and not objected to by the Authority or the Insurer.

“Net Proceeds” means the proceeds from insurance or from actual or threatened condemnation or eminent domain actions with respect to the Facilities or any part thereof, less any costs reasonably expended by the Borrower to receive such proceeds.

“Nominee” shall have the meaning given such term in the Indenture.

“Notice by Mail” or **“notice”** of any action or condition **“by Mail”** shall mean a written notice meeting the requirements of the Indenture mailed by first class mail, postage prepaid, to the Owners of specified Bonds, at the addresses shown on the registration books maintained pursuant to the Indenture.

“NRMSIR” means a nationally recognized municipal securities information repository recognized by the Securities and Exchange Commission pursuant to Rule 15c2-12.

“Opinion of Bond Counsel” means an Opinion of Counsel from Bond Counsel which shall include a reliance letter to the Insurer, provided the Insurer is not in default under the terms of the Insurance Policy.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Borrower) acceptable to the Authority, the Borrower and the Insurer.

“Optional Redemption Account” means the account so designated within the Bond Fund.

“Order” has the meaning set forth in the Auction Procedures.

“Outstanding,” when used as of any particular time with reference to the Bonds (subject to the provisions of the Indenture), means all Bonds theretofore authenticated and delivered by the Trustee or the Tender Agent under the Indenture except:

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of the Indenture;
- (c) Bonds with respect to which the liability of the Authority has been discharged to the extent provided in, and pursuant to the requirements of, the Indenture; and
- (d) With respect to the rights of any former Owner or Beneficial Owner, Bonds deemed purchased pursuant to the Indenture.

“Owner” means the registered owner of any Bond.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which a Securities Depository holds Book-Entry Bonds as securities depository.

“Permitted Encumbrances” means the following:

(a) Undetermined liens and charges incident to construction or maintenance of the Facilities, the Project and the Deed of Trust Property, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to judgment, provided that the Borrower shall have set aside adequate reserves with respect thereto;

(b) The lien of taxes and assessments which are not delinquent;

(c) Easements, exceptions, reservations or other agreements for the purpose of pipelines, conduits, cables, radio, television, telegraph, telephone and power lines, and substations, roads, streets, alleys, highways, equestrian trails, walkways, drainage, irrigation, water and sewage courses, dikes, canals, culverts, laterals, ditches, the removal of water or oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment which in the aggregate do not materially impair the value or the use of such property for the purposes for which it is or may reasonably be expected to be held;

(d) Rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities, the Project and the Deed of Trust Property which do not materially impair the use of the Facilities, the Project and the Deed of Trust Property, for the purpose for which it is or may reasonably be expected to be held;

(e) Present or future valid zoning laws and ordinances or other valid laws and ordinances restricting the occupancy, use or enjoyment of real property;

(f) Covenants, restrictions and conditions prohibiting use of the Facilities and the Deed of Trust Property for sectarian instruction, religious worship or for a school or department of divinity of any religious denomination;

(g) The rights of the Authority and the Trustee under the Agreement and the Prior Loan Agreements;

(h) Liens on any property or assets owned by the Borrower existing on the date of the Indenture;

(i) Liens on property of a corporation, partnership or other entity existing at the time that such corporation, partnership or other entity is merged into the Borrower, or at the time of a purchase, lease or other acquisition of the property of a corporation, partnership or other entity substantially as an entirety by the Borrower, whether or not any indebtedness is secured by such lien is assumed by the Borrower;

(j) Liens arising in connection with bonds relating to workers compensation, unemployment insurance, bids, trade contracts (other than for borrowed money) and leases, arising in connection with appeal on release bonds and incident to the conduct of business or operation of property or assets and not incurred in connection with the obtaining of any advance or credit;

(k) Liens arising by operation of law in favor of any lender to the Borrower in the ordinary course of business constituting a banker’s lien or right of offset in moneys of the Borrower deposited with such lender in the ordinary course of business;

(l) Liens on property received by the Borrower through gifts, grants and bequests;

(m) The lien created by the Deed of Trust;

(n) Any other encumbrance consented to in writing by the Insurer.

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

“Potential Owner” means, with respect to any Auction, any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in ARS subject to such Auction in addition to the ARS, if any, currently owned by such Person.

“Principal Office” (i) of the Trustee means the principal corporate trust office of the Trustee which at the date of execution of the Indenture is that specified in the Indenture; (ii) of a Tender Agent other than the Trustee means the office thereof designated in writing by the Tender Agent to the Authority, the Trustee, any Liquidity Provider, the Insurer and the Borrower; (iii) of any Remarketing Agent means its office designated in writing to the Authority, the Trustee, any Tender Agent, the Liquidity Provider, the Insurer and the Borrower; and (iv) of any Liquidity Provider means its office located at such address as such Liquidity Provider shall designate in writing to the Authority, the Insurer, the Trustee, any Tender Agent and the Borrower.

“Prior Bonds” means the California Educational Facilities Authority (Point Loma Nazarene University) Refunding Revenue Bonds, Series 1998, currently outstanding in the aggregate principal amount of \$26,800,000; the California Educational Facilities Authority (Point Loma Nazarene University) Variable Rate Demand Revenue Bonds, Series 1999, currently outstanding in the aggregate principal amount of \$4,500,000; and the ABAG Finance Authority for Nonprofit Corporations (Point Loma Nazarene University) Variable Rate Demand Revenue Bonds, Series 2003, currently outstanding in the aggregate principal amount of \$7,500,000.

“Prior Loan Agreements” means those certain loan agreements, each between the Authority and the Borrower, relating to the 2003 Bonds, the 1999 Bonds and the 1998 Bonds.

“Program” means the Authority’s program of making loans under the Act.

“Project” means the additions to and improvements of the Facilities, and the equipment and furnishings refinanced with the Bonds.

“Proper Delivery” means, with respect to the delivery of a Tendered Bond to the Trustee or Tender Agent to receive the Purchase Price thereof in connection with an optional or mandatory tender of such Bond pursuant to the Indenture: (a) if such Tendered Bond is a Book-Entry Bond, the making of, or the irrevocable authorization to make, by 10:00 a.m., New York City time, entries on the books of the Securities Depository or a Participant of the Securities Depository as provided in the Indenture; and (b) if such Tendered Bond is not a Book-Entry Bond, the delivery of such Tendered Bond to the Trustee or Tender Agent, as applicable, at its Principal Office, by 10:00 a.m., New York City time, accompanied by an instrument of transfer of such Tendered Bond in form satisfactory to the Trustee or the Tender Agent, as applicable, executed in blank by the Owner thereof or by such Owner’s duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

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

“Purchase Price” means an amount equal to 100% of the principal amount of any Tendered Bond, plus accrued and unpaid interest thereon to but not including the date of purchase; provided, however, if the date of such purchase occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Owner of record on the applicable Record Date.

“Qualified Newspaper” means *The Wall Street Journal* or *The Bond Buyer* or any other newspaper or journal containing financial news, printed in the English language and customarily published on each Business Day, of general circulation in New York, New York, and selected by the Borrower and designated to the Trustee.

“Rate” means the interest rate applicable to any Bond as provided herein.

“Rating Agency” means Fitch, Moody’s or S&P to the extent they then are providing or maintaining a rating on the Bonds at the request of the Borrower, or in the event that Fitch, Moody’s or S&P no longer maintains a rating on the Bonds, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds at the request of the Borrower and approved by the Authority and the Insurer.

“Rating Confirmation” means written evidence from each Rating Agency then rating the Variable Rate Bonds to the effect that, following one of the events which requires a Rating Confirmation, the Bonds will be rated in the highest short-term rating category (without regard to rating subcategories) of such Rating Agency either (i) as a result of the provision of a particular Liquidity Facility or (ii) based on the credit of the Insurer and the Borrower and the applicable Liquidity Facility.

“Rebate Fund” means the Rebate Fund established and held by the Trustee in accordance with the Indenture.

“Rebate Requirement” has the meaning assigned to such term in the Tax Agreement.

“Record Date” means (i) the Business Day immediately preceding the applicable Interest Payment Date during a Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period; (ii) whether or not a Business Day, the fifteenth day of the month prior to any Interest Payment Date with respect to any Fixed Rate Period; and (iii) the Business Day next preceding each ARS Interest Payment Date with respect to any ARS Period.

“Remarketing Agent” means, as the context may require, any Remarketing Agent designated for the Bonds in the Indenture and any successor to such initial Remarketing Agent appointed pursuant to the Indenture.

“Remarketing Agreement” means any agreement or agreements meeting the requirements of the Indenture.

“Reportable Event” means a reportable event as defined in Section 4043(b) of ERISA (other than a reportable event for which the notice required thereunder has been waived).

“Responsible Officer” of the Trustee means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, every trust officer, and every officer and assistant officer of the Trustee other than those specifically above mentioned, to whom any corporate trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject.

“Revenues” means all payments received by the Authority or the Trustee from the Borrower pursuant or with respect to the Agreement (except Additional Payments paid by the Borrower pursuant to the Loan Agreement, any amounts paid by the Borrower pursuant to the Loan Agreement and amounts received for or on deposit in the Bond Purchase Fund and the Rebate Fund), including, without limiting the generality of the foregoing, Base Loan Payments (including both timely and delinquent payments), amounts received under the Insurance Policy to pay principal of and interest on the Bonds, prepayments and all income derived from the investment of any money in the Bond Fund established pursuant to the Indenture.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns and, if such entity 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 (other than Moody’s or Fitch) designated by the Authority, with the approval of the Borrower and the Insurer, by notice to the Trustee, any Auction Agent, each Broker-Dealer, if any, any Market Agent, any Liquidity Provider, any Tender Agent and any Remarketing Agent.

“Securities Depository” means with respect to Book-Entry Bonds the entity in whose book-entry system the Bonds are held pursuant to the Indenture.

“Sell Order” has the meaning set forth in the Auction Procedures.

“Semi-Annual Interest Payment Date” means April 1 and October 1.

“SID” means the state information depository, if any, of the State recognized by the Securities and Exchange Commission pursuant to Rule 15c2-12.

“Sinking Fund Payments” means the payments set forth in the Indenture to be applied to the mandatory redemption of Bonds pursuant to the Indenture.

“State” means the State of California.

“Submitted Hold Orders” has the meaning provided in the Auction Procedures.

“Sufficient Clearing Bids” has the meaning provided in the Auction Procedures.

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

“Tax Agreement” means the Tax Certificate and Agreement relating to the Bonds, dated as of the Issuance Date, by and between the Authority and the Borrower, as the same may be amended from time to time.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the Owners thereof (other than any Owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Tax-Exempt Securities” means bonds, notes or other securities the interest on which is Tax-Exempt.

“Tender Agent” means the Trustee and any successor tender agent for the Bonds selected by the Borrower and meeting the requirements of the Indenture.

“Tendered Bond” means any Bond (or any portion of a Bond) tendered or deemed tendered for purchase pursuant to the Indenture.

“Trustee” means U.S. Bank National Association, a national banking association organized under the laws of the United States, and its successors and assigns or any successor trustee appointed pursuant to the Indenture.

“Undelivered Bond” means, with respect to each Purchase Date, each Tendered Bond subject to purchase on such Purchase Date as to which Proper Delivery is not made on such Purchase Date; provided, however, no such Tendered Bond shall be considered an Undelivered Bond on such Purchase Date unless the Tender Agent holds sufficient available moneys in trust for the Owners of the Tendered Bonds to pay in full the Purchase Price of all Tendered Bonds due on such Purchase Date.

“Variable Rate” means any of the Daily Rate, the Weekly Rate or the Commercial Paper Rate.

“Variable Rate Bonds” means Bonds that bear interest at a Variable Rate.

“Variable Rate Debt” means Debt which does not bear interest at a fixed rate to maturity.

“Variable Rate Period” means each period during which the Bonds bear interest at a Variable Rate.

“WASC” means the Western Association of Schools and Colleges or its successor.

“Weekly Rate” means the interest rate on the Bonds established for a Calendar Week in accordance with the Indenture.

“Written Certificate”, “Written Consent”, “Written Direction”, “Written Order”, “Written Request”, “Written Requisition” or “Written Statement” mean, respectively, (i) with respect to the Authority, a written certificate, consent, order, request or requisition of the Authority signed by or on behalf of the Authority by its Chairman or a deputy thereto, its Executive Director, Acting Executive Director, Deputy Executive Director, Acting Deputy Executive Director or by any other person who is specifically authorized by a resolution of the Authority to execute such a document on its behalf, (ii) with respect to the Borrower, a written certificate, request, requisition or statement of the Borrower executed by its President, Vice President of Financial Affairs, Controller, or such other person as may be designates by any such officials to sign for the Borrower, and (iii) with respect to the Trustee, a written certificate, consent, directions, order, request or requisition signed by or on behalf of the Trustee by an Authorized Representative. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“Yield” shall have the meaning ascribed to such term by Section 148(h) of the Code.

“Yield Monitor” shall have the meaning given such term in the Tax Agreement.

“1998 Bonds” means the California Educational Facilities Authority (Point Loma Nazarene University) Series 1998, issued pursuant to an indenture, dated as of December 1, 1998, by and between the Authority and State Street Bank and Trust Company of California, N.A., as trustee.

“1999 Bonds” means the California Educational Facilities Authority (Point Loma Nazarene University) Series 1999, issued pursuant to an indenture, dated as of October 1, 1999, by and between the Authority and State Street Bank and Trust Company of California, N.A., as trustee.

“2003 Bonds” means the ABAG Finance Authority for Nonprofit Corporations (Point Loma Nazarene University) Series 2003, issued pursuant to an indenture, dated as of February 1, 2003, by and between the Authority and U.S. Bank National Association, as trustee.

“1998 Escrow Instructions” means the Escrow Instructions, dated as of July 1, 2006, with respect to the 1998 Bonds.

“1998 Escrow Fund” means the escrow fund established pursuant to the 1998 Escrow Instructions.

INDENTURE

Pledge of Revenues and Liquidity Facility

Subject only to the provisions of the Indenture and subject to the rights of the Owners of the Bonds, the Authority has irrevocably pledged to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds, including any Liquidity Provider Bonds or Bonds owned by the Insurer pursuant to the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds but excluding Additional Payments paid by the Borrower pursuant to the Loan Agreement and any amounts paid by the Borrower pursuant to the Loan

Agreement) held in any fund or account established pursuant to the Indenture other than the Rebate Fund and the Bond Purchase Fund. Said Revenues and other amounts shall not be used for any other purpose, except as provided in the Indenture, while any of the Bonds remain Outstanding. Said pledge constitutes a first and exclusive lien in such assets for the payment of the Bonds, and payment to the Insurer and the Liquidity Provider in accordance with the terms of the Indenture, of the Insurance Agreement and of the Liquidity Agreement and shall attach, be perfected and be valid and binding from and after delivery of the Bonds without any physical delivery thereof or further act. All Revenues and the other amounts specified in the Indenture shall be held in trust for the benefit of the Owners from time to time of the Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

As additional security for the benefit of the Owners from time to time of the Bonds, the Borrower has executed a Deed of Trust for the benefit of the Trustee as Trustee for the Owners, and the Trustee's shall be entitled to and shall (subject to the provisions of the Indenture) take all steps, actions and proceedings reasonably necessary in its judgment to enforce all rights (as Trustee for the Owners) and all of the obligations of the Borrower under the Deed of Trust.

The Authority has irrevocably pledged the proceeds of any drawing from each Liquidity Facility provided with respect to the Bonds, if any, is (to the extent the Authority has any interest therein, and it is intended by the parties hereto that the Authority not have any interest in the Liquidity Facility) to the punctual payment of the Purchase Price of such Bonds, and shall not be used for any other purpose. Said pledge constitutes a first and exclusive lien in favor of the Trustee for the benefit of the Owners of the Bonds on such Liquidity Facility and any payments thereunder for the payment of the Purchase Price of the Bonds in accordance with the terms thereof. The Trustee shall not transfer all or any portion of the Liquidity Facility except to a duly appointed successor trustee nor agree to any assignment of all or any portion of the proceeds of the Liquidity Facility. Each Liquidity Facility, if any, and any payments thereunder shall be held in trust for the benefit of the Owners from time to time of the Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

The Borrower may at its sole discretion from time to time deliver to the Trustee such additional or other security interests permitted by the Indenture or the Authority to secure the payment of the principal of and interest and premium, if any, on, and Purchase Price of, the Bonds and any such additional or other security delivered by the Borrower shall be pledged to such payment, provided that the delivery of such additional or other security does not adversely affect the Tax-Exempt status of interest on the Bonds.

Establishment of Funds and Accounts

The following funds and accounts are established pursuant to the Indenture: (i) the Cost of Issuance Fund; (ii) the Yield Compliance Fund; (iii) the Bond Fund; (iv) the Debt Reserve Fund and (v) the Rebate Fund.

Cost of Issuance Fund. The Indenture provides that the Trustee shall establish, maintain and hold in trust a separate fund designated as the Costs of Issuance Fund. The Trustee shall establish such accounts and subaccounts within the Costs of Issuance Fund as may be specified in a written direction from an Authorized Representative of the Borrower. The moneys in the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance, upon a requisition filed with the Trustee in the form specified in the Indenture signed by an Authorized Representative of the Borrower. In no event shall moneys from any other fund or account established under the Indenture be used to pay Costs of Issuance. Any amounts remaining in an account of the Costs of Issuance Fund six months following the Issuance Date of the Bonds or upon earlier receipt of a Written Statement of the Borrower stating that amounts in such fund are no longer required for the payment of Costs of Issuance, shall be deposited in such accounts as are specified in the Tax Agreement, or in the absence of any such specifications, as specified in a Written Statement of an Authorized Representative of the Borrower. The Trustee shall then close the Costs of Issuance Fund.

Yield Compliance Fund. The Indenture provides that the Trustee shall establish a Yield Compliance Fund. As provided in the Tax Agreement, to the extent that on any Interest Payment Date for the Bonds the Escrow Yield on such date exceeds the Bond Yield on such Interest Payment Date, resulting in a Yield Surplus, if there is as of such date a Cumulative Yield Surplus (as all such terms are defined in the Tax Agreement), an amount shall be deposited by the Borrower as may be directed by the Yield Monitor, to the Yield Compliance Fund or as otherwise

directed by the Yield Monitor, and shall be applied in accordance with direction from an Authorized Representative of the Borrower or the Yield Monitor as provided in the Tax Agreement. The Yield Monitor shall send copies of such directions, if any, to the Trustee. Moneys in the Yield Compliance Fund shall be invested in Government Obligations as directed by the Yield Monitor, and all earnings thereon shall be applied as directed by the Yield Monitor.

Bond Fund. (a) All Revenues received by the Trustee shall be deposited in the Bond Fund upon receipt thereof. The Trustee shall establish and maintain and hold in the Bond Fund in trust. The Bond Fund shall be disbursed and applied only as authorized in the Indenture. Except as otherwise provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on all of the Bonds as the same shall become due, *pari passu*, whether at maturity or upon redemption or acceleration.

(b) The Trustee shall deposit in subaccounts of the Bond Fund from time to time, upon receipt thereof, all amounts received by the Trustee pursuant to the Insurance Policy, all Base Loan Payments received by the Trustee from the Borrower for deposit in the Bond Fund, any income received from the investment of moneys on deposit in the Bond Fund and any other Revenues, including any other prepayment amounts received under the Loan Agreement from or for the account of the Borrower.

(c) In making payments of principal of, premium, if any, and interest on the Bonds, the Trustee shall use any Revenues and other amounts pledged therefor under the Indenture received by the Trustee.

(d) At least six Business Days before each Interest Payment Date, the Trustee shall determine the amount, if any, credited or to be credited to the Bond Fund during the period from the day after the last Interest Payment Date to the next succeeding Interest Payment Date from any source. The Trustee shall use its best efforts to give notice to the Borrower of such amount and the amount due on the next succeeding Interest Payment Date when the Bonds bear interest at a Weekly Rate, Commercial Paper Rate or Fixed Rate, and an estimate of the amount due when the Bonds bear interest at a Daily Rate, which notice shall be mailed, telecopied or delivered in such a manner that the Borrower will receive such notice by the fifth Business Day before such next succeeding Interest Payment Date. Any verbal notice shall be supplemented by notice given in accordance with the preceding sentence. Failure by the Trustee to give notice pursuant to this paragraph, or the insufficiency of any such notice, shall not affect the payment obligations of the Borrower under the Agreement, including without limitation the timing thereof.

(e) On or before the fifth day after each Interest Payment Date, the Trustee shall deposit in the Debt Service Reserve Fund, such amounts as may be required until the balance in the Debt Service Reserve Fund is equal to the Debt Service Reserve Requirement;

(f) Except to the extent such moneys are required to be held for the payment of principal of, redemption premium, if any, or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the Indenture, so long as no Event of Default (or any event which would be an Event of Default hereunder with the passage of time or the giving of notice) exists under the Indenture, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Borrower, shall return to the Borrower (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund (other than those moneys in the subaccount relating to the Insurance Policy and all earnings thereon) or shall deposit such funds in the Rebate Fund if so instructed by the Borrower; provided, however, that no payment shall be made to the Borrower if the Borrower has any obligations to the Insurer or a Liquidity Provider which are then due and payable, as certified by the Insurer or Liquidity Provider, as applicable, to the Trustee.

Debt Service Reserve Fund. (a) All amounts in the Debt Service Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the interest subaccount or the principal subaccount in the Bond Fund, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds.

(b) Amounts on deposit in the Debt Service Reserve Fund Account shall be valued by the Trustee at their market value on or before each April 1 and October 1, and the Trustee shall notify the Borrower of the results of such valuation. If the amount on deposit in the Debt Service Reserve Fund on such dates of valuation is less the

Debt Service Reserve Requirement, the Borrower has agreed in the Loan Agreement to make the deposits to the Debt Service Reserve Fund required by the Indenture. If the amount on deposit in the Debt Service Reserve Fund on such dates of valuation is greater than the Debt Service Reserve Fund Requirement, the excess shall be withdrawn from the Debt Service Reserve Fund and transferred to the Bond Fund.

(c) In lieu of maintaining and depositing moneys in the Debt Service Reserve Fund, the Borrower also may maintain in effect an irrevocable surety bond policy, subject to the requirements of the Indenture. The Trustee shall make a drawing on such surety bond policy (i) whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or a letter of credit are available in the Debt Service Reserve Fund in the amount of the Debt Service Reserve Requirement.

Investment of Moneys

Subject to the provisions of the Indenture, any moneys in any of the funds and accounts to be established by the Trustee (other than the Bond Purchase Fund) shall be invested upon the written direction of the Borrower (such direction to specify the particular investment to be made), by the Trustee, if and to the extent then permitted by law, in Eligible Securities, provided however, that Debt Service Reserve Fund investments may not have maturities extending beyond 5 years, except for investment agreements approved by the Insurer. In the absence of such written direction, the Trustee shall invest solely in certain Eligible Securities as provided in the Indenture. Moneys in any fund or account (other than the Bond Purchase Fund) shall be invested in Eligible Securities with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Eligible Securities payable at the option of the Owner) not later than the date on which such moneys will be required by the Trustee.

Notwithstanding the foregoing, (i) any moneys held in the Bond Purchase Fund and any moneys constituting payments under any Liquidity Facility or under the Insurance Policy shall be held uninvested unless such moneys paid under the Insurance Policy are invested in accordance with the Indenture to effect the defeasance of Bonds and (ii) any moneys constituting Available Amounts shall be invested in Eligible Securities that are rated "Aaa" by Moody's and that mature on or before the date on which such moneys are to be applied to the payment of the Bonds.

Any interest, profit or loss on any investments of moneys in any fund or account under the Indenture shall be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation hereunder. Unless otherwise directed by the Borrower, the Trustee may make any investment permitted under the Indenture through or with its own commercial banking or investment departments.

Liquidity Facilities; Liquidity Provider Bonds

The Trustee has acknowledged in the Indenture the right of the Borrower at any time to provide an Alternate Liquidity Facility with respect to the Bonds bearing interest at a Variable Rate for the Liquidity Facility then in effect pursuant to the Loan Agreement. If there shall have been delivered to the Authority and the Trustee (i) an Alternate Liquidity Facility meeting the requirements of the Loan Agreement and (ii) the opinions and documents required by Loan Agreement, then the Trustee shall accept such Alternate Liquidity Facility and, if so directed by the Borrower, upon the effectiveness of such Alternate Liquidity Facility and the payment of the Purchase Price of all Bonds tendered for purchase pursuant to the Indenture in connection with such Alternate Liquidity Facility promptly surrender the Liquidity Facility theretofore in effect with respect to the Bonds in accordance with the respective terms thereof for cancellation; provided the Trustee shall not surrender any Liquidity Facility until all draws or requests to purchase Bonds made under such Liquidity Facility have been honored. In the event that the Borrower elects to provide an Alternate Liquidity Facility, the Bonds shall be subject to mandatory tender as provided in the Indenture. If at any time all Bonds shall cease to be Outstanding under the Indenture or all the Outstanding Bonds have been Converted to a Fixed Rate, or a Liquidity Facility shall be terminated pursuant to its terms, the Trustee shall promptly surrender such Liquidity Facility in accordance with its terms for cancellation.

In the event the Liquidity Facility is not renewed or expires pursuant to its terms, the Bonds shall be subject to mandatory tender as provided in the Indenture. The Trustee shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof.

In the event that a Liquidity Facility is in effect, the Trustee shall make a demand for payment under such Liquidity Facility subject to and in accordance with its terms, in order to receive payment thereunder as provided in the Indenture.

Any Bonds purchased with payments made under a Liquidity Facility shall constitute Liquidity Provider Bonds and shall be registered in the name of, or as otherwise directed by, the Liquidity Provider and delivered to or upon the order of, or as otherwise directed by, such Liquidity Provider; provided, that if such Bonds are Book-Entry Bonds, the Trustee shall immediately upon making any demand for payment on a Liquidity Facility pursuant to the Indenture notify the Tender Agent. Upon receipt of such notice, the Tender Agent shall direct DTC to cause any Bonds purchased with the proceeds of such demand to be transferred to such account at DTC, as directed by the Liquidity Provider, and such Bonds shall be held in the name of or for the account of the Liquidity Provider or as may be directed by such Liquidity Provider.

Unless otherwise provided in the Liquidity Agreement, Liquidity Provider Bonds shall be remarketed by the Remarketing Agent prior to any other Bonds tendered for purchase hereunder, and shall be remarketed in accordance with the terms of the Remarketing Agreement. Upon (i) receipt by the Trustee and the Tender Agent of written notification from the Liquidity Provider that its Liquidity Facility has been fully reinstated with respect to principal and interest and (ii) release by the Liquidity Provider of any Liquidity Provider Bonds which the Remarketing Agent has remarketed, such Bonds shall be made available to the purchasers thereof and shall no longer constitute Liquidity Provider Bonds for purposes of the Indenture. The proceeds of any remarketing of Liquidity Provider Bonds shall be paid to the Liquidity Provider by the Tender Agent on such remarketing date in immediately available funds.

Covenants of the Authority

Punctual Payment. The Authority has agreed the Indenture to punctually pay, but only out of the Revenues and pledged funds as herein provided, the principal under the Indenture and the interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds according to the true intent and meaning thereof. All such payments shall be made by the Trustee as provided in the Indenture. When and as paid in full other than if paid with proceeds from the Insurance Policy, all Bonds, if any, shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Authority and the Borrower. The Trustee shall destroy such cancelled Bonds in accordance with its customary procedures.

Extension or Funding of Claims for Interest. In order to prevent any accumulation of claims for interest after maturity, the Authority shall not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Authority, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Preservation of Revenues. The Authority shall not waive any provision of the Loan Agreement or take any action to interfere with or impair the pledge and assignment of Revenues under the Indenture and the assignment to the Trustee of rights under the Loan Agreement, or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee, the Insurer and the Liquidity Provider.

Compliance with Indenture. The Authority shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of Revenues in any manner other than in accordance with the provisions of the Indenture,

and shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements thereof.

Arbitrage Covenants, Rebate Fund. The Authority has agreed with all Persons who hold or at any time held Bonds that it will not directly or indirectly use the proceeds of any of the Bonds or any other funds of the Authority or permit the use of the proceeds of any of the Bonds or any other funds of the Authority or take or omit to take any other action which will cause any of the Bonds to be “arbitrage bonds” or otherwise subject to federal income taxation by reason of Section 103 of the Code and any applicable regulations promulgated thereunder. To that end the Authority has agreed to comply with all covenants set forth in the Tax Agreement, which is incorporated to the Indenture herein by reference as though fully set forth therein.

Rebate Fund Pursuant to the Indenture, the Trustee shall establish and maintain a fund separate from any other fund designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Borrower as necessary in order for the Authority and the Borrower to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions of the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement), for payment to the United States Government, and neither the Borrower, the Authority nor the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture, the Loan Agreement and by the Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Borrower, including supplying all necessary information requested by the Borrower and the Authority in the manner set forth in the Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Borrower.

Upon receipt of the Borrower’s written instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States Government, as so directed. In addition, if the Borrower so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds other than the Bond Purchase Fund, as directed by the Borrower’s written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement shall be withdrawn and remitted to the Borrower upon its written request.

Notwithstanding any provision of the Indenture the obligation of the Borrower to pay the Rebate Requirement to the United States Government and to comply with all other requirements of the Indenture, the Loan Agreement and the Tax Agreement shall survive the defeasance or payment in full of the Bonds.

Notwithstanding any provisions of the Indenture and the Loan Agreement, if the Borrower provides to the Authority, the Insurer and the Trustee an Opinion of Bond Counsel that any specified action required under the Indenture or the Loan Agreement is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Borrower, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the Indenture; and the covenants hereunder shall be deemed to be modified to that extent.

Encumbrance Upon Revenues. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority has expressly reserved the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding limited obligations of the Authority enforceable in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law and subject to the provisions of the Indenture, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

Amendments to Indenture and Loan Agreement

Modification of the Indenture with consent of the Owners. With the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, evidenced as provided in Indenture, and the Insurer and the Liquidity Provider, if required by the Liquidity Agreement, (i) the Authority and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto 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; or (ii) the Trustee may consent to any Amendment and any other matters for which its consent is required pursuant to the Indenture. No such supplement or Amendment will have the effect of extending the time for payment or reducing any amount due and payable by the Borrower pursuant to the Agreement without the consent of the Liquidity Provider and the Owners of all the Bonds then Outstanding; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond 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, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures, or permit the creation of any lien on the Revenues prior to or on a parity with the lien of the Indenture, except as permitted herein, or permit the creation of any preference of any Owner over any other Owner, except as permitted herein, or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues, without the consent of the Liquidity Provider and the Owners of all the Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture.

It shall not be necessary for the consent of the Owners to approve the particular form of any proposed Supplemental Indenture or Amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee shall mail a notice (prepared by the Borrower) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Insurer, the Liquidity Provider, if any, to each Owner at the address contained in the bond register maintained by the Trustee and to the applicable Rating Agencies. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

Modification of the Indenture without consent of Owners. If any amendments shall not materially adversely affect the interest of the Owners, then, without the consent of or notice to any Owners from time to time and at any time, but with the prior written consent of the Insurer and the Liquidity Provider and subject to the conditions and restrictions contained in the Indenture, the Authority and the Trustee may enter into an indenture or indentures supplemental hereto, and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, but with the prior written consent of the Insurer and the Liquidity Provider if required by the Liquidity Agreement (so long as the Liquidity Facility is outstanding and the Liquidity Provider is not wrongfully dishonoring any property presented and conforming drawings thereunder or any amounts for reimbursement of draws under the Liquidity Facility remain owing to the Liquidity Provider), may consent to any Amendment; in each case for any one or more of the following purposes:

(f) to add to the covenants and agreements of the Authority contained the Indenture, or of the Borrower or of any Liquidity Provider contained in the Agreement, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power herein or therein reserved to or conferred upon the Authority or the Borrower; provided, that no such covenant, agreement, assignment, pledge or surrender shall materially adversely affect the interests of the Owners of the Bonds;

(g) 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 the Indenture or the Agreement, or in regard to matters or questions arising under the Indenture or the Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Owners of the Bonds;

(h) to modify, amend or supplement the Indenture or any indenture supplemental hereto in such manner as to permit the qualification hereof or thereof 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 hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the Owners of the Bonds;

(i) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds; provided that such amendment or supplement shall not materially adversely affect the interests of the Owners of the Bonds;

(j) to modify or eliminate the book-entry registration system for any of the Bonds;

(k) to provide for the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;

(l) to provide for the appointment of a co-trustee or the succession of a new Trustee or Tender Agent;

(m) to provide for an extension of a Liquidity Facility or the provision of an Alternate Liquidity Facility;

(n) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any Bonds;

(o) in connection with any other change which will not adversely affect the security for the Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the Owners of the Bonds (such determination may be based upon an Opinion of Counsel); or

(p) to modify, alter, amend or supplement the Indenture or the Loan Agreement in any other respect, including amendments which would otherwise required the consent of the Owners, if the effective date of such Supplemental Indenture or Amendment is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the Indenture or if Notice by Mail of the proposed Supplemental Indenture or Amendment is given to Owners of the affected Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date, such Owners have the right to demand purchase of their Bonds pursuant to the optional tender provisions of the Indenture.

Events of Default

Each of the following events shall constitute an “Event of Default” under the Indenture:

(q) Failure to make payment of any installment of interest upon any Bond when such payment shall have become due and payable;

(r) Failure to make due and punctual payment of the principal of or premium, if any, on any Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration;

- (s) The occurrence of a “Loan Event of Default” under the Loan Agreement;
- (t) The occurrence and continuance of an Event of Default under the Deed of Trust;
- (u) Default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, other than as referred to in paragraphs (a), (b), (c) and (d) above, and the continuance of such default 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, the Insurer and the Borrower by the Trustee, or to the Authority, the Insurer, the Borrower and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

Acceleration of Maturities

Upon the occurrence and continuation of an Event of Default, the Trustee may (with the prior written consent of the Insurer), and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding and with the consent of the Owner, or upon the written request of the Insurer, shall, by notice in writing delivered to the Borrower and the Insurer, with copies of such notice being sent to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable, provided, however, that there shall be no acceleration due to an Event of Default absent written consent of the Insurer. Interest on the Bonds shall cease to accrue from and after the date of declaration of any such acceleration. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under the paragraphs (c) or (e) under the caption “Event of Default” above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration under the Indenture, the Trustee shall immediately declare all indebtedness payable under Loan Agreement with respect to the Bonds to be immediately due and payable in accordance with Loan Agreement and may exercise and enforce such rights as exist under the Loan Agreement.

The provisions, of the above paragraph are subject however, to the following condition: if, at any time 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 which, together with any other amounts then held in the Bond Fund (other than the subaccount with respect to proceeds of the Insurance Policy), is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys’ fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Authority and to the Trustee accompanied by the written consent of the Insurer) or the Insurer, may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that 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.

Application of Moneys Collected by Trustee upon Acceleration

Any moneys collected by the Trustee and moneys in the Bond Fund on or after the occurrence of an Event of Default shall be applied in the following order, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid (provided that moneys received pursuant to a demand on the Insurance Policy shall be applied solely to the payment of principal of and interest on the Bonds as provided in the Indenture and in the Insurance Policy):

First: To the payment of costs and expenses of collection, just and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and for advances made pursuant to the provisions of the Indenture with interest on all such advances at the rate of nine percent (9%) per annum; provided, that any payments under a Liquidity Facility or the Insurance Policy shall not be so applied.

Second: In case the principal of none of the Outstanding Bonds shall have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the Persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of interest shall be made with respect to any Bonds held by the Authority, the Borrower or actually known by the Trustee to be held by any affiliate of the Borrower, or any nominee of the Authority, the Borrower, or any affiliate of the Borrower, until interest due on all Bonds not so registered shall have been paid.

Third: In case the principal of any of the Outstanding Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Outstanding Bonds then due and unpaid, then to the payment of interest in default in the order of maturity thereof, and then to the payment of the premium thereon, if any; in every instance such payment to be made ratably to the Persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of principal or premium or interest shall be made with respect to any Bonds held by the Authority, the Borrower or known by the Trustee to be held by any affiliate of the Borrower or any nominee of the Authority, the Borrower, or any affiliate of the Borrower, until all amounts due on all Bonds not so held have been paid.

Fourth: To the Insurer, any amounts due under the Insurance Agreement.

Other remedies of Owners

Subject to the provisions of the Indenture, no Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, the Loan Agreement, the Deed of Trust or applicable provisions of any law with respect to such Bond unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default thereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. No one or more Owners shall have any right in any manner whatever by his or her or their action to enforce any right under the Indenture, the Loan Agreement, the Deed of Trust or applicable provisions of any law with respect to such Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Remedies not exclusive

No remedy conferred upon or reserved to the Trustee or to any Owner of the Bonds under the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

Defeasance

Discharge of Indenture. The Indenture provides that the entire indebtedness on all Bonds Outstanding shall be paid and discharged in any one or more of the following ways:

- (a) by the payment of the principal of, and premium, if any, and interest on all Bonds Outstanding, as and when the same become due and payable; or
- (b) by the delivery to the Trustee, for cancellation by it, of all Bonds Outstanding; or
- (c) 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;

and if all other sums payable under the Indenture by the Authority shall be pay and discharge, and all sums payable to the Insurer and the Liquidity Provider shall have been paid by the Borrower, then the Indenture shall cease, terminate and become null and void except only as provided therein, and thereupon the Trustee shall, upon Written Request of the Authority, and upon receipt by the Insurer and the Trustee of a Written Certificate of the Authority and an Opinion of Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee shall mail written notice of such payment and discharge to the applicable Rating Agencies, to the Insurer and to the Liquidity Provider, if any.

The Authority, the Borrower and any Liquidity Provider may at any time surrender to the Trustee for cancellation by it any Bonds previously authenticated and delivered which the Authority or the Borrower or such Liquidity Provider lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

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 necessary amount to pay or redeem any Bonds (or Authorized Denominations thereof), the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts (other than in the Bond Purchase Fund) established pursuant to the Indenture and shall be equal (taking into account income which will accrue from the investment thereof on the date of deposit of such funds but without taking into account any income from the subsequent reinvestment thereof) 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 as provided in the Indenture 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 or redemption price of such Bonds and all unpaid interest thereon to the redemption date and shall be:

- (a) Available Amounts; or
- (b) nonprepayable, noncallable Government Obligations purchased with Available Amounts;

provided that no Bond shall be deemed to be paid within the meaning of the Indenture unless arrangements satisfactory to the Trustee and the Insurer shall have been made to assure that Bonds tendered for purchase in accordance with optional tender and mandatory tender provisions of the Indenture can be paid and redeemed from such moneys and/or Government Obligations or a Liquidity Facility and provided that, 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 or redemption price and interest with respect to such Bonds; and provided further, that the Authority, the Trustee and the Insurer shall have received (1) an Opinion of Bond Counsel to the effect that such deposit shall not adversely affect the Tax-Exempt status of interest on the Bonds, that the Bonds to be discharged are no longer Outstanding; (2) a verification report of a firm of certified public accountants or other financial services firm acceptable to the Authority and the Insurer verifying that the money or securities so deposited or held together with earnings thereon will be sufficient to pay the principal amount of, premium, if any, and interest on the Bonds to be discharged to and including the earlier of their respective maturity dates or the date

they are to be redeemed; (3) written confirmation from each Rating Agency then rating the Bonds, if any, that such Rating Agency's then current rating on the Bonds, without regard to the Insurance Policy, will not be lowered or withdrawn; and (4) all necessary and proper fees, compensation and expenses of the Trustee pertaining to such deposit shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

Limitation of Liability of the Authority 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 in the Indenture mentioned, 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 hereof any funds of the Authority which may be made available to it for such purposes.

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 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 and interest on the Bonds. Neither the Authority nor ABAG has any taxing power.

LOAN AGREEMENT

Payment of Bonds

The Borrower has agreed in the Loan Agreement to pay to the Trustee, for the account of the Authority, all sums necessary for the payment when due of the debt service on the Bonds including the principal of the Bonds and premium, if any, and interest on the Bonds as follows (the "Base Loan Payments"):

(1) No later than 8:00 a.m., Pacific time, two Business Days before each Bond Payment Date, the Borrower shall pay in funds which will be immediately available as of such time and date, a sum equal to the aggregate amount payable on such Bond Payment Date as principal (whether at maturity, or upon redemption or acceleration but excluding any Purchase Price required to be paid pursuant to the optional or mandatory tender provisions of the Indenture) of Outstanding Bonds and premium, if any, and interest thereon, at the Principal Office of the Trustee. In accordance with the Indenture, the Trustee shall use its best efforts to provide the Borrower with seven Business Days' prior written notice of the approximate sum due on each Interest Payment Date; provided, however, failure by the Trustee to give such notice, or the insufficiency of any such notice, shall not affect or diminish the obligations of the Borrower to make payments under the Loan Agreement.

(2) Each payment made pursuant to the Loan Agreement shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration but excluding any Purchase Price required to be paid pursuant to optional tender or mandatory tender provisions of the Indenture) and premium, if any, becoming due and payable on the Outstanding Bonds on each Bond Payment Date. Any amount held by the Trustee in the Bond Fund on a Bond Payment Date shall be credited against the Base Loan Payment due from the Borrower on such Bond Payment Date to the extent available to pay the principal of and premium, if any, and interest due on the Outstanding Bonds on such Bond Payment Date under the terms of the Indenture; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the Loan Agreement. Notwithstanding the foregoing, if on any Bond Payment Date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal (whether at maturity or upon redemption or acceleration but excluding any Purchase Price required to be paid pursuant to optional tender or mandatory tender

provisions of the Indenture) of Outstanding Bonds and interest and premium, if any, thereon as such payments become due, the Borrower shall forthwith pay such deficiency as a Base Loan Payment hereunder.

(3) In the event amounts on deposit in the Debt Service Reserve Fund are valued below the Debt Service Reserve Requirement, the Borrower shall forthwith pay the amount of such deficiency to the Trustee upon written notice from the Trustee, in four equal quarterly installments due on the first Business Day of the next succeeding calendar quarter commencing January 1, April 1, July 1 or October 1, as applicable.

(4) In addition to these payments described above and Additional Payments, the Borrower shall also pay to the Trustee in four equal quarterly installments due on the first Business Day of the next succeeding calendar quarter commencing January 1, April 1, July 1 or October 1, as applicable, following the date of notice from the Trustee of the amount due, for deposit in the Debt Service Reserve Fund, the amount of each prior withdrawal from the Debt Service Reserve Fund for the purpose of making up a deficiency in the Bond Fund (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn); provided that no deposit need be made into the Debt Service Reserve Fund if the balance in said account is at least equal to the Debt Service Reserve Requirement; provided further that such payments shall not be deemed to cure any Event of Default arising from the failure by the Borrower to make payments required under paragraphs (1) and (2).

Deed of Trust

To secure the payment of Base Loan Payments and Additional Payments and the performance by the Borrower of its other obligations under the Loan Agreement, the Borrower has entered into a Deed of Trust. The Borrower agrees to supplement the Deed of Trust or to execute and deliver such other deeds of trust as may be necessary from time to time to grant the Trustee a first priority lien on such Deed of Trust Property of the Borrower encumbered thereunder. The Borrower shall obtain, at its own cost and expense, an ALTA loan policy of title insurance issued by a title insurance company qualified to do business in the State insuring the priority of the Deed of Trust, or an endorsement to such policy at the time of and dated as of the date of issuance of the Bonds, in an aggregate amount not less than the aggregate principal amount of the Bonds to be outstanding after the issuance of such Bonds, naming the Trustee as the insured party, insuring the title of the Borrower to such Deed of Trust Property and the validity and priority of the lien of the Deed of Trust, subject only to Permitted Liens. The Borrower shall execute and cause to be filed such Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Authority or the Trustee in order to perfect or maintain as perfected such security interest or give constructive notice thereof.

Obligations of the Borrower Unconditional

The Borrower pledges its full faith and credit to the payments it is required to make under the Loan Agreement. The obligations of the Borrower to make the Base Loan Payments and Additional Payments and to perform and observe the other agreements on its part contained in the Loan Agreement shall be absolute and unconditional general obligations of the Borrower. Until such time as the principal of and the premium, if any, and interest on all the Bonds shall have been fully paid (or provision for the payment thereof shall have been made as provided in the Indenture), the Borrower (i) will not suspend or discontinue any Base Loan Payments or Additional Payments, (ii) will perform and observe all of its other agreements contained in the Loan Agreement and (iii) will not terminate the Loan Agreement for any cause, including, without limiting the generality of the foregoing, any change in the laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. The Loan Agreement shall be deemed and construed to be a "net contract," and the Borrower shall pay absolutely net the Base Loan Payments, Additional Payments and all other payments required hereunder, free of any deductions, without abatement, diminution or set-off other than those herein expressly provided.

Prepayment of Base Loan Payment

Optional Prepayment. The Borrower may at any time prepay all or any part of the Base Loan Payments payable under the Loan Agreement, and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered by the Borrower. All such prepayments shall be deposited in the optional redemption account within the Bond Fund and credited against the Base Loan Payments in the order of their due date or, at the election of the Borrower exercised in a Written Request of the Borrower in accordance with the redemption provisions of the Indenture, used for the redemption of Outstanding Bonds in such principal amount of such maturity or maturities and on such date or dates fixed for redemption as shall be specified in such Written Request; provided that each redemption date shall be such as to comply with the optional redemption provisions of the Indenture and the notice provisions of of the Indenture. Notwithstanding any such prepayment, the Borrower shall not be relieved of its obligations hereunder until all of the Bonds have been fully paid and retired (or provision for payment thereof shall have been made as provided in the Indenture).

If the Borrower is not in default in the payment of any Base Loan Payments or Additional Payments, the Authority, at the request of the Borrower, at any time when the aggregate moneys in the Bond Fund available for such purposes, including any prepayment deposited therein under the foregoing paragraph, are sufficient to effect redemption of all or part of the then Outstanding Bonds, and if such Bonds are then redeemable under the provisions of the Indenture, shall forthwith take all steps that may be necessary to effect such redemption in accordance with the request of the Borrower. The Authority agrees that it will redeem the Bonds pursuant to the Indenture only if and as requested in writing by the Borrower.

Mandatory Prepayment. The Borrower is required under the Loan Agreement to prepay Base Loan Payments to the extent the maturity of the Bonds is accelerated pursuant to the Indenture. The Borrower shall satisfy its obligation by prepaying such Base Loan Payments immediately upon receipt of notice from the Trustee of any acceleration of the maturity of the Bonds pursuant to the Indenture. The amount payable by the Borrower in the event of a prepayment required by this paragraph shall be determined as set forth in the paragraph below and shall be deposited in the Bond Fund.

Amount of Prepayment. In the case of a prepayment of the entire amount due hereunder pursuant to the captions Optional Prepayment or Mandatory Prepayment above, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities then on deposit with the Trustee and available for such purpose, to pay (1) the principal of all Outstanding Bonds on the date fixed for redemption specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of such Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the Authority and the Trustee accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Borrower accrued and to accrue under the Loan Agreement with respect to the Bonds.

In the case of partial prepayment of the Base Loan Payments with respect to the Bonds, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

Investments

The Borrower, by its Written Request to the Trustee, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the Indenture, subject to the limitations set forth in the Indenture. The Borrower has agreed that it will not direct the Trustee to make any investments and itself will not make any investments of the proceeds of the Bonds, or any other funds in any way pledged to the security of or reasonably expected to be used to pay the Bonds, which would cause any of the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 103(c) of the Code or a corresponding provision of the federal income tax laws then in effect.

No Liability of the State or the Authority

The Loan Agreement provides that the Borrower shall be solely responsible for the payment of the Bonds. 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 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 and interest on the Bonds. Neither the Authority nor ABAG has any taxing power.

The Borrower acknowledges in the Loan Agreement that the Authority’s sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to the Loan Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agreed in the Loan Agreement that if the payments to be made under the Loan Agreement shall ever prove insufficient to pay all principal of, premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal of, premium, if any, or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

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

The Borrower has agreed in the Loan Agreement 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 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. Notwithstanding the foregoing, the Borrower may, without violating the covenants contained in this provision of the Loan Agreement, consolidate with or merge into another corporation, 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) is a corporation organized under the laws of the United States or any state, district or territory thereof;
 - (b) is qualified to do business in the State;
 - (c) assumes in writing, if such corporation is not the Borrower, all of the obligations of the Borrower under the Loan Agreement and the Deed of Trust; provided such written instrument shall be executed and delivered to the Trustee, and shall be satisfactory to the Insurer and the Trustee, containing the agreement of such corporation to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all obligations of the Borrower (including, without limitation, the Bonds) according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Loan Agreement to be kept and performed by the Borrower, accompanied by an opinion of counsel as to the validity and enforceability of such assumption (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof are acceptable to the Insurer and the Trustee);
 - (d) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement, the Deed of Trust or the Insurance Policy; and

(e) 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 Insurer and the Trustee shall have received a Written Certificate of the Borrower to the effect that the covenants hereunder will be met after such consolidation, merger, sale or transfer; and

(3) The Trustee, the Insurer and the Authority shall have received an Opinion of Bond Counsel to the effect that such merger, consolidation, sale 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.

Continuing Disclosure

The Borrower has agreed in the Loan Agreement that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default under the Loan Agreement; however, the Trustee at the written request of the Holders of at least a majority of the aggregate principal amount in Outstanding Bonds, shall (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expense of its counsel and agents and additional fees and charges of the Trustee) or any Bondholder may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its obligations under the Continuing Disclosure provisions of the Loan Agreement.

Limitation on Encumbrances

The Borrower has agreed in the Loan Agreement that it will not, without the prior written consent of the Insurer, create, assume or suffer to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) (a “security interest”) upon the Facilities, whether owned by the Borrower as of the effective date of the Loan Agreement or acquired thereafter, provided, however, that notwithstanding the foregoing provision, the Borrower may create, assume or suffer to exist Permitted Encumbrances.

Compliance with the Provisions of the United States and California Constitutions Relating to Religion

On such date as the audited financial statements are furnished pursuant to the Loan Agreement, or by such later date at least annually as shall be acceptable to the Authority, so long as there shall be any Bonds Outstanding, the Borrower covenants to furnish to the Authority a Written Certificate of the Borrower certifying that the Borrower (i) has not used or applied any part of the proceeds of the loan made to the Borrower under the Loan Agreement to finance or refinance any facility used or to be used for sectarian instruction or as a place for religious worship or any facility used or to be used primarily in connection with any part of the program of any school or department of divinity, and (ii) neither restricts entry on racial or religious grounds nor requires students gaining admission to receive instruction in the tenets of a particular faith. The Authority and its assignees shall have the right to inspect the premises of the Borrower at all reasonable times for the purpose of verifying compliance with the foregoing covenant and due compliance by the Borrower with all the terms of the Constitutions and laws of the United States of America and of the State of California.

Events of Default

Each of the following constitutes an “Event of Default” under the Loan Agreement:

(a) The Borrower fails to make any Base Loan Payment or Additional Payment by its due date or fails to observe and perform the Continuing Disclosure and Limitation on Encumbrances provisions of the Loan Agreement; or

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

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

(d) There is an unexcused default by the Borrower under any agreement or instrument to which it is a party relating to the borrowing of money either (1) in failing to pay any installment of principal or interest in an aggregate amount of \$250,000 or more, which default shall not have been waived or excused within 90 days after the Borrower received notice of such default or (2) as a result of which Indebtedness in an amount of \$1,000,000 or more shall have been accelerated and declared to be due and payable prior to its date of maturity; or

(e) The Borrower 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 Borrower and such appointment continues undischarged for a period of sixty (60) days; or the Borrower 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 Borrower and remains undismissed for a period of sixty (60) days; or the Borrower makes a general assignment for the benefit of creditors;

(f) Any Event of Default under the Deed of Trust; or

(g) The occurrence of an Event of Default under the Indenture or under the Insurance Agreement.

Remedies on Default.

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 under the Loan Agreement shall have happened and be continuing, the Authority or the Trustee may take any one or more of the following remedial steps with the consent of the Insurer:

(a) The Authority or the Trustee may, at its option, declare all Base Loan Payments with respect to the principal of the Outstanding Bonds and the accrued interest on the Outstanding Bonds, plus any other payments due or to become due under the Loan Agreement, including, without limitation, any unpaid fees and expenses of the Authority, the Trustee and any paying agents of the Bonds which are then due or will become due prior to the time that the Bonds are paid in full and the trust established by the Indenture is terminated, to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The Authority or the Trustee may take whatever action at law or in equity as may appear necessary or desirable to collect the payments then due and thereafter to become due hereunder, 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 Borrower under the Loan Agreement and the Deed of Trust.

(c) The Trustee may initiate foreclosure proceedings under the Deed of Trust as permitted under the terms thereof.

Remedies not exclusive

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

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

With respect to certain covenants, including without limitation the covenants of the Borrower with respect to Continuing Disclosure and Compliance with the Provisions of the United States and California Constitutions Relating to Religion, the Borrower agrees and acknowledges that the Trustee and the Authority would have no adequate remedy at law in the event the Borrower should breach such covenants and the Borrower, accordingly, agrees and acknowledges that the Trustee and the Authority are entitled to equitable remedies, including without limitation specific performance, in the event the Borrower should breach such covenants.

Anything in the Loan Agreement to the contrary notwithstanding, no remedy may be exercised hereunder by the Authority or the Trustee without the prior written consent of the Insurer, so long as the Insurer is not in default of its obligations under the Insurance Policy, and the Trustee (as assignee of the Authority) shall exercise its remedies hereunder as directed in writing by the Insurer.

Initial Liquidity Facility

The Loan Agreement provides that the Borrower will deliver (or cause to be delivered) to the Trustee on or prior to the Conversion Date of the Bonds to a Variable Rate an executed counterpart of a Liquidity Facility for the Bonds. The initial Liquidity Facility and the initial Liquidity Provider must be acceptable to the Insurer. So long as the Bonds bear interest at a Variable Rate, the Borrower shall maintain one or more Liquidity Facilities, either by maintaining an existing Liquidity Facility or Liquidity Facilities for the Bonds or providing one or more Alternate Liquidity Facilities as provided in the Loan Agreement, to provide a source of payment of the Purchase Price of all Variable Rate Bonds.

With respect to the Bonds bearing interest at a Variable Rate, at least thirty-five (35) days prior to the expiration or termination of any existing Liquidity Facility for such Bonds, including any renewals or extensions thereof (other than an expiration of such Liquidity Facility at the final maturity of the Bonds), the Borrower shall provide to the Trustee (with a copy to the Insurer) (i) a renewal or extension of the term of the existing Liquidity Facility for such Bonds or (ii) a commitment for the issuance of an Alternate Liquidity Facility meeting the requirements set forth in subsection (C) below. The Borrower shall not permit any Liquidity Facility in effect to terminate with respect to the Bonds during any Variable Rate Period unless the Bonds are then required to be tendered for purchase pursuant to certain sections of the mandatory tender provisions of the Indenture.

Alternate Liquidity Facility

With the prior written consent of the Insurer, the Borrower may at any time, and shall at the direction of the Insurer if the Liquidity Provider is downgraded, provide an Alternate Liquidity Facility with respect to the Bonds in

accordance with the provisions hereof and of the Indenture and upon delivery to the Trustee and to the Insurer of the items specified below; provided, however, that the Borrower shall not substitute any Liquidity Facility with respect to the Bonds during a Variable Rate Period if such Bonds are not then required to be tendered for purchase on the effective date of an Alternate Liquidity Facility.

Any such Alternate Liquidity Facility must meet the following conditions:

- (a) the Alternate Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution;
- (b) the terms and provisions of the Alternate Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility provided hereunder;
- (c) the Alternate Liquidity Facility must take effect on or before the date which is the first Business Day which is not less than five (5) calendar days before the date of termination of the Liquidity Facility then securing the Bonds and the term of the Alternate Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the Bonds);
- (d) the Alternate Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Bonds which will be applicable during the then current Variable Rate Period; and
- (e) the Alternate Liquidity Facility must be in form and substance acceptable to the Insurer and the related Liquidity Provider must be acceptable to the Insurer.

On or prior to the date of the delivery of an Alternate Liquidity Facility to the Trustee, the Borrower shall cause to be furnished to the Trustee and the Insurer (i) an opinion of Bond Counsel addressed to the Trustee to the effect that the delivery of such Alternate Liquidity Facility to the Trustee is authorized under the Indenture and the Loan Agreement and complies with the terms thereof and hereof and in and of itself will not adversely affect the Tax-Exempt status of interest on any of the Bonds, (ii) an opinion or opinions of counsel to the Liquidity Provider addressed to the Trustee, the Insurer and the Authority, to the effect that the Liquidity Facility has been duly authorized, executed and delivered by the Liquidity Provider and constitutes the valid, legal and binding obligation of the Liquidity Provider enforceable against the Liquidity Provider in accordance with its terms, and (iii) a Rating Confirmation.

DEED OF TRUST

Grant in Trust

In order to secure the Secured Obligations (as defined below), the Borrower, as Trustor under the Deed of Trust, has made an irrevocably grant, conveyance and assignment to the Deed of Trust Trustee, in trust for the benefit of Trustee of the 2006 Bonds, as Beneficiary, with power of sale and right of entry and possession, all of Trustor's right, title and interest in that certain real property located in the San Diego, State of California, more particularly described in Exhibit A to the Deed of Trust, (the "Subject Property"), together with all of the Trustor's right, title and interest, whether now owned or hereafter acquired, in or to the property and rights listed below:

- (a) All buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or hereafter located on the Subject Property (hereinafter referred to as the "Improvements") including, but not limited to, the existing Improvements comprised of existing buildings and to-be constructed buildings; and to the extent permitted by law, the name or names, if any, as may now or hereafter be used for each Improvement, and the goodwill associated therewith;
- (b) All easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, liberties, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Subject Property or

the Improvements and the reversions, remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Subject Property to the center line thereof and all the estates, rights, titles, interests, property, possession, claim and demand whatsoever, both in law and in equity, of Trustor of, in and to the Subject Property and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(c) All machinery, equipment, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures), inventory and articles of personal property and accessions thereof and renewals, replacements thereof and substitutions therefor, and other tangible property of every kind and nature whatsoever owned by Trustor, or in which Trustor has or shall have an interest, now or hereafter located upon the Subject Property or the Improvements, or appurtenances thereto, or used in connection with the present or future operation and occupancy of the Subject Property or the Improvements;

(d) All awards of payments, including interest thereon, which may heretofore and hereafter be made with respect to the Subject Property to the extent actually received by Trustor, whether from the exercise of the right of eminent domain (including, but not limited to, any transfer of the Subject Property or part thereof made in lieu of or in anticipation of the exercise of said right), or for any other injury to or decrease in the value of the Subject Property;

(e) All leases and other agreements affecting the use, enjoyment or occupancy of the Subject Property now or hereafter entered into (the "Leases") and all oil and gas or other mineral royalties, bonuses and rents, revenues, security deposits, issues and profits from the Subject Property (the "Rents") and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the obligations secured by the Deed of Trust;

(f) All proceeds of and any unearned premiums on any insurance policies covering the Subject Property including, without limitation, the right to receive and apply the proceeds of any insurance, judgments (including with respect to a casualty thereto or condemnation thereof), or settlements made in lieu thereof, for damage to the Subject Property;

(g) The right, in the name and on behalf of Trustor, to appear in and defend any action or proceeding brought with respect to the Subject Property and to commence any action or proceeding to protect the interest of Beneficiary in the Subject Property; and

(h) All right, title and interest of every nature of the Trustor in all receivables and other accounts of Trustor relating to the Subject Property and in all monies deposited or to be deposited in any funds or account maintained or deposited with Beneficiary, or its assigns, in connection herewith, if any.

All of the foregoing being collectively referred to as the ("Subject Property"). The listing of specific rights or property shall not be interpreted as a limit of general terms.

Obligations Secured

The grant and assignment made by the Trustor under the Deed of Trust secures the following obligations ("Secured Obligations"):

(a) Payment to Beneficiary of all sums at any time owing under the Loan Agreement and payable to the order of the Authority, as lender ("Lender") and the performance of all covenants and obligations of Trustor under the Loan Agreement;

(b) Payment and performance of all covenants and obligations of Trustor under the Deed of Trust;

(c) Payment and performance of all covenants and obligations, if any, which any rider attached as an Exhibit to the Deed of Trust recites;

(d) Payment and performance of all obligations to the Insurer under the Insurance Agreement; and

(e) All modifications, extensions and renewals of any of the obligations secured by the Deed of Trust, however evidenced, including, without limitation: (i) modifications of the required principal payment dates or interest payment dates or both, as the case may be, deferring or accelerating payment dates wholly or partly; or (ii) modifications of the required debt service payment ASSIGNMENT OF LEASES AND RENTS

Assignment

Pursuant to the Deed of Trust, the Trustor has irrevocably assigned to Beneficiary all of Trustor's right, title and interest in, to and under: (a) all leases of the Subject Property or any portion thereof, all licenses and agreements relating to the management, leasing or operation of the Subject Property or any portion thereof, and all other agreements of any kind relating to the use or occupancy of the Subject Property or any portion thereof, whether now existing or entered into after the date of the Deed of Trust ("Leases"); and (b) the rents, issues, deposits and profits of the Subject Property, including, without limitation, all amounts payable and all rights and benefits accruing to Trustor under the Leases ("Payments"). "Leases" also include all guarantees of and security for the lessees' performance thereunder, and all amendments, extensions, renewals or modifications thereto which are permitted hereunder.

The assignment made by the Trustor in the Deed of Trust is a present and absolute assignment, not an assignment for security purposes only, and Beneficiary's right to the Leases and Payments is not contingent upon, and may be exercised without possession of, the Subject Property.

Grant of License

Pursuant to the Deed of Trust, the Beneficiary conferred upon Trustor a license ("License") to collect and retain the Payments as they become due and payable, until the occurrence of a Default (as hereinafter defined). Upon a Default, the License shall be automatically revoked and Beneficiary may collect and apply the Payments pursuant to the Deed of Trust without notice and without taking possession of the Subject Property.

Effect of Assignment

The irrevocable Assignment made under the Deed of Trust shall not cause Beneficiary to be: (a) a mortgagee in possession; (b) responsible or liable for the control, care, management or repair of the Subject Property or for performing any of the terms, agreements, undertakings, obligations, representations, warranties, covenants and conditions of the Leases; or (c) responsible or liable for any waste committed on the Subject Property by the lessees under any of the Leases or any other parties; for any dangerous or defective condition of the Subject Property; or for any negligence in the management, upkeep, repair or control of the Subject Property resulting in loss or injury or death to any lessee, licensee, employee, invitee or other person. Beneficiary shall not directly or indirectly be liable to Trustor or any other person as a consequence of: (i) the exercise or failure to exercise any of the rights, remedies or powers granted to Beneficiary hereunder, or (ii) the failure or refusal of Beneficiary to perform or discharge any obligation, duty or liability of Trustor arising under the Leases.

Security Agreement and Fixture Filing

In the Deed of Trust, the Trustor made a grant and assignment to Beneficiary as of the date of the Deed of Trust ("Effective Date") of a security interest, to secure payment and performance of all of the Secured Obligations, in all of the personal property in which Trustor now or at any time hereafter has any interest (collectively, the "Collateral"), described below:

All goods, building and other materials, supplies, work in process, equipment, machinery, fixtures, furniture, furnishings, signs and other personal property (except for certain computer equipment and software currently owned or leased by Trustor), wherever situated, which are or are to be incorporated into, used in connection with, or appropriated for use on the real property described on Exhibit A attached hereto and incorporated by reference herein (to the extent the same are not effectively made a part of the real property) together with all rents, issues, deposits and profits of the Subject Property (to the extent, if any, they are not subject to Article 3); all inventory,

accounts, cash receipts, deposit accounts, accounts receivable, contract rights, general intangibles, chattel - paper, instruments, documents, notes, drafts, letters of credit, insurance policies, insurance and condemnation awards and proceeds, any other rights to the payment of money, trade names, trademarks and service marks arising from or related to the Subject Property or any business now or hereafter conducted thereon by Trustor; all permits, consents, approvals, licenses, authorizations and other rights granted by, given by or obtained from, any governmental entity with respect to the Subject Property; all deposits or other security now or hereafter made with or given to utility companies by Trustor with respect to the Subject Property; all advance payments of insurance premiums made by Trustor with respect to the Subject Property; all plans, drawings and specifications relating to the Subject Property; all funds deposited with Beneficiary pursuant to any loan agreement; all reserves, deferred payments, deposits, accounts, refunds, cost savings and payments of any kind related to the Subject Property or any portion thereof; together with all replacements and proceeds of, and additions and accessions to, any of the foregoing; together with all books, records and files relating to any of the foregoing.

As to all of the above described personal property which is or which after the Effective Date becomes a “fixture” under applicable law, the Deed of Trust constitutes a fixture filing under Sections 9313 and 9402(6) of the California Uniform Commercial Code, as amended or recodified from time to time.

Maintenance and Preservation of the Subject Property

Trustor has covenanted under the Deed of Trust (a) to insure the Subject Property against such risks as Beneficiary may require and, at Beneficiary’s request, to provide evidence of such insurance to Beneficiary, and to comply with the requirements of any insurance companies insuring the Subject Property; (b) to keep the Subject Property in good condition and repair; (c) not to remove or demolish the Subject Property or any part thereof, not to alter, restore or add to the Subject Property and not to initiate or acquiesce in any change in any zoning or other land classification which affects the Subject Property without Beneficiary’s prior written consent; (d) to complete or restore promptly and in good and workmanlike manner the Subject Property, or any part thereof which may be damaged or destroyed, without regard to whether Beneficiary elects to require that insurance proceeds be used to reduce the Secured Obligations as provided in the Deed of Trust; (e) to comply with all laws, ordinances, regulations and standards, and all covenants, conditions, restrictions and equitable servitudes, whether public or private, of every kind and character which affect the Subject Property and pertain to acts committed or conditions existing thereon, including, without limitation, any work, alteration, improvement or demolition mandated by such laws, covenants or requirements; (f) not to commit or permit waste of the Subject Property; and (g) to do all other acts which from the character or use of the Subject Property may be reasonably necessary to maintain and preserve its value.

Default

The following constitute a “Default” under the Deed of Trust

- (a) the occurrence of an “Event of Default” as defined in the Loan Agreement;
- (b) Trustor’s failure to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Deed of Trust for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to Trustor by Beneficiary; or
- (c) any of the representations and warranties of Trustor in the Deed of Trust was false or incorrect in any material respect when made.

Remedies upon Default

At any time after Default, Beneficiary and Trustee shall each have all the following rights and remedies (subject to the default provisions of the Indenture):

- (a) With or without notice, to declare all Secured Obligations immediately due and payable;
- (b) With or without notice, and without releasing Trustor from any Secured Obligation, and without becoming a mortgagee in possession, to cure any breach or Default of Trustor and, in connection therewith, to enter upon the Subject Property and do such acts and things as Beneficiary or Trustee deem necessary or desirable to protect the security hereof, including, without limitation: (i) to appear in and defend any action or proceeding purporting to affect the security of the Deed of Trust or the rights or powers of Beneficiary or Trustee under the Deed of Trust; (ii) to pay, purchase, contest or compromise any encumbrance, charge, lien or claim of lien which, in the sole judgment of either Beneficiary or Trustee, is or may be senior in priority to the Deed of Trust, the judgment of Beneficiary or Trustee being conclusive as between the parties hereto; (iii) to obtain insurance; (iv) to pay any premiums or charges with respect to insurance required to be carried under the Deed of Trust; or (v) to employ counsel, accountants, contractors and other appropriate persons.
- (c) To commence and maintain an action or actions in any court of competent jurisdiction to foreclose on the Deed of Trust as a mortgage or to obtain specific enforcement of the covenants of Trustor hereunder, and Trustor agrees that such covenants shall be specifically enforceable by injunction or any other appropriate equitable remedy and that for the purposes of any suit brought under this paragraph, Trustor waives the defense of laches and any applicable statute of limitations;
- (d) To apply to a court of competent jurisdiction for and obtain appointment of a receiver of the Subject Property as a matter of strict right and without regard to the adequacy of the security for the repayment of the Secured Obligations, the existence of a declaration that the Secured Obligations are immediately due and payable, or the filing of a notice of default, and Trustor hereby consents to such appointment;
- (e) To enter upon, possess, manage and operate the Subject Property or any part thereof, to take and possess all documents, books, records, papers and accounts of Trustor or the then owner of the Subject Property, to make, terminate, enforce or modify Leases of the Subject Property upon such terms and conditions as Beneficiary deems proper, to make repairs, alterations and improvements to the Subject Property as necessary, in Trustee's or Beneficiary's sole judgment, to protect or enhance the security hereof;
- (f) To execute a written notice of such Default and of its election to cause the Subject Property to be sold to satisfy the Secured Obligations. As a condition precedent to any such sale, Trustee shall give and record such notice as the law then requires. When the minimum period of time required by law after such notice has elapsed, Trustee, without notice to or demand upon Trustor except as required by law, shall sell the Subject Property at the time and place of sale fixed by it in the notice of sale, at one or several sales, either as a whole or in separate parcels and in such manner and order, all as Beneficiary in its sole discretion may determine, at public auction to the highest bidder for cash, in lawful money of the United States, payable at time of sale. Neither Trustor nor any other person or entity other than Beneficiary shall have the right to direct the order in which the Subject Property is sold. Subject to requirements and limits imposed by law, Trustee may from time to time postpone sale of all or any portion of the Subject Property by public announcement at such time and place of sale. Trustee shall deliver to the purchaser at such sale a deed conveying the Subject Property or portion thereof so sold, but without any covenant or warranty, express or implied. The recitals in the deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustee, Trustor or Beneficiary may purchase at the sale;
- (g) To resort to and realize upon the security hereunder and any other security now or later held by Beneficiary concurrently or successively and in one or several consolidated or independent judicial actions or lawfully taken non-judicial proceedings, or both, and to apply the proceeds received upon the Secured Obligations all in such order and manner as Trustee and Beneficiary, or either of them, determine in their sole discretion;
- (h) Upon sale of the Subject Property at any judicial or non judicial foreclosure, Beneficiary may credit bid (as determined by Beneficiary in its sole and absolute discretion) all or any portion of the Secured Obligations. In determining such credit bid, Beneficiary may, but is not obligated to, take into account all or any of the following: (i) appraisals of the Subject Property as such appraisals may be discounted or adjusted by Beneficiary in its sole and absolute underwriting discretion; (ii) expenses and costs incurred by Beneficiary with respect to the Subject Property prior to foreclosure; (iii) expenses and costs which Beneficiary anticipates will be incurred with respect to the Subject Property after foreclosure, but prior to resale, including, without limitation, costs of structural

reports and other due diligence, costs to carry the Subject Property prior to resale, costs of resale (e.g., commissions, attorneys fees, and taxes), costs of any Hazardous Materials clean-up and monitoring, costs of deferred maintenance, repair, refurbishment and retrofit, costs of defending or settling litigation affecting the Subject Property, and lost opportunity costs (if any), including the time value of money during any anticipated holding period by Beneficiary; (iv) declining trends in real property values generally and with respect to properties similar to the Subject Property; (v) anticipated discounts upon resale of the Subject Property as a distressed or foreclosed property; (vi) the fact of additional collateral (if any), for the Secured Obligations; and (vii) such other factors or matters that Beneficiary (in its sole and absolute discretion) deems appropriate. In regard to the above, Trustor acknowledges and agrees that: (w) Beneficiary is not required to use any or all of the foregoing factors to determine the amount of its credit bid; (x) this provision of the Deed of Trust does not impose upon Beneficiary any additional obligations that are not imposed by law at the time the credit bid is made; (y) the amount of Beneficiary's credit bid need not have any relation to any loan-to-value ratios previously discussed between Trustor and Beneficiary; and (z) Beneficiary's credit bid may be (at Beneficiary's sole and absolute discretion) higher or lower than any appraised value of the Subject Property.

Rights of Beneficiary on Default

Upon the occurrence of a Default, then in addition to all of Beneficiary's rights as a "Secured Party" under the UCC or otherwise at law:

(a) Beneficiary may (i) upon written notice, require Trustor to assemble any or all of the Collateral and make it available to Beneficiary at a place designated by Beneficiary; (ii) without prior notice, enter upon the Subject Property or other place where any of the Collateral may be located and take possession of, collect, sell, and dispose of any or all of the Collateral, and store the same at locations acceptable to Beneficiary at Trustor's expense; (iii) sell, assign and deliver at any place or in any lawful manner all or any part of the Collateral and bid and become purchaser at any such sales.

(b) Beneficiary may, for the account of Trustor and at Trustor's expense: (i) operate, use, consume, sell or dispose of the Collateral as Beneficiary deems appropriate for the purpose of performing any or all of the Secured Obligations; (ii) enter into any agreement, compromise, or settlement, including insurance claims, which Beneficiary may deem desirable or proper with respect to any of the Collateral; and (iii) endorse and deliver evidences of title for, and receive, enforce and collect by legal action or otherwise, all indebtedness and obligations now or hereafter owing to Trustor in connection with or on account of any or all of the Collateral.

(c) Beneficiary shall exercise such remedies as may be directed by the Insurer unless an event of default has occurred and is continuing under the Insurance Policy.

Notwithstanding any other provision in the Deed of Trust, Beneficiary shall not be deemed to have accepted any property other than cash in satisfaction of any obligation of Trustor to Beneficiary unless Trustor shall make an express written election of said remedy under UCC §9505, or other applicable law.

Loan Agreement Control

In the event of conflict between the terms of the Deed of Trust and the Loan Agreement, the terms of the Loan Agreement shall prevail, except that the provisions of the Deed of Trust shall control with respect to rights and remedies of Beneficiary and Trustee upon a Default under the Deed of Trust.

APPENDIX D

AUCTION AND SETTLEMENT PROCEDURES

Section 1. Definitions. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

“*ARS*” has the meaning given in the Auction Agreement.

“*Available ARS*” has the meaning set forth in Section 2(c)(i)(A) hereof.

“*Bid*” has the meaning set forth in Section 2(a)(i) hereof.

“*Bidder*” has the meaning set forth in Section 2(a)(i) hereof.

“*Borrower*” means Point Loma Nazarene University, a California Nonprofit Public Benefit Corporation.

“*Buyer’s Broker-Dealer*” has the meaning set forth in Section 3(a)(iv) hereof.

“*Hold Order*” has the meaning set forth in Section 2(a)(i) hereof.

“*Issuer*” means the ABAG Finance Authority For Nonprofit Corporations.

“*Order*” has the meaning set forth in Section 2(a)(i) hereof.

“*Sell Order*” has the meaning set forth in Section 2(a)(i) hereof.

“*Seller’s Broker-Dealer*” has the meaning set forth in Section 3(a)(iii) hereof.

“*Submission Deadline*” means 1:00 p.m. (New York City time) on each Auction Date for ARS not in a daily Auction Period and 11:00 a.m. (New York City time) on each Auction Date for ARS in a daily Auction Period, or such other time on such date as will be specified from time to time by the Auction Agent pursuant to the Auction Agent Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“*Submission Processing Deadline*” means the earlier of (i) 40 minutes after the Submission Deadline and (ii) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

“*Submission Processing Representation*” shall have the meaning specified in Section 2(b)(ix) hereof.

“*Submitted Bid*” has the meaning set forth in Section 2(c)(i) hereof.

“*Submitted Hold Order*” has the meaning set forth in Section 2(c)(i) hereof.

“*Submitted Order*” has the meaning set forth in Section 2(c)(i) hereof.

“*Submitted Sell Order*” has the meaning set forth in Section 2(c)(i) hereof.

“*Sufficient Clearing Bids*” has the meaning set forth in Section 2(c)(i)(B) hereof.

“*Winning Bid Rate*” has the meaning set forth in Section 2(c)(i)(C) hereof.

Section 2. Auction Procedures. So long as the ownership of the ARS is maintained in book entry form by the Securities Depository, an Existing Owner may sell, transfer or otherwise dispose of ARS only pursuant to a Bid or Sell Order placed in an Auction or through a Broker Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker Dealer advises the Auction Agent of such transfer. Subject to the provisions of the Indenture, Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner:

(a) (i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARS may submit to a Broker Dealer by Electronic Notice any information as to:

(I) the principal amount of outstanding ARS, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding ARS Interest Period (or the same day in the case of a daily Auction Period);

(II) the principal amount of outstanding ARS, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding ARS Interest Period (or the same day in the case of a daily Auction Period) shall be less than the rate per annum specified by such Existing Owner; and/or

(III) the principal amount of outstanding ARS, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding ARS Interest Period (or the same day in the case of a daily Auction Period); and

(B) one or more Broker Dealers may contact Potential Owners to determine the principal amount of ARS which each Potential Owner offers to purchase, if the Auction Rate for the next succeeding ARS Interest Period (or the same day in the case of a daily Auction Period) shall not be less than the rate per annum specified by such Potential Owner.

The statement of an Existing Owner or a Potential Owner referred to in (A) or (B) of this paragraph (i) is hereinafter referred to as an “Order,” and each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a “Bidder”; an Order described in clause (A)(I) is hereinafter referred to as a “Hold Order”; an Order described in clause (A)(II) or (B) is hereinafter referred to as a “Bid”; and an Order described in clause (A)(III) is hereinafter referred to as a “Sell Order.”

(ii) (A) Subject to the provisions of Section 2(b) hereof, a Bid by an Existing Owner shall constitute an irrevocable offer to sell (in each case for settlement in same day funds on the next ARS Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding ARS specified in such Bid if the Auction Rate determined as provided herein shall be less than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding ARS to be determined as set forth in Section 2(d)(i)(D), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid; or

(III) such principal amount or a lesser principal amount of outstanding ARS to be determined as set forth in Section 2(d)(ii)(C) if the rate specified therein shall be higher than the ARS Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of Section 2(b) hereof, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell (in each case for settlement in same day funds on the next ARS Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding ARS specified in such Sell Order if Sufficient Clearing Bids exist; or

(II) such principal amount or a lesser principal amount of outstanding ARS set forth in Section 2(d)(ii)(C), if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of Section 2(b) hereof, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase (in each case for settlement in same day funds on the next ARS Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding ARS specified in such Bid if the Auction Rate determined as provided herein shall be higher than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding ARS set forth in Section 2(d)(i)(E), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid.

(b) (i) Each Broker Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate principal amount of ARS that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Owner:

(I) the principal amount of ARS, if any, subject to any Hold Order placed by such Existing Owner;

(II) the principal amount of ARS, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(III) the principal amount of ARS, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all outstanding ARS held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of outstanding ARS held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) Neither the Borrower, the Issuer, the Insurer, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner, nor shall any such party be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

(v) If any Existing Owner submits through a Broker Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of outstanding ARS held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of outstanding ARS held by such Existing Owner, and if the aggregate principal amount of ARS subject to such Hold Orders exceeds the aggregate principal amount of ARS held by such Existing Owner, the aggregate principal amount of ARS subject to each such Hold Order shall be reduced so that the aggregate principal amount of ARS subject to such Hold Orders equals the aggregate principal amount of outstanding ARS held by such Existing Owner.

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of outstanding ARS held by such Existing Owner over the aggregate

principal amount of ARS subject to any Hold Order referred to in subsection (v)(A) above;

(II) subject to subsection (v)(B)(I) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of outstanding ARS subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess;

(III) subject to subsections (v)(B)(I) and (v)(B)(II) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(IV) in any such event, the amount of outstanding ARS, if any, subject to Bids not valid under this subsection (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) All Sell Orders shall be considered valid up to and including the excess of the principal amount of outstanding ARS held by such Existing Owner over the aggregate principal amount of ARS subject to Hold Orders referred to in subsection (v)(A) and valid Bids referred to in subsection (v)(B).

(vi) If more than one Bid for ARS is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARS not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARS not equal to an Authorized Denomination shall be rejected.

(viii) Any Bid specifying a rate higher than the ARS Maximum Rate will be treated as a Sell Order if submitted by an Existing Owner and will not be accepted if submitted by a Potential Owner. Any Bid submitted by an Existing Owner or on behalf of a Potential Owner specifying a rate lower than the All-Hold Rate shall be considered as valid and shall be selected in the ascending order of their respective rates contained in the Submitted Bids.

(ix) Anything herein to the contrary notwithstanding, Broker-Dealers may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (i) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (i) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) (i) Promptly after the Submission Deadline on each Auction Date, but subject to a Submission Processing Representation, the Auction Agent will assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and will determine:

(A) the excess of the total principal amount of outstanding ARS over the sum of the aggregate principal amount of outstanding ARS subject to Submitted Hold Orders (such excess being hereinafter referred to as the “Available ARS”), and

(B) from the Submitted Orders whether:

(I) the aggregate principal amount of outstanding ARS subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the ARS Maximum Rate exceeds or is equal to the sum of:

(II) the aggregate principal amount of outstanding ARS subject to Submitted Bids by Existing Owners specifying one or more rates higher than the ARS Maximum Rate, and

(III) the aggregate principal amount of outstanding ARS subject to Submitted Sell Orders

(in the event such excess or such equality exists, other than because all of the outstanding ARS are subject to Submitted Hold Orders, such Submitted Bids described in subclause (I) above shall be referred to collectively as “Sufficient Clearing Bids”); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (the “Winning Bid Rate”) such that if:

(I) (aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARS subject to such Submitted Bids, and

(II) (aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted, the result would be that such Existing Owners described in subsection (C)(I) above would continue to hold an aggregate principal amount of outstanding ARS which, when added to the aggregate principal amount of outstanding ARS to be purchased by such Potential Owners described in subsection (C)(II) above, would equal not less than the Available ARS.

(ii) Promptly after the Auction Agent has made the determinations pursuant to Section 2(c)(i) hereof, the Auction Agent shall advise the Broker-Dealer and the Trustee of the ARS Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date

and, based on such determinations, the Auction Rate for the next succeeding ARS Interest Period as follows:

(A) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding ARS Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the outstanding ARS are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding ARS Interest Period shall be equal to the ARS Maximum Rate; or

(C) if all outstanding ARS are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding ARS Interest Period shall be equal to the All-Hold Rate.

(d) Existing Owners shall continue to hold the principal amount of ARS that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to Section 2(c)(i) hereof, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of Sections 2(d)(iv) and 2(d)(v), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARS subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;

(D) each Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARS subject to such Submitted Bid, unless the aggregate principal amount of outstanding ARS subject to all such Submitted Bids shall be greater than the principal amount of ARS (the "remaining principal amount") equal to the excess of the Available ARS over the aggregate principal amount of ARS subject to Submitted Bids described in subsections (B) and (C) of this Section 2(d)(i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARS subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of outstanding ARS held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the

sum of the principal amount of outstanding ARS subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the principal amount of ARS obtained by multiplying the excess of the aggregate principal amount of Available ARS over the aggregate principal amount of ARS subject to Submitted Bids described in subsections (B), (C) and (D) of this Section 2(d)(i) by a fraction the numerator of which shall be the aggregate principal amount of outstanding ARS subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of outstanding ARS subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the outstanding ARS are subject to submitted Hold Orders), subject to the provisions of Sections 2(d)(iv) and (v), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate shall be accepted, and specifying any rate that is higher than the ARS Maximum Rate shall be rejected; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the ARS Maximum Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARS subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the aggregate principal amount of ARS subject to Submitted Bids described in subsection (B) of this Section 2(d)(ii) which are accepted by a fraction the numerator of which shall be the aggregate principal amount of outstanding ARS held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of outstanding ARS subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all outstanding ARS are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in Section 2(d)(i) or 2(d)(ii), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARS that is not equal to an Authorized Denomination the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the principal amount of ARS to be purchased or sold by any Existing Owner or Potential

Owner so that the principal amount of ARS purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination.

(v) If, as a result of the procedures described in Section 2(d)(ii), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of ARS, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate ARS for purchase among Potential Owners so that only ARS in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any ARS.

(vi) The Borrower, the Issuer, the Trustee, the Broker-Dealers and the Auction Agent shall have no liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

(e) Based on the result of each Auction, the Auction Agent shall determine the aggregate principal amount of ARS to be purchased and the aggregate principal amount of ARS to be sold by Potential Owners and Existing Owners on whose behalf each Broker Dealer Submitted Bids or Sell Orders and, with respect to each Broker Dealer, to the extent that such aggregate principal amount of ARS to be sold differs from such aggregate principal amount of ARS to be purchased, determine to which other Broker Dealer or Broker Dealers acting for one or more purchasers such Broker Dealer shall deliver, or from which other Broker Dealer or Broker Dealers acting for one or more sellers such Broker Dealer shall receive, as the case may be, ARS.

(f) Any calculation by the Auction Agent (or the Trustee, if applicable) of the Applicable ARS Rate, the “AA” Composite Commercial Paper Rate, the ARS Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all ARS Beneficial Owners and all other parties.

Section 3. Settlement Procedures.

Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Owner or Potential Owner of:

- (i) the Auction Rate fixed for the next ARS Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker Dealer (a “Seller’s Broker Dealer”) submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be sold by such Existing Owner;
- (iv) if such Broker Dealer (a “Buyer’s Broker Dealer”) submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARS to be sold by all Existing Owners on whose behalf such Broker Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of ARS to be purchased by all Potential Owners on whose behalf such Broker Dealer submitted a Bid, the name or names of one or more Buyer's Broker Dealers (and the name of the Participant, if any, of each such Buyer's Broker Dealer) acting for one or more purchasers of such excess principal amount of ARS and the principal amount of ARS to be purchased from one or more Existing Owners on whose behalf such Broker Dealer acted by one or more Potential Owners on whose behalf each of such Buyer's Broker Dealers acted;

(vi) if the principal amount of ARS to be purchased by all Potential Owners on whose behalf such Broker Dealer submitted a Bid exceeds the aggregate principal amount of ARS to be sold by all Existing Owners on whose behalf such Broker Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker Dealers (and the name of the Participant, if any, of each such Seller's Broker Dealer) acting for one or more sellers of such excess principal amount of ARS and the principal amount of ARS to be sold to one or more Potential Owners on whose behalf such Broker Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(g) On each Auction Date, each Broker Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker Dealer that is a Buyer's Broker Dealer, advise each Potential Owner on whose behalf such Broker Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Participant to pay to such Broker Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of ARS to be purchased pursuant to such Bid against receipt of such ARS;

(iii) in the case of a Broker Dealer that is a Seller's Broker Dealer, instruct each Existing Owner on whose behalf such Broker Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker Dealer (or its Participant) through the Securities Depository the principal amount of ARS to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker Dealer submitted an Order and each Potential Owner on whose behalf such Broker Dealer submitted a Bid of the Auction Rate for the next ARS Interest Period;

(v) advise each Existing Owner on whose behalf such Broker Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(h) On the basis of the information provided to it pursuant to Section 3(a), each Broker Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to Section 3(b)(ii), and any ARS received by it in connection with such Auction pursuant to Section 3(b)(iii) among the Potential Owners, if any, on whose behalf such Broker Dealer Submitted Bids, the Existing Owners, if any on whose behalf such Broker Dealer Submitted Bids or Sell Orders in such Auction, and any Broker Dealers identified to it by the Auction Agent following such Auction pursuant to Section 3(a)(v) or 3(a)(vi).

(i) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in Section 3(b)(ii) or 3(b)(iii), as the case may be;

(ii) each Seller's Broker Dealer that is not a Participant of the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering ARS to such Broker Dealer following such Auction pursuant to Section 3(b)(iii) the amount necessary to purchase such ARS against receipt of such ARS, and (B) deliver such ARS through the Securities Depository to a Buyer's Broker Dealer (or its Participant) identified to such Seller's Broker Dealer pursuant to Section 3(a)(v) against payment therefor; and

(iii) each Buyer's Broker Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to Seller's Broker Dealer (or its Participant) identified following such Auction pursuant to Section 3(a)(vi) the amount necessary to purchase the ARS to be purchased pursuant to Section 3(b)(ii) against receipt of such ARS, and (B) deliver such ARS through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(j) On the Business Day following each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in Section 3(d)(i) shall instruct the Securities Depository to execute the transactions described under Section 3(b)(ii) or 3(b)(iii) for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 3(d)(ii) for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 3(d)(iii) for such Auction, and the Securities Depository shall execute such transactions.

(k) If an Existing Owner selling ARS in an Auction fails to deliver such ARS (by authorized book entry), a Broker Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARS that is less than the principal amount of ARS that otherwise was to be purchased by such Potential Owner. In such event, the principal amount of ARS to be so delivered shall be determined solely by such Broker Dealer. Delivery of such lesser principal amount of ARS shall constitute good delivery. Notwithstanding the foregoing terms of this subsection, any delivery or nondelivery of ARS which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker Dealer Agreements.

APPENDIX E

BOOK-ENTRY SYSTEM

The information set forth in this Appendix has been obtained from sources that the Authority, the University and the Underwriter believe to be reliable, but the Authority, the University and the Underwriter take no responsibility for the accuracy or completeness thereof.

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (“NSCC,” “FICC,” and “EMCC,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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”). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information contained on such websites is not incorporated by reference herein.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration

in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Principal and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. 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, the Authority or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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APPENDIX F

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Hawkins Delafield & Wood, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

August 1, 2006

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

Ladies and Gentlemen:

We have acted as Bond Counsel to ABAG Finance Authority For Nonprofit Corporations (the "Issuer") in connection with the issuance of \$35,700,000 aggregate principal amount Variable Rate Refunding Revenue Bonds (Point Loma Nazarene University) Series 2006 (the "Bonds"). The Issuer is a joint exercise of powers authority duly organized and existing under the Constitution of the State of California and the provisions of Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the Government Code of the State of California (the "Act"). The Bonds are authorized to be issued pursuant to the Act, an Indenture, dated as of July 1, 2006 (the "Indenture"), by and between the Issuer and U.S. Bank National Association, as trustee (the "Trustee") and a Resolution adopted by the Issuer on June 28, 2006 with respect to the Bonds (the "Resolution"). The Indenture provides that the Bonds are being issued for the purpose of making a loan of the proceeds thereof to Point Loma Nazarene University (the "Corporation") pursuant to a Loan Agreement, dated as of July 1, 2006 (the "Loan Agreement"), between the Issuer and the Corporation.

The Bonds are dated, mature on the dates, in the principal amounts, bear interest, are payable and are subject to purchase and redemption prior to maturity in whole or in part, all as provided in the Indenture.

In rendering our opinion, we have reviewed a record of proceedings of the Issuer relating to the issuance of the Bonds and such other documents, certificates, opinions and matters as we have considered appropriate to render the opinions set forth herein.

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

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 legally binding limited obligations of the Issuer.
2. The Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Trustee, constitutes the valid and binding obligation of the Issuer. The Indenture creates an irrevocable pledge of the Revenues to secure the punctual payment of the principal of, premium, if any, 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 authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Corporation, 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. No Owner of the Bonds shall have the right to compel the exercise the taxing power of the State of California or of any political subdivision thereof to pay any principal of and the interest on the Bonds. Neither the Issuer nor the Association of Bay Area Governments has any taxing power.
5. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of 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 this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Corporation and others in connection with the Bonds, and we have assumed compliance by the Issuer and the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

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

On the date of delivery of the Bonds, the Issuer and the Corporation will execute the Tax Agreement containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Agreement, the Issuer and the Corporation covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for the purpose of Federal income taxation, be

excluded from gross income. In rendering the opinion in paragraph 5 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Corporation with the procedures and covenants set forth in the Tax Agreement as to such tax matters.

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

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We are rendering our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on 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, or under state or local law.

In rendering this opinion, we are advising you that the enforceability of the Bonds and the Indenture, the Loan Agreement and the Tax Agreement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding at equity or at law). 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. We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

Very truly yours,

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is entered into as of July 1, 2006, by and between Point Loma Nazarene University (the "Corporation") for the benefit of the Owners and Beneficial Owners of the Bonds (as hereinafter defined) and U.S. Bank National Association (the "Dissemination Agent") in connection with the issuance of \$35,700,000 aggregate principal amount of ABAG Finance Authority For Nonprofit Corporations Variable Rate Refunding Revenue Bonds (Point Loma Nazarene University) Series 2006 (the "Bonds").

WITNESSETH:

WHEREAS, the ABAG Finance Authority For Nonprofit Corporations (the "Issuer") will issue and sell the Bonds;

WHEREAS, pursuant to an Indenture of Trust, dated as of July 1, 2006 (the "Indenture"), by and between the Issuer and U.S. Bank National Association, as trustee, the Issuer has provided for the issuance of the Bonds; and

WHEREAS, the Securities and Exchange Commission (the "SEC") has adopted Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "1934 Act");

NOW THEREFORE, the Corporation covenants and agrees for the benefit of the Owners and Beneficial Owners of the Bonds as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Business Day" shall mean a day which is not a Saturday, a Sunday or a legal holiday on which banking institutions in the State of California are closed.

"Disclosure Representative" shall mean the Chief Financial Officer of the Corporation or his or her designee, or such other officer or employee as the Corporation shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the Corporation.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Corporation and certified to the Trustee in writing by an authorized representative of the Corporation.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds dated July 25, 2006.

"Owner" or "Bond Owner," whenever used herein with respect to a Bond, shall mean the Person in whose name the ownership of such Bond is registered on the bond register maintained pursuant to the Indenture.

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

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

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the 1934 Act, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository.

"Trustee" shall mean Wells Fargo Bank, National Association, or any successor trustee under the Indenture.

SECTION 2. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation for the benefit of the Owners and the Beneficial Owners, and in order to assist the Underwriters in complying with Rule 15c2-12.

SECTION 3. Provision of Annual Reports. (a) The Corporation shall, or shall cause the Dissemination Agent to, not later than seven (7) months following the end of the fiscal year of the Corporation, commencing with the fiscal year of the Corporation ending June 30, 2006, provide to each Repository copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the fiscal years of the Corporation changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Corporation shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Corporation to determine if the Corporation is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall notify each

Repository or the Municipal Securities Rulemaking Board.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) file a report with the Corporation certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided; and

(iii) use its best efforts to file the Annual Report electronically to each Repository and the Municipal Securities Rulemaking Board.

SECTION 4. Content of Annual Reports. The combined Annual Report of the Corporation shall contain or include by reference the following:

(a) Combined audited Financial Statements of the Corporation prepared in accordance with generally accepted accounting principles for the fiscal year ended (the "Financial Statements"); provided, however, that in the event that such audited Financial Statements shall not be available, unaudited Financial Statements or updated projected operating results covering the previous fiscal year may be substituted therefor; provided, further, that audited Financial Statements shall be provided by the Corporation as soon as such Financial Statements become available.

(b) Information for the prior fiscal year which is contained in the following tables in Appendix A to the Official Statement:

(i) Financial Condition of the University

(ii) Tuition Rates

(iii) Room and Board Fees

(iv) Financial Aid Programs

(v) Enrollment and Degrees

(vi) Endowments and similar funds

(vii) Plant fund properties

(viii) Faculty Summary

(ix) Applicant pool

SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to the Bonds shall be a Listed Event:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls (other than mandatory scheduled redemptions, not otherwise contingent upon the occurrence of an event, including but not limited to, sinking fund payments);
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities; or
- (xi) rating changes.

(b) The Dissemination Agent shall, promptly upon obtaining actual knowledge at his or her address listed in Section 12 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Corporation shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Corporation has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Corporation shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Corporation determines that the Listed Event would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing,

notice of the occurrence of a Listed Event described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice, if any, of the underlying event is given to Owners of affected Bonds pursuant to the Indenture and notice of any other Listed Event is required only following the actual occurrence of the Listed Event.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the Corporation's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

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

SECTION 7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a successor Dissemination Agent to assist it in carrying out their obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent. Upon such discharge, however, a new Dissemination Agent must be appointed within 60 days. The Dissemination Agent may resign by providing 60 days written notice to the Corporation. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Corporation pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association.

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

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

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; or

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners of the Bonds, or (ii) does not, in the opinion of the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the

financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

SECTION 10. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Underwriters or the Owners of at least 25% of aggregate principal amount of the Bonds then Outstanding, shall but only to the extent indemnified to its satisfaction from any liability or expense, including fees of its attorneys), or any Owner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, the Loan Agreement (as defined in the Indenture) or any related document, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, or his or her employees and agents, harmless against any loss, expense and liabilities which he or she may incur arising out of or in the exercise or performance of his or her powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Corporation:

Point Loma Nazarene University
3900 Lomaland Drive
San Diego, California 92106
Attention: Vice President, Finance & Administrative Services
Telephone: (619) 849-2317
Facsimile: (619) 849-7078

To the Dissemination Agent:

U.S. Bank National Association
633 West 5th Street
24th Floor
Los Angeles, California, 90071
Attention: Corporate Trust Services
Telephone: (213) 533-8777
Facsimile: (213) 533-8765

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent. Notices to the Trustee shall be effective on the actual receipt thereof.

SECTION 13. Use of Central Post Office. The Corporation may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Dissemination Agent, the Underwriters, the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law. This Disclosure Agreement shall be governed by the laws of California determined without regard to the principles of conflict of law.

IN WITNESS WHEREOF, the Corporation and the Dissemination Agent each have caused this Disclosure Agreement to be executed and attested by its proper officer thereunto duly authorized, as of the day and year first above written.

POINT LOMA NAZARENE UNIVERSITY, as
Borrower

By: _____
Vice President for Finance

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent and as Trustee

By: _____
Authorized Officer

APPENDIX H

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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POINT LOMA

N A Z A R E N E

U N I V E R S I T Y