NEW ISSUE—BOOK ENTRY ONLY

Standard & Poor's "AAA"
(FGIC Insured)
(See "RATING" herein)

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

$22,545,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Insured Refunding Revenue Bonds
(Small Facilities Refinancing Program)
2005 Series A

Dated: April 1, 2005 **Due: April 1, as shown below**

The Bonds will constitute limited obligations of the California Health Facilities Financing Authority (the "Authority") secured under the provisions of the Indenture and seven Loan Agreements described herein, and will be payable from payments made by seven Corporations (as defined and described herein) under the Loan Agreements and certain funds held under the Indenture. The obligations of each Corporation under its Loan Agreement are separate and distinct, and no Corporation has any responsibility for the obligations of any other.

The Bonds are not secured by the property of the Authority other than the pledge of Revenues as and to the extent specified in the Indenture. No form of taxation has been pledged or levied to provide for payment with respect to the Bonds. The Authority will assign to the Trustee its interests under the Loan Agreements and will grant to the Trustee a lien on and pledge of Revenues and monies and investments held in the funds and accounts created under the Indenture.

The Bonds, pursuant to Article XVI, Section 4, of the California Health and Safety Code, will be insured by the Office of Statewide Health Planning and Development of the State of California (the "Office") and all debentures issued in payment of any claims under such insurance will be fully and unconditionally guaranteed by the State of California, all as more fully described herein. See "SECURITY FOR THE BONDS".

The Bonds are issuable in the form of fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases will be made in book-entry form only through DTC participants in the principal amount of $5,000 or any integral multiple thereof. Except as herein described, purchasers will not receive certificates representing their beneficial interest in the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, payment of principal of, premium (if any) and interest on the Bonds will be made directly to DTC or its nominee by U.S. Bank Trust National Association, Seattle, Washington, as Trustee. Disbursements of such payments to DTC participants are the responsibility of DTC, and disbursements of such payments to beneficial owners are the responsibility of DTC participants. See "THE BONDS - Book-Entry System" herein. Interest on the Bonds is payable semi-annually on each April 1 and October 1, commencing October 1, 2005. The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are subject to redemption prior to maturity, as described herein. See "THE BONDS — Redemption."

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENTS AND THE INDENTURE AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, WITH RESPECT TO OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (See "MUNICIPAL BOND INSURANCE" herein and "APPENDIX F — Specimen of Insurance Policy").

FGIC Financial Guaranty Insurance Company

Maturity Schedule

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP†	Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2006	$ 570,000	3.00%	2.55%	13033FUZ1	2011	1,220,000	3.60%	3.40%	13033FVE7
2007	1,065,000	3.00	2.70	13033FVA5	2012	1,255,000	3.60	3.60	13033FVF4
2008	1,105,000	3.00	2.90	13033FVB3	2013	1,315,000	3.70	3.80	13033FVG2
2009	1,145,000	3.50	3.10	13033FVC1	2014	1,370,000	3.80	3.90	13033FVH0
2010	1,180,000	3.50	3.20	13033FVD9	2015	1,405,000	3.875	4.05	13033FVJ6

$10,915,000 5.00% Term Bonds due April 1, 2025; Yield: 4.52%; CUSIP† 13033FVU1

The Bonds are offered when, as and if issued and received by the Underwriter, subject to an approving legal opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by the Attorney General of the State of California and by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, on or about April 12, 2005.

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

HONORABLE PHILIP ANGELIDES
Treasurer of the State of California

ALTURA, NELSON & CO.
Incorporated

Dated: March 16, 2005

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

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

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Corporations since the date hereof. All summaries of the documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

$22,545,000
California Health Facilities Financing Authority
Insured Refunding Revenue Bonds
(Small Facilities Refinancing Program)
2005 Series A

INTRODUCTORY STATEMENT

This Official Statement is furnished in connection with the offering of $22,545,000 aggregate principal amount of Insured Refunding Revenue Bonds (Small Facilities Refinancing Program), 2005 Series A (the **"Bonds"**) of the California Health Facilities Financing Authority (the **"Authority"**).

The Bonds will be issued under the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the California Government Code (the **"Act"**), and an Indenture, dated as of April 1, 2005 (the **"Indenture"**), by and between the Authority and U.S. Bank National Association, Seattle, Washington, as trustee (the **"Trustee"**). The proceeds of the sale of the Bonds will be loaned to each Corporation (described herein) pursuant to seven separate Loan Agreements, each dated as of April 1, 2005, between the Authority and each Corporation (each, a **"Loan Agreement"**). The Loan Agreements are substantially the same, and are referred to herein as the "Loan Agreements." Pursuant to the Loan Agreements, the Corporations will be required to make payments to the Authority, sufficient in the aggregate, to pay all principal of, interest and premium, if any, on the Bonds. The obligations of each Corporation under each Loan Agreement are separate and distinct and no Corporation has any responsibility for the obligations of any other.

The Corporations were each a recipient of loan (collectively, the "**Prior Loans**") made by the Authority (and, as to one Corporation, by the Local Medical Facilities Financing Authority), which loan proceeds were generated from the proceeds of revenue bonds issued by the Authority. See "THE REFUNDINGS." Proceeds of the loan made to each Corporation under each respective Loan Agreement will be used primarily to refund such Corporation's respective Prior Loan. The Corporations are listed below. For a description of each Corporation, see "THE CORPORATIONS" and "APPENDIX A – INFORMATION CONCERNING THE CORPORATIONS".

The Corporations

Asian Community Center of Sacramento Valley	Sacramento
The California Autism Foundation, Inc.	Richmond
Clinicas del Camino Real, Inc.	Ventura
Community Medical Centers, Inc.	Stockton
Social Model Recovery Systems, Inc.	Covina
Southern California Alcohol & Drug Programs, Inc.	Downey
Verdugo Mental Health	Glendale

Bond proceeds will also be used to fund a Bond Reserve Account in an amount equal to the Bond Reserve Account Requirement, to pay certain insurance premiums applicable to the Bonds, to fund the certification and inspection fee of the Office (described herein), and to pay a portion of the costs of issuance of the Bonds. Separate Bond Reserve Account subaccounts will be established with respect to the obligations of each Corporation and each subaccount can only be used in connection with a deficiency in Revenues attributable to the respective Corporation to which the subaccount relates. See "SECURITY FOR THE BONDS – Bond Reserve Account" and "ESTIMATED SOURCES AND USES" herein.

In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the **"Insurance Law"**) the Authority, each Corporation and the Office of Statewide Planning and Development of the State of California (the **"Office"**) will enter into a separate contract of insurance, each dated as of April 1, 2005 (collectively, the **"Contracts of Insurance"**) pursuant to which the Office will insure the payment of principal of and interest on the Bonds. If monies are not available to pay principal of and interest on the Bonds, the Office will continue to make payments on the Bonds, or will instruct the Trustee to declare the principal of all Bonds then outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest; and upon the occurrence of certain events, notify the Treasurer of the State of California wherein the Treasurer will issue debentures to the holders of the Bonds, fully and unconditionally guaranteed by the State of California, in an amount equal to the principal of and the accrued interest on the Bonds. In connection with the Contracts of Insurance, each Corporation will enter into a Regulatory Agreement dated as of April 1, 2005 (each, a **"Regulatory Agreement"**) with the Authority and the Office. For a more detailed description of the obligation of the Office to insure the payment of the principal of and interest on the Bonds, including the circumstances under which the insurance may be canceled and the procedures with respect to an insurance default, and the obligations of the Authority and the Corporations pursuant to their respective Regulatory Agreement, see "SECURITY FOR THE BONDS – California Health Facility Construction Loan Insurance Program" and APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Contracts of Insurance" and" – Regulatory Agreements".

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("**Financial Guaranty**", or the "**Insurer**") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the **"Policy"**). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority.

THE BONDS ARE THE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE BONDS ARE NOT A DEBT OF THE STATE OF CALIFORNIA, AND SAID STATE IS NOT LIABLE FOR THE PAYMENT THEREOF.

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture, the Loan Agreements and the Regulatory Agreements. See APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions."

THE AUTHORITY

General

The Authority is a public instrumentality of the State of California organized and existing under and by virtue of the Act. The intent of the California legislature, as stated in the Act, is to provide financing to health facilities and to pass along to the consuming public all or part of any savings realized by a participating health institution (as defined in the Act) as a result of tax-exempt financing.

Pursuant to the Act, the Authority is authorized to issue its revenue bonds for the purpose of financing (including reimbursing expenditures made or refinancing indebtedness incurred for such purpose) the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of health facilities (as defined in the Act) operated by participating health institutions. The State Treasurer is authorized under the Act to sell such revenue bonds on behalf of the Authority.

Organization and Membership

The Act provides that the Authority shall consist of nine members, including the State Treasurer, who shall serve as Chairman, the State Controller, the Director of Finance and two members appointed by each of the Senate Rules Committee, the Speaker of the State Assembly and the Governor. Currently, two vacancies exists among the members of the Authority.

Members of the Authority serve without compensation but are entitled to reimbursement for necessary expenses incurred in the discharge of their duties. The Chairman of the Authority appoints the Executive Director.

The current members of the Authority are:

PHILIP ANGELIDES, *State Treasurer, Chairman and Ex Officio Member of the Authority*. Residence: Sacramento, California, Background: California State Treasurer Philip Angelides has made his mark in the civic life of California as an effective spokesperson on public issues and as a successful and innovative businessman. Mr. Angelides is a graduate of Harvard University and a Coro Foundation Fellow. He served for eight years in California government before entering the private sector in 1984. In 1986, Mr. Angelides formed his own investment and management business, which quickly earned a reputation for economic success and innovation. His company received national attention for its environmentally responsible community development and helped spark a national dialogue on better ways to plan and build cities. Mr. Angelides has been active in the civic life of his community and state for 25 years.

STEVE WESTLY, *State Controller and Ex Officio Member of the Authority*. Residence: Menlo Park, California. Background: Bachelor's degree and Master's degree from Stanford University. As State Controller, Mr. Westly, is a member of more than 50 boards and commissions including the Public Employees' Retirement Board, the State Teachers Retirement Board, the Franchise Tax Board. the Board of Equalization, the State Lands Commission and the major housing commissions of the state. Prior to being elected State Controller. Mr. Westly's career included business, education and government. In the private sector, he guided the online auction company of eBay through a period of rapid growth, including serving as a senior vice-president of marketing, business development mergers and acquisitions and international operations. Before becoming active in the internet sector, Mr. Westly served for five years on the faculty at Stanford University's Graduate School of Business, teaching public management. Mr. Westly has also worked on Capitol Hill and for the U.S. Department of Energy.

TOM CAMPBELL, *State Director of Finance and Ex Officio Member of the Authority*. Mr. Campbell was appointed by the Governor on December 1, 2004 as Director of Finance. Mr. Campbell serves as the Governor's chief fiscal advisor, and oversees the development and implementation of California's state budget. Prior to his appointment, he served since 2002 as Dean of the Haas School of Business at the University of California, Berkeley- a post from which he is on unpaid leave. He served as Professor of Law at Stanford University from 1987 to 2002, and as an Associate Professor of Law at Stanford from 1983 to 1987. Mr. Campbell has also represented the State's 12th congressional district as a member of the U.S. House of Representatives from 1989 to 1993, and the 15th congressional district from 1995 to 2001. He also represented the State's 11th senate district as a member of the California State Senate from 1993 to 1995. Mr. Campbell received his PhD in Economics from the University of Chicago in 1980, and his Juris Doctor degree from Harvard Law School in 1976, and both his Bachelor's and Master's degrees from the University of Chicago. He served as a law clerk to U.S. Supreme Court Justice Byron R. White from 1977 to 1978, and was selected as a White House Fellow from 1980 to 1981.

HARRY BISTRIN, *Member*. Term expires March 31, 2008. Residence: Ukiah, California. Background: Bachelor of Arts degree in Business Administration from University of California at Berkeley; currently field representative for State Senate District No. 1; member of the Board of Directors, Northern California American Israel Political Action Committee; former member of the Board of Directors, former President and former Chairman of the Finance Committee of General Hospital in Eureka.

JUDITH N. FRANK, *Member*. Term expired March 31, 2004. Ms. Frank will serve until reappointed or a successor is named. Residence: Santa Monica, California. Background: Masters degree in Finance from University of California at Los Angeles Anderson School of Management, Master of Science degree in City and Regional Planning from the University of Southern California., A.B. degree from the University of California at Berkeley and. a California Real Estate Broker's License. Ms. Frank is the owner of Asset Strategies, a financial and real estate service (firm and currently serves as a consulting appointee to the State's Real Estate Enhancement Branch. In addition, Ms. Frank currently serves on the Los Angeles County Health Facilities Authority. Ms. Frank previously served on the California Park and Recreation Commission from 1992 to 2000.

CHRISTOPHER W. HAMMOND, *Member.* Term expires March 31, 2007. Residence: Los Feliz, California. Background: Juris Doctorate from UCLA Law School, Bachelor of Arts in Government from Pomona College. As Chief Executive Officer of Capital Vision Equities, which he founded in 1991, Mr. Hammond has been involved either directly or as a consultant in the development of over 2,000 affordable housing units in San Diego, Fresno, Oakland, Sacramento and Los Angeles. In 2003, he completed directing the development of Chesterfield Square, the first major urban expansion project constructed in South Los Angeles in over a decade. In addition, Mr. Hammond currently serves as a commissioner on the Los Angeles Parks and Recreation Commission and an alternate member on the Coliseum Board.

THEODORE N. HARITON, M.D., *Member.* Term expired March 31, 2004. Dr. Hariton will serve until reappointed or a successor is named. Residence: Tarzana, California. Background: Bachelors of Arts degree from University of Michigan and a Doctor of Medicine from the University of Michigan Medical School. Dr. Hariton has been a practicing doctor of obstetrics and gynecology for 40 years. He is a Diplomat of the American Board of Obstetrics and Gynecology, and a Fellow of both the American College of Obstetrics and Gynecology, and the Los Angeles Obstetrics and Gynecology Society. Dr. Hariton formerly served on the Board of Councilors of the University of Southern California School of Pharmacy. He owns a private practice in the Encino/Tarzana area which he established in 1961.

SANDRA SIMPSON-FONTAINE, *Executive Director.* was appointed Executive Director of the Authority in August 2004. Most recently Ms. Simpson-Fontaine was chief of staff/acting undersecretary of the California Health and Human Services Agency. Ms, Simpson-Fontaine has a distinguished career in public service including more than 10 years as a staff member in the California Assembly and five years as the Policy and Legislative Affairs Director of a nationally renowned children's organization. She received her B.A. in political science and cultural studies from Mount Holyoke College. Ms. Simpson-Fontaine received her law degree from University of California, Boalt Hall School of Law.

Financial Advisors: PricewaterhouseCoopers LLP, Sacramento, California, serves as the financial advisor to the Authority. Public Financial Management, Inc., San Francisco, California, serves as the Authority's financial and pricing advisor.

Outstanding Indebtedness of the Authority

As of January 31, 2005, the Authority has issued obligations aggregating $16,186,262,017 in original principal amount and had outstanding obligations in the aggregate principal amount of $5,983,066,172.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal Amount of Bonds	$22,545,000.00
Plus: Original Issue Premium	434,983.95
Asian Community Equity Contribution	25,315.91
Asian Community – Available From Prior Bonds	365,546.71
California Autism Equity Contribution	32,600.59
California Autism – Available From Prior Bonds	583,965.78
Clinicas Equity Contribution	74,532.83
Clinicas Equity – Available From Prior Bonds	1,335,747.65
Community Medical Equity Contribution	19,202.82
Community Medical – Available From Prior Bonds	436,795.18
Social Model Equity Contribution	5,309.21
Social Model Equity – Available From Prior Bonds	82,729.12
SCADP Equity Contribution	11,263.05
SCADP Equity – Available From Prior Bonds	222,250.97
Verdugo Equity Contribution	7,209.82
Verdugo Equity – Available From Prior Bonds	84,875.33
Plus: Accrued Interest (11 Days)	29,137.28
Total Sources of Funds	$26,296,466.20
Uses of Funds:	
Deposit to Asian Community Account of the Escrow Fund	$ 2,041,453.06
Deposit to California Autism Account of the Escrow Fund	3,937,239.28
Deposit to Clinicas Account of the Escrow Fund	9,325,961.04
Deposit to Community Medical Account of the Escrow Fund	3,013,335.50
Deposit to Community Medical Account of the Project Fund	158,330.65
Deposit to Social Model Account of the Escrow Fund	886,274.87
Deposit to SCADP Account of the Escrow Fund	1,815,291.58
Deposit to Verdugo Account of the Escrow Fund	948,827.59
Deposit to Interest Account (1)	29,137.29
Deposit to Bond Reserve Account (2)	2,027,348.75
Deposit to Costs of Issuance Fund (3)	2,113,266.59
Total Uses of Funds	$26,296,466.20

(1) Represents accrued interest on the Bonds from April 1, 2005 to the closing date.

(2) Represents an amount equal to the Bond Reserve Account Requirement on the Bonds attributable to each respective Corporation.

(3) Includes legal costs, accounting costs, third-party consultant costs, printing costs, bond insurance premium, rating agency fees, Trustee fees, Authority fees, underwriting discount, Cal-Mortgage premium and fees, and other miscellaneous costs of issuance of the Bonds.

THE REFUNDINGS

The following series of bonds have previously been issued, portions of which were used to make the Prior Loans to the Corporations:

- $3,160,000 California Health Facilities Financing Authority Insured Revenue Bonds (Asian Community Center), 1992 Refunding Series D (the "**1992D Asian Community Bonds**"); and

- $4,700,000 California Health Facilities Financing Authority Insured Revenue Bonds (The California Autism Foundation, Inc.), 1995 Series A (the "**1995A California Autism Bonds**").

- $19,405,000 California Health Facilities Financing Authority Insured Health Facility Revenue Bonds (Small Facilities Pooled Loan Program), Series B (1994) (the "**STARTS Bonds**");

- $10,385,000 Local Medical Facilities Financing Authority Certificates of Participation (Insured California Health Clinic Projects) (the "**1990 Local Med COPs**");

- $7,225,000 California Health Facilities Financing Authority Insured Revenue Bonds (Clinicas del Camino Real, Inc.), 1995 Series A (the "**1995A Clinicas Bonds**");

- $5,735,0000 California Health Facilities Financing Authority Insured Revenue Bonds (Feedback Foundation, Inc., Olive Crest Treatment Centers and Southern California Alcohol & Drug Programs, Inc.), 1992 Series A (the "**1992A CHFFA Bonds**");

Asian Community Center of Sacramento Valley, Inc. ("**Asian Community**"). A portion of the Bonds will refund the 1992D Asian Community Bonds. The proceeds of the 1992D Asian Community Bonds loaned to Asian Community was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the health care facility owned and operated by Asian Community at 7801 Rush River Drive, Sacramento, California. Asian Community will use the proceeds of its Loan to refinance the above-mentioned loan.

The California Autism Foundation, Inc., ("**California Autism**"). A portion of the Bonds will refund the 1995A California Autism Bonds. The proceeds of the 1995A California Autism Bonds loaned to California Autism was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by California Autism: (a) 4075 Lakeside Drive, Richmond, California, (b) 982 Marlesta Road, Pinole, California, (c) 2632 Appaloosa Trail, Pinole, California, (d) 3595 Morningside Drive, El Sobrante, California, (e) 371 Devon Drive, San Rafael, California, and (f) 27 Carter Court, El Sobrante, California. California Autism will use the proceeds of its Loan to refinance the above-mentioned loan.

Clinicas del Camino Real, Inc. ("**Clinicas**"). A portion of the Bonds will refund (i) the portion of the STARTS Bonds relating to Clinicas, (ii) the portion of the 1990 Local Med COPs relating to Clinicas, and (iii) the 1995A Clinicas Bonds. A portion of the STARTS Bonds loaned to Clinicas, in the principal amount of $550,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Clinicas: (a) Clinica de la Communidad Oxnard, 650 Meta Street, Oxnard, California; and (b) Ojai Community Health Center, 1250 Maricopa Highway, Ojai, California. In addition, the portion of the proceeds of the 1990 Local Med COPs loaned to Clinicas, in the principal amount of $2,800,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Clinicas: (a) 650 Meta Street, Oxnard, California, (b) 1280 South Wells Road, Saticoy, California, and (c) 355 Central Avenue, Fillmore, California. The proceeds of the 1995A Clinicas Bonds in the principal amount of $7,225,000 was loaned to Clinicas used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the health care facilities owned and operated by Clinicas at 200 South Wells Road, Ventura, California. Clinicas will use the proceeds of its Loan to refinance the above-mentioned loans.

Community Medical Centers, Inc. ("**Community Medical**"). A portion of the Bonds will refund the portion of the STARTS Bonds relating to Community Medical. The portion of the STARTS Bonds loaned to Community Medical (under its prior name, Agricultural Workers' Health Centers, Inc.), in the principal amount of $3,050,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Community Medical: (a) San Joaquin Valley Health Center, Dental Clinic, 230 North California Street, Stockton, California; and (b) Channel Medical Center, 701 East Channel Street, Stockton, California and a parking lot for the facility. Community Medical will use the proceeds of its Loan to refinance the above-mentioned loan. In addition to the refunding component of Community Medical's use of its Loan proceeds, a portion of the Bonds will be loaned to Community Medical as new money for capital improvements to its facilities.

Social Model Recovery Systems, Inc. ("**Social Model**"). A portion of the Bonds will refund the portion of the STARTS Bonds relating to Social Model. The portion of the STARTS Bonds loaned to Social Model, in the principal amount of $935,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facility, owned and operated by Social Model: Touchstones Adolescent Alcohol and Drug Treatment Services, 525 North Parker Street, Orange, California. Social Model will use the proceeds of its Loan to refinance the above-mentioned loan.

Southern California Alcohol & Drug Programs, Inc. ("**SCADP**"). A portion of the Bonds will refund (i) the portion of the STARTS Bonds relating to SCADP, and (ii) the portion of the 1992A CHFFA Bonds loaned to SCADP. The portion of the STARTS Bonds loaned to SCADP in the principal amount of $775,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by SCADP: (a) Baby Step Inn, 1755 Freeman Avenue, Long Beach, California; and (b) Awakenings, 12322 Clearglenn Avenue, Whittier, California. In addition, the proceeds of the 1992A CHFFA Bonds loaned to SCADP in the principal amount of $1,315,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the health care facility owned and operated by SCADP at 2212 & 2218 N. Placentia Avenue, Costa Mesa, California. SCADP will use the proceeds of its Loan to refinance the above-mentioned loans.

Verdugo Mental Health ("**Verdugo**"). A portion of the Bonds will refund the portion of the STARTS Bonds relating to Verdugo. The portion of the STARTS Bonds loaned to Verdugo, in the principal amount of $1,000,000, was used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Verdugo: (a) Verdugo Mental Health, 1534-1552 East Colorado, Glendale, California; and (b) Administration Offices, 313 Lincoln Street, Glendale, California. Verdugo will use the proceeds of its Loan to refinance the above-mentioned loan.

Proceeds of the Bonds will also be used to fund the Bond Reserve Account in an amount equal to the Bond Reserve Account Requirement; pay certain insurance premiums applicable to the Bonds, fund the certification and inspection fee of the Office and to pay a portion of the costs of issuing the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" above.

Escrow Agreements. Pursuant to various Escrow Deposit and Trust Agreements, proceeds of the Bonds in an amount sufficient to pay all outstanding principal, interest and redemption premium due with respect to the applicable previously issued bonds being refunded will be deposited with respective escrow holders on the Closing Date and held in escrows until applied to the payment and redemption of the such prior bonds on their respective redemption dates.

Verification Report. Upon delivery of the Bonds, the sufficiency of the amounts deposited in each escrow for refunding of the applicable previously issued bonds being refunded relating to the: (i) adequacy of forecasted receipts of principal and interest on the Federal Securities and cash held pursuant to the various escrows; (ii) forecasted payments of principal and interest with respect to the applicable previously issued bonds being refunded on and prior to their projected maturity and/or redemption dates; and (iii) yields on the applicable previously issued bonds being refunded and on obligations and other securities to be deposited pursuant to the various Escrow Deposit and Trust Agreements upon delivery of the Bonds, will be verified by Grant Thornton LLP, independent certified public accountants. Such verification shall be based solely upon information and assumptions supplied by the Underwriter. Grant Thornton LLP has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

THE BONDS

General

The Bonds will be dated April 1, 2005, and will bear interest at the rates set forth on the cover page of this Official Statement, payable semi-annually on each October 1 and April 1, commencing October 1, 2005. Subject to the redemption provisions set forth below, the Bonds will be payable at the principal corporate trust office of the Trustee, in Seattle, Washington. Interest on the Bonds will be payable by check mailed by the Trustee on each interest payment date to the registered owners thereof as of the 15th day of the calendar month preceding the interest payment date (a **"Record Date"**) at the address shown on the registration books maintained by the Trustee. Upon written request of any owner of at least $1,000,000 aggregate principal amount of Bonds received by the Trustee before the Record Date, interest will be paid by wire transfer to an account within the United States. The Bonds are issuable only in fully registered form in denominations of $5,000 or any integral multiple thereof. So long as the book-entry system is in effect with respect to the Bonds, payments of the principal of and premium (if any) and interest on the Bonds will be made by the Trustee to The Depository Trust Company (**"DTC"**) or its nominee. See "Book-Entry System" below.

Redemption

Optional Redemption. The Bonds maturing on or prior to April 1, 2015 are not subject to redemption prior to their respective stated maturity. The Bonds maturing on April 1, 2025 are subject to redemption prior to their respective stated maturity, at the option of the Authority (which option shall be exercised as directed by a Corporation), in whole or in part by lot (in such maturities as are designated by a Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon forty-five (45) days prior written notice to the Trustee from the Corporation, from any source of available moneys, on or after April 1, 2015, at the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption without premium.

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

Mandatory Sinking Account Redemption. The Bonds maturing April 1, 2025 are also subject to mandatory redemption prior to their stated maturity in part by lot on each April 1 as shown below, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. The mandatory sinking account payments to be made are shown below.

Sinking Fund Redemption Date (April 1)	Principal Amount	Sinking Fund Redemption Date (April 1)	Principal Amount
2016	$1,215,000	2021	$1,340,000
2017	1,275,000	2022	1,325,000
2018	1,330,000	2023	550,000
2019	1,405,000	2024	485,000
2020	1,480,000	2025 (maturity)	510,000

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

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

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

So long as the book-entry system is in effect with respect to the Bonds, all notices of redemption will be mailed to DTC (or its nominee), as the holder of the Bonds. See "Book-Entry System" below.

Debt Service Requirements

The following table sets forth for the Bonds the amounts required to be paid for each year ended April 1 for the scheduled payments of principal and interest on the Bonds. For the corresponding portion of principal and interest payments to be made by each Corporation under the respective Loan Agreements, see the information for each Corporation contained in Appendix A.

Year Ending (April 1)	Principal Payments	Interest	Interest	Total Bonds Debt Service
2006	$ 570,000.00	$ 953,583.76	$ 953,583.76	$ 1,523,583.76
2007	1,065,000.00	936,483.76	936,483.76	2,001,483.76
2008	1,105,000.00	904,533.76	904,533.76	2,009,533.76
2009	1,145,000.00	871,383.76	871,383.76	2,016,383.76
2010	1,180,000.00	831,308.76	831,308.76	2,011,308.76
2011	1,220,000.00	790,008.76	790,008.76	2,010,008.76
2012	1,255,000.00	746,088.76	746,088.76	2,001,088.76
2013	1,315,000.00	700,908.76	700,908.76	2,015,908.76
2014	1,370,000.00	652,253.76	652,253.76	2,022,253.76
2015	1,405,000.00	600,193.76	600,193.76	2,005,193.76
2016	1,215,000.00	545,750.00	545,750.00	1,760,750.00
2017	1,275,000.00	485,000.00	485,000.00	1,760,000.00
2018	1,330,000.00	421,250.00	421,250.00	1,751,250.00
2019	1,405,000.00	354,750.00	354,750.00	1,759,750.00
2020	1,480,000.00	284,500.00	284,500.00	1,764,500.00
2021	1,340,000.00	210,500.00	210,500.00	1,550,500.00
2022	1,325,000.00	143,500.00	143,500.00	1,468,500.00
2023	550,000.00	77,250.00	77,250.00	627,250.00
2024	485,000.00	49,750.00	49,750.00	534,750.00
2025	510,000.00	25,500.00	25,500.00	535,500.00
Total	$22,545,000.00	$10,584,497.60	$10,584,497.60	$33,129,497.60

Book-Entry System

The Depository Trust Company, New York, New York ("DTC"), will serve as securities depository under a book-entry system for the Bonds with no physical distribution of Bonds made to the public. The ownership of one fully registered Bond in the aggregate principal amount of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. EXCEPT AS PROVIDED BELOW, SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OR HOLDERS, OWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC is a limited purpose company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect DTC Participants").

Beneficial ownership interests in the Bonds may be purchased by or through DTC Participants. The holders of these beneficial ownership interests are referred to herein as the "Beneficial Owners." Such DTC Participants and the persons for whom they acquire interests in the Bonds, as nominees, will not receive a Bond certificate, but each DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the Bonds, which will be confirmed in accordance with DTC's standard procedures. Beneficial Owners of Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, unless use of the book-entry system is discontinued, as described below.

Transfers of beneficial ownership interests in the Bonds which are registered in the name of Cede & Co., as nominee of DTC, will be accomplished by book entries made by DTC and in turn by the DTC Participants and Indirect DTC Participants who act on behalf of the Beneficial Owners of the Bonds. For every transfer and exchange of beneficial ownership in the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

For so long as the Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority, the Corporations and the Trustee will recognize only DTC or its nominee, Cede & Co., as the owner of the Bonds for all purposes, including receipt of all payments, notices (except as set forth in the Indenture), voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect DTC Participants and by DTC Participants and Indirect DTC Participants to Beneficial Owners of the Bonds will be governed by arrangements among DTC, DTC Participants, Indirect DTC Participants and Beneficial Owners, subject to any statutory and regulatory requirements as may be in effect from time to time.

Principal, sinking fund, redemption price and interest payments on the Bonds will be made by the Trustee to DTC or to its nominee, Cede & Co., as registered owner of the Bonds. Disbursement of such payments to the Beneficial Owners will be solely the responsibility of the DTC Participants and, when appropriate, Indirect DTC Participants. Upon receipt of moneys, DTC's current practice is to credit immediately the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect DTC Participants to Beneficial Owners will be governed by standing instructions of the Beneficial Owners and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name." Such payments will be the sole responsibility of such DTC Participant or Indirect DTC Participant and not of the Corporations, the Trustee or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

THE AUTHORITY, THE CORPORATIONS, THE UNDERWRITER, AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF PRINCIPAL OR REDEMPTION OR PURCHASE PRICE OF,

PREMIUM, IF ANY, OR INTEREST ON THE BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., AS NOMINEE FOR DTC AND AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

THE AUTHORITY, THE CORPORATIONS, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT DTC PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (I) THE BONDS; (II) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT; (III) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION OR PURCHASE PRICE OF AND PREMIUM, IF ANY, AND INTEREST ON THE BONDS; (IV) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC, ANY DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BENEFICIAL OWNERS; (V) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (VI) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS.

In the event of an insolvency of DTC, if DTC has insufficient securities in its custody (e.g., due to theft or loss) to satisfy the claims of its DTC Participants or Indirect DTC Participants with respect to deposited securities and is unable by application of (i) cash deposits and securities pledged to DTC to protect DTC against losses and liabilities, (ii) the proceeds of insurance maintained by DTC and/or its DTC Participants or Indirect DTC Participants or (iii) other resources, to obtain securities necessary to eliminate the insufficiency, no assurances can be given that DTC Participants or Indirect DTC Participants will be able to obtain all of their deposited securities.

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

SECURITY FOR THE BONDS

California Health Facility Construction Loan Insurance Program

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

The full amount of the principal of and interest, but no redemption premium, if any, on the Bonds is insured, under the Program and is backed by the full faith and credit of the State. Reference is made to the official statement relating to the general obligation bonds most recently issued by the State (at www.treasurer.ca.gov, under the heading "Bonds – Public Finance"), annual reports filed by the State with nationally recognized municipal securities information repositories and relating to the State's general obligation bonds for financial information relating to the general fund of the State and the biennial Actuarial and Asset Allocation Study for the Program, available upon request from the Office.

Insurance Law section 129050, subsection (a) requires that a loan must be secured by a first mortgage, first deed of trust, or first priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, each Corporation will grant a security interest in its Gross Revenues under its Loan Agreement and will enter into a first Deed of Trust. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Pledge Under the Indenture; Pledge of Gross Revenues" and "—Deed of Trust" herein and APPENDIX C -- "SUMMARY OF PRINCIPAL DOCUMENTS—Deed of Trust" hereto.

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

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

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

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

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

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

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

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

At the request of the Office, Milliman USA ("**Milliman**") completed a study in February of 2003 (the **"2002 Actuarial Study"**) to evaluate, among other matters, (l) the reserve sufficiency of the HFCLIF as of June 30, 2002; and (2) the risk to the State General Fund from the Program. In the 2002 Actuarial Study, Milliman concluded that the HFCLIF, as of June 30, 2002, which at that time had approximately $181 million, appeared to be sufficient, assuming "normal and expected" conditions, and that the HFCLIF should maintain a positive balance over a period of 15 years. Even assuming abnormal and unexpected events, Milliman found that HFCLIF reserves would protect against any General Fund losses for 11 years. As of January 31, 2005, the principal amount of loans insured under the Program was $1,275,979,113 and the cash balance of the HFCLIF was approximately $175,594,585. A copy of the 2002 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, 300 Capitol Mall, Suite 1500, Sacramento, CA 95814, Telephone: (916) 324-9957; email: cminsure@oshpd.ca.gov.

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

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

See "RATING" herein for a discussion of the rating the Bonds are expected to receive due to the insurance by the Office of the Bonds.

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

Bankruptcy. In the event of bankruptcy of a Corporation, the rights and remedies of the Holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If a Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation.

Security interests and other liens granted to a Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of a Trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

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

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

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

Rights of the Office Under the Regulatory Agreement. The Regulatory Agreement grants the Office extensive rights, including the right to attend and participate in all meetings of each Corporation's Boards of Directors. Additionally, the Regulatory Agreement prohibits the Corporation, without first obtaining the consent of the Office, from affiliating with, merging into, or consolidating with any individual, company, organization, partnership or other legal entity; transferring cash or cash equivalents to any entity, including but not limited to a subsidiary or an affiliate of the Corporation, without first satisfying certain financial covenants; selling, leasing, subleasing or otherwise disposing of all or portions of the real property subject to the Deed of Trust and, except in the ordinary course of business, buildings, improvements and tangible personal property located on such property; acquiring by gift, purchase, construction, merger or consolidation any property or equipment, except in the ordinary course of business; and entering into or terminating a contract to manage or operate all or substantially all of the Facilities with any individual, company, organization, partnership or other legal entity, including the Corporation's chief executive officers, chief financial officers and chief operations officers or all of those people who otherwise manage or operate all or substantially all of the Facilities, (the **"Management Agent"**).

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

Pledge Under the Indenture; Gross Revenues

Subject to and for the purposes and on the terms and conditions set forth in the Indenture, there are pledged to secure the payment of the principal of, and interest on, the Bonds, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund). Subject to the terms of the Loan Agreements, the Gross Revenues of the Corporations are pledged to the payment of the respective Loan Repayments and to secure the payments of the principal of, and interest on their respective portions of the Bonds and Parity Debt. **"Gross Revenues"** means, in general, all revenues, income, receipts and money received in any period by or on behalf of a Corporation related to its Facilities (other than donor-restricted gifts, grants, bequests, donations and contributions). See APPENDIX A – "INFORMATION CONCERNING THE CORPORATIONS, "and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Definitions." The pledge constitutes a lien on, and security interest in, such assets. The Authority assigns to the Trustee, for the benefit of the Bondholders of the Bonds, all of the right, title and interest of the Authority in the Loan Agreements, the Contracts of Insurance and Regulatory Agreements. The Trustee shall be entitled to and shall be required to take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority under the Loan Agreements, the Contracts of Insurance and the Regulatory Agreements.

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

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

Bond Reserve Account

The Bond Reserve Account is required to be established under the Indenture, and within the Bond Reserve Account, the Trustee shall establish and maintain seven separate subaccounts. The Bond Reserve Account shall be maintained in an amount equal to the Bond Reserve Account Requirement. An amount equal to the Maximum Annual Bond Service requirement on the Bonds will be deposited in the Bond Reserve Account on the date of delivery of the Bonds. The designations and initial amounts deposited in the Bond Reserve Account are as follows:

Corporation	Deposit to Respective Reserve Subaccount
Asian Community Reserve Subaccount	$ 255,852.50
California Autism Reserve Subaccount	349,220.00
Clinicas Reserve Subaccount	802,071.25
Community Medical Reserve Subaccount	274,761.25
Social Model Reserve Subaccount	84,750.00
SCADP Reserve Subaccount	167,868.75
Verdugo Reserve Subaccount	92,825.00
Total	$2,027,348.75

Subject to the condition that amounts in a particular subaccount in the Bond Reserve Account may be used only to supplement insufficient amounts received from the respective Corporation to which the subaccount relates, amounts in the Bond Reserve Account are available to be used and withdrawn by the Trustee for the purpose of making up any deficiency in the Interest Account or Principal Account (but, in each case, only with the consent of the Office) or (together with any other moneys available therefor) for the payment or redemption of all or a portion of Bonds then Outstanding. Each Loan Agreement requires the respective Corporation to make up any deficiencies, within one year, in the amount to be maintained in its respective subaccount.

"Bond Reserve Account Requirement" is defined in the Indenture to be, as of any date of calculation, an amount equal to the Maximum Annual Bond Service on all Bonds Outstanding as of such date or such larger amount as may be established as the Bond Reserve Account Requirement by any Supplemental Indenture. A portion of the Bond Reserve Account Requirement is funded from funds attributable to each respective Corporation.

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

Deeds of Trust

Each Corporation has executed its Deed of Trust pursuant to which the respective Corporation has granted to the trustee under its Deed of Trust for the benefit of the Office, holders of Parity Debt and the Trustee, a first lien on and security interest in its Facilities subject to Permitted Encumbrances and subject to the right of the respective Corporation (with the prior consent of the Office) to remove certain property from the lien on and security interest in the corresponding Deed of Trust, as security for the performance of the Corporation's obligations, pursuant to its Loan Agreement, its Regulatory Agreement, its Contract of Insurance and with respect such Parity Debt. For so long as the Office is obligated under the Contract of Insurance, all rights under the Deeds of Trust shall be exercised solely by the Office. With the consent of the Office, a Deed of Trust may be amended or terminated at any time without the necessity of obtaining the consent of the Trustee, the Authority or the holders of the Bonds or Parity Debt. ALTA title insurance policies on each of the Facilities in an aggregate amount not less than the principal amount of the Bonds will be delivered at the time of issuance of the Bonds. See APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Deeds of Trust with Fixture Filing and Security Agreement."

Rate Covenant

Under the Loan Agreements and the Regulatory Agreements, several of the Corporations are required to fix, charge and collect rates, fees and charges which are reasonably projected to be sufficient in each year to produce a minimum debt service coverage. For information relating to the rate covenant, See APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Loan Agreements - Rates and Charges; Debt Coverage" and " - Events of Default; Remedies Upon Default" and " - Regulatory Agreements - Rates and Charges; Debt Coverage" and - "Loan Default Events; Remedies on Default." The Bonds will continue to be insured by the Office in the manner described above even if an Event of Default were to occur.

Parity Debt and Other Indebtedness

For a description of the outstanding debt of each Corporation, see "APPENDIX A – INFORMATION ABOUT THE CORPORATIONS".

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

THE BONDS WILL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR OF ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, OR PREMIUM, IF ANY, WITH RESPECT TO, OR THE INTEREST ON THE BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, WITH RESPECT TO, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY, INDIRECTLY OR CONTIGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

MUNICIPAL BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. No representation is made by the Authority or the Underwriter as to the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX F for a specimen of the Insurer's policy.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (**"Financial Guaranty"**) will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the **"Policy"**). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to U.S. Bank National Association, or its successor as its agent (the **"Fiscal Agent"**), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, if any, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty shall only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts and on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Authority, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption, if any) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

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

The Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the nine months ended September 30, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$43.5 billion, \$42.4 billion and \$47.9 billion par value of securities, respectively (of which approximately 57%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$250.7 million, \$260.3 million and \$232.6 million, respectively. For the nine months ended September 30, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.1% of the risks it had written.

As of September 30, 2004, Financial Guaranty had net admitted assets of approximately \$3.015 billion, total liabilities of approximately \$1.877 billion, and total capital and policyholders' surplus of approximately \$1.138 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of September 30, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "MUNICIPAL BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are 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. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "MUNICIPAL BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

THE CORPORATIONS

Brief information on the Corporations is set forth below. For more information concerning the Corporations, their operations and management, see APPENDIX A –"INFORMATION CONCERNING THE CORPORATIONS" and APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATIONS."

Asian Community. The Asian Community Center of Sacramento Valley, a California nonprofit public benefit corporation owns and operates a 99-bed skilled nursing facility known as the Asian Community Nursing Home (the "ACNH") and a community center (the "ACC") located in Sacramento, California. The Center was incorporated in 1972 to develop and provide charitable services designed to promote the general welfare of persons of Asian ancestry. Its services are geared toward the needs of the elderly, immigrants and non-English speaking populations.

California Autism. The California Autism Foundation, Inc. was founded in 1982, and is a nonprofit public benefit corporation governed by a Board of Directors. California Autism Foundation 's primary purpose is to provide specialized program services for people with autism and other developmental disabilities, and to educate the public regarding developmental disabilities and the potential contribution of those with disabilities. California Autism Foundation provides residential and vocational services to achieve this goal.

Clinicas. Clinicas del Camino Real, Inc. is a California nonprofit corporation, incorporated in 1975. Clinicas operates seven (7) community clinics located in the cities of Ventura, Oxnard, Fillmore, Santa Paula and Ojai in the county of Ventura, California. Comprehensive primary care services are provided at all 7 health centers as well as Mental Health Services. The Ventura and two Oxnard facilities provide dental services and ophthalmology services are provided in the Ventura and Oxnard sites as well. Clinicas' mission is to provide services to all residents of the County of Ventura, without regard to patients' financial status or language spoken.

Community Medical. Community Medical Centers, Inc. provides health care and related services to low-income, rural and urban residents and a large number of migrant and seasonal farm workers in the Counties of San Joaquin, Yolo, Solano and Calaveras. Initially established in 1967 as migrant oriented health clinics operating out of mobile vans, the Center has grown to ten permanent sites (including one dental clinic) and now offers comprehensive, family oriented primary health care with a culturally diverse staff to all segments of the low to moderate income populations of the communities it serves. The Center's user base has grown from 2,000 in 1967 to more than 44,000 in 2004.

Social Model. Social Model Recovery Systems, Inc. is a nonprofit 501(c)(3) corporation, incorporated in June 1986. One of Social Model's programs is Touchstones ("Touchstones"), a residential treatment facility addressing the needs of adolescents with alcohol and other drug addictions. Touchstones, which opened in March 1992, provides residential and nonresidential phase recovery programs with emphasis on family recovery and support services, providing group and individual counseling, introduction to self-help groups such as Alcoholics Anonymous, and formal academic instruction. Social Model operates 9 other treatment and prevention programs in Southern California, and conducts peer consultation and training throughout the State of California for various drug and alcohol programs.

SCADP. Southern California Alcohol & Drug Programs, Inc. is a nonprofit public benefit corporation founded in 1972. SCADP was organized by community volunteers, including parents, members of the judicial system and recovering alcoholics/addicts, in an effort to create a local resource to prevent and treat substance addiction and related problems, including homelessness and mental illness. Although started as a grassroots effort, SCADP has grown to become one of Southern California's largest resources for nonprofit substance abuse recovery services, and currently serves over 4,000 homeless men, women and children each year and provides a static capacity of 500 residential slots/day. As its primary goal, SCADP seeks to provide shelter and treatment modalities for the needs of diverse, high-risk populations, including homeless families, women and their children, Latino families, Latinas and their children, Latino high-risk youth, the criminal justice population, deaf and hard of hearing persons, men and women and their children living with HIV/AIDS, and battered women and their children. SCADP's administrative offices are located in its corporate office in Downey, California.

Verdugo. Verdugo Mental Health was formed as a nonprofit corporation to provide outpatient psychiatric services for children and adults. The first clinic was located in the Glendale Memorial Hospital. In 1962, Verdugo was one of the first private agencies to establish a contract with the Los Angeles County Department of Mental Health, under the provision of the Short-Doyle Act. In 1973, an additional facility, the Burbank Child Guidance Clinic, opened to work specifically with child-related problems of the area's families. Verdugo was also awarded a contract to provide treatment to first time drug offenders pursuant to Senate Bill 714 of the California Legislature and leased facilities to house its expanding Day Treatment program, Arden House. In 1983, Verdugo developed programs for training, outreach, and youth employment. In 1985, a self-pay program was developed to provide low cost therapy to individuals who are not eligible to receive Short-Doyle services because of low clinical priority. In 1986, Verdugo opened its Positive Directions Center, as a drop-in center for persons in recovery and their families. Utilizing funds received through a Community Development Block Grant, Verdugo constructed the Glen Roberts Child Study Center to provide space for child treatment and research. In late 1993, Verdugo acquired property adjacent to the Glen Roberts Child Study Center at 1540 East Colorado Street in Glendale and relocated the adult outpatient program and administrative services to the new site during 1994.

For more detailed information concerning the history, governance, organization, facilities, operations, and financial performance of the Corporations, see APPENDIX A - "INFORMATION CONCERNING THE CORPORATIONS" and APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATIONS."

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all the information presented in this Official Statement to make an informed investment decision. Certain of these risks are described below. However, the following does not purport to be an exclusive listing of risks and other considerations that may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

General

Except as noted herein under "SECURITY FOR THE BONDS – Health Facility Construction Loan Insurance Program," the Bonds are payable solely from Revenues, which consist primarily of Loan Repayments to be made by the Corporations pursuant to the Loan Agreements. No representation or assurance can be made that revenues will be realized by the Corporations in amounts sufficient to make their Loan Repayments and thus to pay principal and interest payments on the Bonds. The Authority's obligation to make principal and interest payments is solely from Revenues provided by the Corporations under the Loan Agreements and from certain interest earnings available under the Indenture.

Payment of the principal and interest payments on the Bonds will be insured by the Office. The Authority has no control, financial or otherwise, over the Office. If a Corporation was to default in making its Loan Repayment under its respective Loan Agreement and the Office were to default on its insurance obligations under the Contracts of Insurance, there could be insufficient moneys available to pay the holders of the Bonds.

Each of the Corporations has few assets (if and when purchased and renovated with Bond proceeds) and certain equipment and personal property located at such facilities and at its other leased facilities in California. The Corporations will each be significantly dependent upon the successful operation of all of its facilities to meet its obligations with respect to the Bonds. Future economic and other conditions, including demand for health care services, the ability of a Corporation to provide the services required by clients, economic developments in the Corporations' service areas, technological developments, competition, methods of payments, rates, costs, third-party reimbursement, demographic changes, legislation, governmental regulations, malpractice claims and other litigation may adversely affect revenues, and consequently, payment of principal, premium, if any, and interest on the Bonds. There can be no assurance given that revenues of the Corporations and/or utilization of their facilities will not decrease.

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

Additional Debt

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

Dependence Upon Governmental Funding

A portion of the Corporations' services are provided to persons eligible for certain benefits that are funded under Federal, State, and various County health programs. A significant portion of some Corporation's revenues may be derived from the health programs under Medi-Cal, Medicare, CHDP and other programs which are funded through County, State and Federal resources. As a result, the success of each Corporation's operations is significantly dependent upon continued funding of these programs by various counties, the State, and Federal governments, and upon the continued existence of provider contracts for such programs with counties or other governmental entities.

The State of California from time to time has experienced deficits in its operations and the future of all health services programs that depend upon funding from the State is uncertain. It is also possible that such programs may be the subject of cost reduction and payment experimentation, including potential changes involving managed care. As the Corporations' ability to make Loan Repayments is significantly dependent upon the continued funding of their programs by the State, any reduction in funding for various health programs currently funded by the State could have a negative impact on the ability of the Corporations to meet their obligations on the Bonds.

The Corporations may receive a significant portion of their revenues from cost-based reimbursement and fee-for-service-based contracts with various departments of social services, in several California counties. The level of fiscal strength of County governments in California varies widely and from time to time counties experience significant reductions in funding, including funding for the provision of health services. Any reduction in funding from County social service departments may have a negative effect on the Corporations' ability to successfully negotiate provider contracts to gain such funding. The absence of such contracts may have a serious negative impact on the Corporations' operating and financial performance.

For a historical percentage breakdown of each Corporation's dependence upon various governmental funding sources see APPENDIX A – "INFORMATION CONCERNING THE CORPORATIONS."

Licensing, Surveys, Facility Inspections and Audits

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

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

Tax-Exempt Status of the Corporation

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

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

The IRS has recently reorganized its activities relating to tax exempt bonds with the stated aim of increasing the level of audit coverage. In addition, the Administration has unveiled several proposals designed to increase compliance with the tax laws by tax-exempt organizations including new rules for information reporting and an excise tax that would apply to excess benefits provided to officers and other insiders. Currently, the only penalty available to the IRS under the Code is the revocation of tax-exempt status. Although the United States Treasury has suggested to Congress that Congress adopt less onerous sanctions, Congress has not done so. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit healthcare Corporations, it could do so more frequently in the future. It is possible that loss of tax-exempt status by a Corporation could result in loss of tax exemption with respect to the Bonds and of other tax-exempt debt of the Corporation, and defaults in covenants with respect to the Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation and the value of the Bonds.

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

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

Conditional Use of Facilities

Each Corporation currently operates certain of its programs in facilities that may be subject to revocation of conditional use permits or zoning specifications. Loss of any number of its use permits, changes in local land use regulations, or future legislative changes affecting land use policy could cause significant detriment to a Corporation's ability to operate its programs.

Factors That Could Affect the Validity or Value of the Lien Against the Corporations' Revenues, and the Enforceability of the Loan Agreements

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

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

Bankruptcy

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

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

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

Affiliation, Merger, Acquisition and Divestiture

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

State Bond Insurance and State Fiscal Condition

The principal and interest payments on the Bonds are insured by the Office, which is an instrumentality of the State. The general fiscal condition of the State could adversely affect the payments of principal of and interest on any debentures that may be issued in connection with such insurance. For a full explanation of the obligations of the Office and the State with regard to such insurance, see the Insurance Law as set forth in California Health and Safety Code Sections 129000 et seq., as the same may be amended from time to time. There can be no assurance that monies in the HFCLIF will be adequate to cover the principal amount of insured loans and the interest thereon or that in the event the HFCLIF fails to make payments when due, there will be sufficient amounts for the State Treasurer to make appropriations from the State Treasury. See "SECURITY FOR THE BONDS – California Health Facility Construction

Loan Insurance Program" herein and APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Contracts of Insurance" and "– Regulatory Agreements."

State Budgets. The State of California is likely to continue to face significant budget issues for the foreseeable future. The State faces major challenges related to both a large shortfall in the 2005-06 budget and an ongoing structural imbalance between revenues and expenditures.

The Governor signed the 2004-05 State Budget on July 31, 2004. As part of the State Budget, the Governor and the Legislature also agreed to place a constitutional amendment on the November 2004 ballot (the "Proposition 1A"), and Proposition 1A was adopted by the State's voters. The 2004-05 State Budget imposes an ERAF shift equal to $1.3 billion in each of fiscal year 2004-05 and fiscal year 2005-06 on cities, counties, special districts and redevelopment agencies, but Proposition 1A prohibits (subject to certain limited "emergency" circumstances) any further transfers of non-education local government property taxes for the benefit of the State.

The Governor's proposed 2005-06 Budget addresses the 2005-06 shortfall primarily through program savings in K-12 education, social services, transportation and employee compensation. The plan also relies on about $1.7 billion of the remaining Proposition 57 deficit-bond proceeds, and contains various other funding shifts and borrowing. It assumes additional revenues from expanded tax auditing, but does not propose new tax increases. The Governor has also called the Legislature into special session to consider several structural budget reforms relating to the budget process, pensions, transportation funding, and Proposition 98 (K-12) funding.

Information about the State budget and State spending is available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, *www.dof.ca.gov*, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at *www.lao.ca.gov*. In addition, various State of California official statements for its various debt obligations, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. All of such websites are provided for general informational purposes only and the material on such sites is in no way incorporated into this Official Statement.

Over certain time periods, deterioration in the State's budget and cash situation, such as the current period, may cause the nationally recognized rating services to reduce the State's credit ratings. There can be no assurance that such ratings will continue at current levels for any given period of time or that such ratings will not in the future be revised or withdrawn. The rating of the Bonds is based upon the insurance provided by the Office. Any decline in the State's fiscal condition could adversely affect the rating on the Bonds or the ability of the Office to make payment in the event of a claim on the insurance. See "SECURITY FOR THE BONDS – California Health Facility Construction Loan Insurance Program" and "RATING" herein.

Environmental Laws and Regulations

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

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

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

Marketability of the Bonds

The Underwriter does not intend to make a secondary market for investments in the Bonds and there can be no assurance that there will be a secondary market for the Bonds. The absence of such a market for the Bonds could result in investors not being able to resell the Bonds should they need to or wish to do so.

Other Factors

Additional factors which may affect future operations, and therefore revenues, of the Corporations include, but are not limited to, the following:

(i) Shortages of physicians, nurses or other health care professionals;

(ii) A change in the Federal income tax or other Federal, State or local laws to require the Corporation to render substantially greater services without charge or at a reduced charge;

(iii) Employee strikes, other adverse labor actions or disputes with members of the professional staff;

(iv) Reinstatement or establishment of mandatory wage or price controls;

(v) Natural disasters, including floods and earthquakes, which could damage a Corporation's clinics or otherwise impair the operations of the Corporation and the generation of revenues from such Corporation's clinics; and,

(vi) Unfavorable trends in the national, State or local economy or political climate which in turn may adversely affect the health care programs funded by the Federal, State and local governments; unfavorable changes in current Federal and State legislation and local ordinances which currently mandate or provide for health programs; increased governmental regulations which could adversely affect a Corporation's ability to provide the level of services forecasted; demographic changes which may affect a Corporation's ability to deliver services to clients; governmental changes or reductions in rates and other methods of reimbursement of a Corporation for services delivered; loss of confidence in a Corporation's ability to deliver quality services by State or County officials, health care professionals and the public which would adversely affect the level of revenue forecasted; increased malpractice and other claims; competition by other for-profit or nonprofit entities which desire to contract with local government for the provision of health care services (see also APPENDIX A – "INFORMATION CONCERNING THE CORPORATIONS"); and unforeseen major repairs of the Corporation's properties or increases in insurance or other operating costs without the Corporation obtaining corresponding increases in revenues.

ABSENCE OF MATERIAL LITIGATION

The Corporations. There is no controversy or litigation of any nature now pending or, to the knowledge of their respective officers, threatened against any Corporation restraining or enjoining the execution, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of any Corporation taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of a Corporation relating to the execution or delivery of the Bonds.

The Authority. There is no controversy or litigation of any nature now pending or, to the knowledge of its respective officers, threatened against the Authority restraining or enjoining the execution, sale or delivery of the Bonds or contesting or affecting the validity of the Bonds, any proceedings of the Authority taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the execution or delivery of the Bonds.

TAX MATTERS

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

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Corporations comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for Federal income tax purposes. The Authority and the Corporations have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for Federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have Federal or State tax consequences other than as described above. Bond Counsel expresses no opinion regarding any Federal or State tax consequences arising with respect to the Bonds other than as expressly described above.

APPROVAL OF LEGALITY

Legal matters incident to the delivery of the Bonds are subject to the approving opinion of Quint & Thimmig, LLP, San Francisco, California, as Bond Counsel. Certain legal matters will be passed upon for the Authority by Jones Hall, A Professional Law Corporation, San Francisco, California as Disclosure Counsel. Certain legal matters will be passed upon for the Authority by the Attorney General of the State of California and for the Corporations by Gabriella Navarro-Busch, Esq., Ventura, California. Certain fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

RATING

Standard & Poor's Ratings Services has assigned its ratings of "AAA" to the Bonds, with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Insurer. Any explanation of the significance of such rating may be obtained only from Standard & Poor's Ratings Services. The Office and the Authority furnished to Standard & Poor's Ratings Services certain information and materials. Generally, rating agencies base their ratings on such information and materials, and, in addition, on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the rating mentioned above will remain in place for any given period of time or that it will not be lowered or withdrawn entirely by Standard & Poor's Ratings Services if in its judgment circumstances so warrant. The Authority, the Corporations and the Underwriter have undertaken no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such rating or to oppose any such proposed revision. Any such downward change in or withdrawal of the rating would have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Altura, Nelson & Co., Incorporated (the "Underwriter") at a purchase price of $22,777,078.95 (representing the aggregate principal amount of the Bonds, less an Underwriter's discount in the amount of $202,905.00, and plus an original issue premium of $434,983.95), plus accrued interest. The Bond Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreement of the Corporations to indemnify the Underwriter against certain liabilities to the extent permitted by law. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page to this Official Statement. The offering prices or yields may be changed from time to time without notice by the Underwriter.

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

FINANCIAL STATEMENTS

Certain audited financial statements of each Corporation are included in "APPENDIX B". Such financial statements are included herein in reliance upon the authority of the various auditors as experts in giving such reports. Investors should review these financial statements prior to purchasing 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. Each Corporation has undertaken all responsibilities for any continuing disclosure to Owners of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the **"Rule"**).

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

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY
7375 Park City Drive
Sacramento, CA 95831
Attention: Chief Executive Officer

CALIFORNIA AUTISM FOUNDATION, INC.
4075 Lakeside Drive
Richmond, CA 94806
Attention: Executive Director

CLINICAS DEL CAMINO REAL
200 South Wells Road, Suite 200
Ventura, CA 93004
Attention: Chief Executive Officer

COMMUNITY MEDICAL CENTERS
701 East Channel Street
Stockton, CA 95202
Attention: Chief Executive Officer

SOUTHERN CALIFORNIA ALCOHOL & DRUG PROGRAMS
11500 Paramount Boulevard
Downey, CA 90241
Attention: Chief Executive Officer

SOCIAL MODEL RECOVERY SYSTEMS
250 East Rowland Street
Covina, CA 91723
Attention: Chief Executive Officer

VERDUGO MENTAL HEALTH
1540 East Colorado Boulevard
Glendale, CA 91205
Attention: Chief Executive Officer

The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). Each Corporation has had no instance in the previous five years in which it failed to comply in all material respects with any previous continuing disclosure obligation under the Rule.

MISCELLANEOUS

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

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

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

By: /s/ Sandra Simpson-Fontaine
Executive Director

APPENDIX A

INFORMATION CONCERNING THE CORPORATIONS

The information contained herein as Appendix A has been obtained from the Corporations. Neither the Underwriter nor the Authority makes any representation as to the accuracy of this information.

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ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY

History

The Asian Community Center of Sacramento Valley, a California nonprofit public benefit corporation (the "Center"), owns and operates a 99-bed skilled nursing facility known as the Asian Community Nursing Home (the "ACNH") and a community center (the "ACC") located in Sacramento, California. The Center was incorporated in 1972 to develop and provide charitable services designed to promote the general welfare of persons of Asian ancestry. Its services are geared toward the needs of the elderly, immigrants and non-English speaking populations. Notwithstanding its primary mission, the Center complies fully with the provisions of applicable federal, State of California and local laws prohibiting discrimination on the basis of race, color, creed, sex, religion, national origin, disability, marital status, age, physical handicap, medical condition or ancestry.

Description of the Facilities and Services Provided

The Center's ACNH began providing services in 1987 and consists of approximately 40,000 square feet of space. The facility provides 24 hour care to its residents and the following services: physician ordered medication administration, personal care, physical and occupational therapy and speech pathology. Clinical laboratory and radiology services are provided to residents on a contract basis. Residents are admitted only upon order of a physician. The services provided by ACNH are designed to meet the health needs of the Asian population, and are available to the general public.

The ACC administrative office is located at 7375 Park City Drive, Sacramento, CA 95831, where it also operates a range of community services for older adults living in the community. Services include ACC Rides Transportation Services, ACC Drop-In Respite Services, and over 25 classes that are part of its Lifelong Learning and Wellness Programs.

The Deed of Trust executed in connection with the 1992 Refunding Series D Bonds relates to the Center's ACNH facility in Sacramento, California.

Service Area

ACNH's primary service area as Sacramento County, California, which includes the cities of Sacramento, Rio Linda, North Highlands, Citrus Heights, Orangevale, Folsom, Fair Oaks, Carmichael, Rancho Cordova, Elk Grove, Galt, Isleton and the Delta from which the majority of residents are drawn.

Personnel and Employee Relations

As of January 2005, the Center employed approximately 121 individuals representing a total of approximately 96 full-time equivalent personnel. Of these employees approximately 92 percent are ACNH staff, 78 of whom belong to the nursing staff. The Center's employees are not currently associated with any unions and management is not aware of any union organizing activity. The Center considers its relations with its employees to be good.

License

The ACNH is licensed each year by the State of California Department of Health Services. The current license is due to expire on April 4, 2005.

Insurance

The Center carries professional liability insurance insuring that its employees, volunteers, officers, directors, trustees and committee members, while acting within the scope of their duties, against malpractice liability with limits of $3,000,000 per occurrence. Primary coverage is provided through Lloyd's Insurance / American Health Insurance Co., with excess coverage primarily underwritten by Lloyd's Insurance / American Health Insurance Co. The Center also currently carries property damage insurance (including business interruption insurance) through Evanston Insurance with a coverage limit of approximately $9,957,516.

Corporate Governance

The Center is currently governed by a 17-member Board of Directors (the "Board"). The bylaws of the Board authorizes a maximum of a 17-member Board. Approximately one-third of the directors are elected annually to serve three year terms for a maximum of two terms. Directors may be re-elected to additional terms after a one year absence. The current members of the Board of Directors of the Center, their occupations and the expiration of their respective terms are as follows:

Name	Occupation	Expiration of Term
Winston Ashizawa	Consultant	December 2007
Norman Fong	Pharmacist	December 2006
Bob Garrett	Certified Public Accountant	December 2005
Howard Harris	Retired	December 2006
Paula Higashi	Lawyer	December 2006
Lynn Kurahara	Administrator	December 2005
Frances Lee	Retired	December 2005
Franc Martinez	Electrical Engineer	December 2006
Don Morishita	Retired	December 2006
Rose Nagao	Retired	December 2007
Mary Philip	Manager	December 2006
Janet Sakata	Social Services	December 2005
Jerry Seid	Manager	December 2005
Janet Tedesco	Administrator	December 2006
Craig Wong	Retired	December 2006
Helen Yee	Consultant	December 2006
Walt Yip	Private Business	December 2007

Executive Management

The senior management team responsible for the daily operations of the ACNH are profiled below:

DONNA L. YEE, Executive Director, earned her Doctor of Philosophy degree from Brandeis University, Boston MA (1990), and brings 33 years of experience as a social worker, manager, health services researcher, policy advocate, and administrator to this position. She joined the staff in 2000.

DARREN L. TRISEL, Nursing Home Administrator, earned a Master of Administration/Health care from Central Michigan University (1991), and brings 17 years of experience as a lab technologist, and skilled nursing facility administrator. He joined the staff in 2001.

RANJIT K. SINGH, Director of Nursing, earned her Bachelor of Science in Nursing from Central Nursing College in Suva, Fiji Islands (1977) and obtained her Registered Nurse license in 1995. She joined the staff in 2000 as MDS Nurse Coordinator and has been the Director of Nursing since 2002.

WILLIAM F. FONG, M.D. Nursing Home Medical Director, earned his M.D. degree from the University of California, San Francisco (1948). He has been the Medical Director position since the ACNH opened in 1987.

Financial Information

The following summary statement of revenues and expenses for the three fiscal years ended December 31, 2001 through 2003 are derived from the audited financial statements of the Center. Unaudited figures are shown for 2004. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of the Center, included in Appendix B of the Official Statement.

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending December 31

	Audited 2001	Audited 2002	Audited 2003	Unaudited 2004
Revenue and Other Support:				
Patient care	$4,579,331	$4,766,655	$4,999,976	$5,359,784
Bingo	366,311	337,311	353,539	242,381
Grants	--	166,946	196,089	229,410
Program revenue	--	14,518	51,493	44,347
Rental	--	5,994	10,767	10,144
Contributions and other	257,758	298,996	363,352	389,146
Total Revenue and Other Support	5,203,400	5,590,420	5,975,216	6,275,212
Operating Expenses:				
Programs	4,664,003	4,889,265	5,286,028	5,101,955
Management, general and administrative	133,7997	135,166	81,406	261,721
Fund-raising	255,235	306,396	307,227	430,062
Total Expenses	5,053,035	5,330,827	5,674,661	5,793,738
Change in net assets from operations	150,365	259,593	300,555	481,474
Other Changes:				
Interest and dividends	94,906	46,891	38,255	56,818
Net realized and unrealized gain (loss) on investments	(119,227)	(110,286)	46,158	140,841
Investment fees	(9,479)	(11,087)	(7,671)	(20,234)
Total other changes	(33,800)	(74,482)	76,742	177,425
Change in Net Assets	116,565	185,111	377,297	304,049
Net Assets at beginning of year	4,560,391	4,676,956	4,862,067	5,239,364
Net Assets at end of year	$4,676,956	$4,862,067	$5,239,364	$5,543,413

Source: Asian Community Center.

Sources of Revenues

Payments to the Center on behalf of certain residents are paid by the federal government under the Medicare program, by the federal government and the State of California under the Medicaid program, known as Medi-Cal in California, by commercial insurance carriers, by self-paying residents and by contracted rate payors (including health maintenance organizations) ("Contracts"). See however, "BONDHOLDERS' RISKS" in the Official Statement for a discussion of factors which may affect revenues.

The following summarizes the Center's mix of revenues by payor source for the three fiscal years ended December 31.

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY
Revenues by Payor Source

Payor Source	Fiscal Years Ended December 31 2002	2003	2004
Medicare	$ 130,566.55	$ 145,724.00	$ 249,618.00
Medi-Cal	2,909,529.83	3,313,686.00	4,031,263.00
Private	1,770,301.59	1,823,305.31	1,583,713.00
Contracts	234,088.30	311,795.00	300,576.00
Total	$5,044,496.27	$5,594,510.31	$6,165,170.00

Source: Asian Community Center.

Other Indebtedness

After issuance of the Bonds to refund the 1992D Asian Community Bonds, the Center will have no other outstanding long term bonded indebtedness.

Historic Utilization of Facilities

Historical utilization data for the Center's ACNH is shown in the table below:

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY
Historic Utilization

Licensed Beds	Fiscal Years Ended December 31 2002	2003	2004
Bed Days Available	36,135	36,135	36,234
Bed Days Used	35,628	35,872	35,935
Occupancy Rate	99%	99%	99%

Source: Asian Community Center.

Litigation

There is no controversy or litigation of any nature now pending against the Center, or the knowledge of its officers threatened, restraining or enjoining the execution or delivery of its Loan Agreement, or the issuance, sale, execution and delivery of the Bonds, any proceedings of the Center taken concerning the execution, delivery, issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds or for the payment of its obligations under its Loan Agreement or the existence or powers of the Center relating to the execution and delivery of its Loan Agreement.

There is no litigation of any nature now pending against the Center, or the knowledge of its officers threatened, which, in the judgment of the Center management, would materially adversely affect the operations or financial condition of the Center.

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of the Center on its Loan, in connection with the Bonds:

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Center Loan Payment
2006	$ 125,000.00	$ 72,452.50	$ 197,452.50
2007	190,000.00	68,702.50	258,702.50
2008	195,000.00	63,002.50	258,002.50
2009	200,000.00	57,152.50	257,152.50
2010	205,000.00	50,152.50	255,152.50
2011	215,000.00	42,977.50	257,977.50
2012	220,000.00	35,237.50	255,237.50
2013	230,000.00	27,317.50	257,317.50
2014	240,000.00	18,807.50	258,807.50
2015	250,000.00	9,687.50	259,687.50
Total	$2,070,000.00	$445,490.00	$2,515,490.00

THE CALIFORNIA AUTISM FOUNDATION, INC.

General

The California Autism Foundation, Inc. ("CAF") was founded in 1982, and is a nonprofit public benefit corporation governed by a Board of Directors. CAF's primary purpose is to provide specialized program services for people with autism and other developmental disabilities, and to educate the public regarding developmental disabilities and the potential contribution of those with disabilities. CAF provides residential and vocational services to achieve this goal.

Existing Facilities and Services

Residential Services. CAF's first group home, A Better Chance ("ABC"), was opened in San Rafael in 1983 and housed six autistic teenagers. A clinical program was created which emphasized development of a resident's communication skills, maximum empowerment of residents to make their own choices, and a program of skill-building activities. In addition, behavior modification protocols were employed to address behavioral problems. The success of this program led to the creation of eight additional ABC group homes currently in operation (together, the "ABC Group Homes), three of which are specifically for children. The ABC Group Homes are all licensed by the State of California Department of Social Services. CAF currently provides residential services to 54 clients.

Residential care is the cornerstone of CAF. Currently 54 clients, age 10 to 60, live in nine ABC homes located in Marin, Contra Costa and San Francisco Counties.

Supported Living. Supported Living represents CAF's participation in the movement toward more mainstream living for people with developmental disabilities. Supported Living Services provide clients the opportunity to live in their own house or apartment and experience greater independence than is possible in a licensed home. In March 2001, CAF's Supported Living Services began with 10 consumers. Currently, over 20 consumers are served in three counties, Contra Costa, Alameda and Marin.

A Better Chance School. A Better Chance School serves students ages 6-22 from eight school districts, and specializes in helping students who have been unable to succeed elsewhere.

The school's functional skills curriculum includes basic math and language arts, vocational training, culinary classes, art classes, music classes, travel training and self help skills together with a modern behavioral intervention program. Some of the students participate in on-site counseling, as well as speech, language, art, music and movement therapy. Classes are organized according to age and skill levels. Each student has six to ten academic goals per year that are measured quarterly and staff develop a Functional Behavior Analysis/Intervention Plan for each student that focuses on fostering responsibility and skills training. Older students, age 14 and up, have an Individual Transition Plan that combines employment with educational objectives in preparation for their transition to an adult program at age 22. Matthew McAlear, Assistant Principal, says "Our job is to prepare our students for successful transitions into adult programs after graduation. Simultaneously, we prepare the community to live and work with our students. It is so rewarding to see what is possible for our students." Students from ABC School are working at Hooper's Chocolates, Wendy's, McDonald's, Jack in the Box, Pinole Paws, and Pinole Animal Shelter. They also work in landscaping and clean up for the Marin County Parks System.

Day Services. In 1988, CAF opened A Better Chance Day Program (the "ABC Day Program"), which provides vocational training opportunities for residents of CAF's ABC Group Homes and others in the community. The ABC Day Program is licensed by the State of California Department of Social Services. ABC Day Program clients work at landscaping, meals on wheels delivery, screen-printing, light packaging and assembly, and commercial cooking and cleaning.

In 1989, CAF opened ABC Supported Employment, a vocational training program funded by the Department of Rehabilitation. ABC Supported Employment offers employment coaching for high potential clients who are capable of learning to work at independent job sites. It is a program designed to assist disabled individuals with their employment needs in the community. Job coaches are teamed up with consumers and provide ongoing support for the duration of their jobs by assisting with transportation, providing one-on-one training, and assisting with social skills necessary to ensure a successful work experience.

In 2001, ABC Day Program expanded to include a Marin County site, and it currently serves over 100 consumers in Contra Costa and Marin Counties.

In April 1994, CAF acquired the assets and liabilities of Westcom Industries ("Westcom") from Rehabilitation Services of Northern California. Westcom was a sheltered workshop program, renamed "ABC Industries," and currently employs developmentally disabled individuals to manufacture and sell goods and services. ABC Industries offers job opportunities to clients who are more independent than CAF's ABC Day Program clients, but are not yet ready for independent employment. ABC Industries includes vocational assessment of client-employees, classroom instruction under contract with the West Contra Costa County Unified School System Office of Adult Education, work experience, and outplacement assistance. Clients working in ABC Industries perform assembly, repackaging, and re-labeling for food, beverage and software industries. Approximately one employee per quarter transfers from the workshop program to the ABC Supported Employment program. Generally, after one year in the ABC Supported Employment program, the employee is able to work independently in the private sector. The ABC Industries and ABC Supported Employment are not required to be licensed by any state agency but are funded by the Department of Rehabilitation and are required to be accredited by the Commission for the Accreditation of Rehabilitation Facilities, a national accreditation agency.

Supported Employment. ABC Supported Employment assists those who work offsite at various businesses such as Home Depot, Hooper's Chocolates, McDonalds, Chevy's Restaurant, and Ross Department Store. A CAF job coach provides complete job training and ongoing support to participants and acts as liaison between the employer and CAF employee.

Use of Prior Bond Proceeds

A portion of the Prior Bond proceeds were used to purchase and improve a 60,000 square-foot warehouse building that become the vocational training center for ABC Day Program and ABC Industries, as well as to house the offices of CAF. This increased space allowed ABC Industries to accept new business contracts and new clients, which were being turned away due to lack of capacity. The new location also allowed CAF to expand its classroom and office space for its other operations. ABC Day Program acquired larger offices and a new 4,000 square-foot training center, allowing it to expand its client base. CAF administration also received more office space and a conference room. A portion of the Prior

Bond proceeds were also used to refinance financing for the five ABC Group Homes owned by CAF.

Management

The management of CAF is comprised of the following:

John Clay, Executive Director. Mr. Clay, the founder of CAF, has served as Executive Director since 1983. Previously, he was a social worker and assistant director at Napa State Hospital for five years, and. a behavioral counselor and family therapist for Family Services of the North Bay for five years Mr. Clay received a B.A. in Politics from the University of Sussex and a M.S. in Psychiatric Social Work at Columbia University.

Margaret Schliessmann, Chief of Operations. Ms. Schliessmann joined CAF in 1994 as the Director of Residential Services. Previously, she was the Founder and Co-Director of Therapon Association for the Developmentally Disabled for 16 years. At CAF, Ms. Schliessmann directs, administers, and coordinates the activities of the CAF organization in support of policies, goals, and objectives established by the Chief Executive Officer and the Board of Directors. She oversees a $10 million annual budget and 250 staff. Ms. Schliessmann has a total of 26 years experience and a BA in Liberal Studies from the University of the Pacific, Raymond College.

Ludy Argouarch, ***Chief Financial Officer***. Ms. Argouarch joined CAF in 2000. Previously, she was a Financial Manager for ten years for Exodus, Inc. and Therapon Association, both non profit agencies providing services for developmentally disabled and autistic people. She was an Administrative Assistant for Therapon Association for three years. She worked for eight years for banking and financial institutions in the Philippines. Ms. Argouarch received a B.A. in Business Administration, Major in Accounting, from the University of East and a Certified Public Accountant status from the Philippines.

Board of Directors

CAF is governed by a Board of Directors. The Board of Directors is responsible for establishing policies and approving budgets, activities, programs and capital expenditures. The Board Members and their occupations are as follows.

Name	Position	Occupation
John Clay	Non-voting Member	Executive Director of CAF
Nate Garhart	President	Attorney
Rhonda Johnson	Vice President	Bank Manager
Martin Peters	Secretary	Business Owner
Debra Greenstein	Treasurer	Business Owner
Diane Nolan Miller	Member	Educator
Ralph McLeran	Member	Real Estate Broker
Fred Bowe	Member	CHP Retired
Darolyn Davis	Member	Business Owner
Ron Kilgore	Member	Service Provider
C. William Maxeiner	Member, Emeritus	

Insurance Coverage

CAF carries general liability insurance provided by USI of Southern California Insurance Services covering CAF and its employees while acting within the scope of their duties. The limits of liability are $1 million per occurrence and $2 million aggregate, plus a $2 million umbrella.

Employees

CAF currently has approximately 250 employees; approximately 25 of these employees work on a part-time basis. None of the employees are represented by a bargaining unit. Health and dental insurance is provided to all full-time employees.

Service Area

CAF's service area is determined by the Regional Center of the East Bay (as discussed below under "Sources of Revenues") and is based on factors such as transportation time, consumer choice, and case manager referrals. The service area includes Richmond, San Pablo, El Sobrante, El Cerrito, Hercules and Pinole, all areas of increasing population, business growth, employment, and housing. Transportation services in the area include Amtrak, Bay Area Rapid Transit and AC Transit (bus service).

Competition

Commercial Support Services, a program similar to the ABC Industries, is located in West Contra Costa County, approximately 8 miles from ABC Industries. Commercial Support Services has both a work activity and a supported employment component, with 90 people in the work activity program and 25 people in supported employment. They have been in operation for 30 years within the Richmond area. In addition, Community Integrated Work Program is a day program in Richmond. CAF's management expects these facilities to have a negligible effect on its revenues.

Sources of Revenues

CAF receives revenues primarily from four sources:

Regional Centers. The majority of CAF's revenues (approximately 81 percent) are received from Regional Centers. In order for the State to carry out its responsibilities under the Health and Welfare Services division of the State Department of Developmental Services, the State contracts with a network of nonprofit regional centers ("Regional Centers") to provide fixed points of contact in the community for persons with developmental disabilities. State general fund revenues are annually allocated for the operation of these Regional Centers. Currently, there are 21 Regional Centers in the State. Regional Centers provide initial intake and assessments, public information services, individual program plans, referrals, and other services. The Regional Centers may enter into service contracts with private nonprofit organizations that meet the requirements established by the Department of Developmental Services.

The ABC Group Homes and the ABC Day Program receive funding from the Regional Center of the East Bay, the Golden Gate Regional Center, and other Regional Centers, depending on the source of the referral. There is currently a waiting list for individuals interested in the ABC Day Program.

Social Security. The ABC Group Homes receive Supplemental Security Income ("SSI"), either from the Regional Centers or the representative payee, who is the person or entity designated to receive SSI funds on behalf of a client. The Regional Centers have historically reduced State payments by the amount of any SSI increase.

Rehabilitation. ABC Industries and Supported Employment receive funding from the State Department of Rehabilitation. Funds for ABC Industries are based on client census at ABC Industries. With the increased space available at the new location, management expects the client load to increase by approximately ten percent per year.

Other Income and Donations. Other income primarily includes revenues generated from the operations at Custom Assembly and Packaging. Normal donations are projected to grow at historic levels.

Financial Summary

The following summary statement of revenues and expenses for the three fiscal years ended December 31, 2001 through 2003 are derived from the audited financial statements of CAF. Unaudited figures are shown for 2004. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of the Center, included in Appendix B of the Official Statement.

THE CALIFORNIA AUTISM FOUNDATION, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending December 31

	Audited 2001	Audited 2002	Audited 2003	Unaudited 2004
Unrestricted Net Assets				
Revenues, gains and other support:				
Contributions	$ 86,399	$ 382,743	$ 1,360,032	$ 195,935
Program services	6,705,181	8,787,823	9,394,257	8,894,867
Production revenue	1,057,021	853,031	1,081,508	1,117,078
Interest income	30,412	12,745	8,873	80,195
Rental income	123,741	107,822	23,814	23,275
Other income	10,652	108,173	117,195	212,083
Total unrestricted revenue, gain, support	8,013,406	10,252,337	11,985,679	$10,523,433
Changes restricted net assets:				
Decrease to bond reserve funds, net	(22,871)	(8,732)	(14,744)	(71,653)
Decrease to funds held on behalf of clients, net	(4,318)	(2,630)	(14,599)	(3,504)
Total unrestricted revenue, gains and other support and reclassifications	7,986,217	10,240,975	11,956,336	10,448,276
Expenditures:				
Program services:				
Support services	5,521,629	7,143,481	7,626,058	7,395,577
Production expenses	782,455	762,030	801,001	1,010,729
Total program services	6,304,084	7,905,511	8,427,059	8,406,306
Supporting services				
Management and administrative	1,314,164	1,331,077	1,263,935	1,555,441
Fund raising	5,229	29,070	201,491	111,003
Total supporting services	1,319,393	1,360,147	1,465,426	1,666,444
Total Expenditures	7,713,477	9,265,658	9,892,485	10,072,750
Increase in unrestricted net assets	272,740	975,317	2,063,851	375,526
Temporarily Restricted Net Assets				
Increase in bond reserve funds, net	22,871	8,732	14,744	71,653
Decrease to funds held on behalf of clients, net	4,318	2,630	14,599	2,504
Increase in temporarily restricted net assets	27,189	11,362	29,343	75,157
Net Assets at Beginning of Year	1,796,516	2,096,445	3,083,124	5,176,318
Net Assets at End of Year	$2,096,445	$3,083,124	$5,176,318	$5,627,000

Other Indebtedness

After issuance of the Bonds to refund the 1995A California Autism Bonds, CAF will have no other outstanding long term bonded indebtedness.

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of CAF on its Loan, in connection with the Bonds:

THE CALIFORNIA AUTISM FOUNDATION, INC.
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Loan Payment
2006	$ 185,000.00	$ 164,907.50	$ 349,907.50
2007	190,000.00	159,357.50	349,357.50
2008	195,000.00	153,657.50	348,657.50
2009	205,000.00	147,807.50	352,807.50
2010	210,000.00	140,632.50	350,632.50
2011	215,000.00	133,282.50	348,282.50
2012	225,000.00	125,542.50	350,542.50
2013	235,000.00	117,442.50	352,442.50
2014	245,000.00	108,747.50	353,747.50
2015	250,000.00	99,437.50	349,437.50
2016	265,000.00	89,750.00	354,750.00
2017	275,000.00	76,500.00	351,500.00
2018	290,000.00	62,750.00	352,750.00
2019	305,000.00	48,250.00	353,250.00
2020	320,000.00	33,000.00	353,000.00
2021	340,000.00	17,000.00	357,000.00
Total	$3,950,000.00	$1,678,055.00	$5,628,065.00

CLINICAS DEL CAMINO REAL, INC.

History, Description of Facilities and Services

Clinicas del Camino Real, Inc. ("Clinicas"), formerly known as the Free Clinic of the Santa Clara River Valley, is a California nonprofit corporation, incorporated in 1975. Clinicas operates seven community clinics located in the cities of Ventura, Oxnard, Fillmore, Santa Paula and Ojai in the county of Ventura, California. Comprehensive primary care services are provided at all seven health centers as well as Mental Health Services. The Ventura and two Oxnard facilities provide dental services and Ophthalmology Services are provided in the Ventura and Oxnard sites as well. Clinicas' mission is to provide services to all residents of the County of Ventura, without regard to patients' financial status or language spoken.

Service Area Description

Management has identified Clinicas' primary service area as the County of Ventura. More than 90% of the patients Clinicas served in fiscal year ended June 30, 2004 reside in this primary service area.

Historical Utilization of Facilities

Historical client utilization data for the Clinicas' facilities is shown in the table below:

CLINICAS DEL CAMINO REAL, INC.
Client Utilization

	2000	2001	2002	2003	2004
Primary Care	63,351	63,354	68,594	75,329	81,720
Mental Health	12,964	12,185	11,421	12,370	14,608
Dental	10,436	13,018	14,708	17,069	21,120
Health Education	1,466	964	1,168	1,547	267
Nutrition	10	3	6	6	109
Outreach	10,110	12,225	13,405	13,550	15,608
Other Health (1)	4,175	4,109	5,017	8,175	8,528
Total	102,512	105,858	114,319	128,046	141,960

(1) Includes Optometry, Podiatry, Chiropractor and Acupuncture
Source: Clinicas del Camino Real, Inc.

Primary Service Area Competitors

While there are many primary care physicians in Clinicas' service area, Clinicas experiences very little direct competition. This lack of competition is due to the fact that most private practice physicians do not service Clinicas' target population: low income, monolingual (Hispanic) farm workers and Medi-Cal recipients.

For patients without insurance, Clinicas' facilities are the only ones in the County of Ventura area that offer a sliding fee scale. In addition, health care must be accessible linguistically as well as financially; Clinicas' bilingual, bicultural staff meets that need. Very few other health facilities have bilingual personnel in all staff levels, as Clinicas does. Clinicas' frequently overloaded patient schedules attest to the fact that Clinicas competes with few others for stated target population.

Summary Financial Information

The following summary statement of revenues and expenses for the four fiscal years ended June 30, 2001 through 2004 are derived from the audited financial statements of Clinicas. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of Clinicas, included in Appendix B of the Official Statement.

CLINICAS DEL CAMINO REAL, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending June 30

	2001	20002	20003	2004
Support and Revenues:				
Patient Services	$ 8,613,883	$10,752,165	$12,193,058	$13,537,552
Grants & contracts	2,638,746	2,936,524	4,176,168	4,284,238
Other Income	134,049	112,516	63,471	60,263
Gross Operating Revenue	11,386,678	13,801,205	16,432,697	17,882,053
Less Deductions:				
Contractual Allowances	1,000,391	1,540,210	2,007,180	2,214,620
Uncollectible Allowances	318,811	362,028	394,119	363,569
Total Deductions	1,319,202	1,902,238	2,401,299	2,578,189
Total Support & Revenues	10,067,476	11,898,967	14,031,398	15,303,864
Operating Expenses				
Salaries & Benefits	6,436,941	7,416,179	8,618,340	9,929,766
Supplies & Other	1,401,527	2,021,195	2,740,603	2,244,307
Contracted Services	528,061	408,270	602,794	792,170
Building Rent/Maintenance	199,927	215,373	239,909	221,449
Depreciation	629,242	554,545	716,785	828,813
Interest Expense	659,204	687,616	637,927	616,237
Total Expenses	9,854,902	11,303,178	13,556,358	14,632,742
Excess of Support and Revenue over operating expenses	212,574	595,789	475,040	671,122
Capital Acquisitions	683,365	333,116	1,054,675	1,663,769
Excess of Revenues over Expenses	$212,574	$595,789	$475,040	$671,122

The summary statement of revenues and expenses for the six-month period ended December 31, 2003 and 2004 are derived from the unaudited financial statements and includes all adjustments, consisting of normal recurring accruals, which management of Clinicas considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the six months ended December 31, 2004 shown in the subsequent table are not necessarily indicative of the operating results to be expected for the entire fiscal year ended June 30, 2005.

CLINICAS DEL CAMINO REAL, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Six Months Ending December 31

	Six Months 2003-04	Six Months 2004-05
Support and Revenues:		
Patient Services	$7,104,427	$7,613,911
Grants & contracts	2,020,990	2,265,730
Other Income	73,872	8,064
Gross Operating Revenue	9,199,289	9,887,705
Less Deductions:		
Contractual Allowances	1,289,010	1,339,396
Uncollectible Allowances	55,744	563,361
Total Deductions	1,344,754	1,902,757
Total Support & Revenues	7,854,535	7,984,948
Operating Expenses		
Salaries & Benefits	4,662,349	5,646,544
Supplies & Other	997,134	1,144,017
Contracted Services	373,163	396,812
Building Rent/Maintenance	229,637	231,368
Depreciation	404,920	426,534
Interest Expense	339,245	344,100
Total Expenses	$7,006,448	$8,189,375
Excess of Support and Revenue over operating expenses	$848,087	($204,427)
Capital Acquisitions	$442,019	$157,493

Source: Clinicas del Camino Real, Inc.

Capitalization

The following tables set forth the capitalization of Clinicas as June 30, 2004.

	June 30, 2004
Outstanding Long-Term Debt:	$ 9,113,668
Fund Balance Total:	3,754,848
Total Capitalization (total assets):	$12,868,516
Net Long-Term Debt as a percentage of Total Capitalization:	40.48%

Source: Clinicas del Camino Real, Inc.

Other Indebtedness

After issuance of the Bonds to refund the portion of the STARTS Bonds relating to Clinicas, the portion of the 1990 Local Med COPs relating to Clinicas, and the 1995A Clinicas Bonds (all as described in the Official Statement) Clinicas will have no other outstanding long term bonded indebtedness.

Sources of Revenues

A summary of revenue by source for fiscal years 2000 through 2004 is set forth in the following table:

CLINICAS DEL CAMINO REAL, INC.
Summary Statement of Revenues and Expenses
Historical Payor Class Mix

	2000	2001	2002	2003	2004
Patient Services	$7,107,553	$7,294,681	$8,849,927	$9,791,759	$10,959,363
Grants & Contracts	1,558,593	1,876,051	1,881,160	1,459,387	2,863,042
Other Income	98,747	134,049	112,516	63,471	60,263
	$8,764,893	$9,304,781	$10,843,603	$11,314,617	$13,882,668

Source: Clinicas del Camino Real, Inc.

License

The facilities of Clinicas are licensed as community clinics by the State of California, Department of Health Services.

Professional Staff

As of September 30, 2004, Clinicas professional staff consisted of approximately 15 full-time equivalent ("FTE") physicians, 8 FTE mid-level practitioners, 13 FTE psychologists, and 7 FTE dentists.

Employees

As of September 30, 2004, Clinicas employed a staff of approximately 266 individuals representing at total of approximately 215 FTE personnel. These numbers include the professional staff identified in the previous section. Clinicas' employees are not currently associated with any unions.

Clinicas enjoys a good working relationship with its employees. Approximately 16% have worked for Clinicas for over five years and approximately 10% have more than 10 years of service. These figures understate the loyalty of Clinicas' employees because Clinicas has experienced rapid growth in recent years, vastly increasing the denominator of the proportion. Management estimates that employee turnover in fiscal year ended June 30, 2004 was approximately 12%.

Governance

Clinicas is governed by its Board of Directors, which currently consists of nine members. Each director holds office for a period three years.

The Board of Directors appoints the Chief Executive Officer who is the direct representative of the Board of Directors in the management of Clinicas, and is responsible for the administration of all departments.

Litigation

There is no controversy or litigation of any nature now pending against Clinicas, or to the knowledge of its officers threatened, restraining or enjoining the execution or delivery of its Loan Agreement, or the issuance, sale, execution and delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of Clinicas taken concerning the execution, delivery, issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds or for the payment of its obligations under its Loan Agreement or the existence or powers of the Clinicas relating to the execution and delivery of its Loan Agreement.

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

Seismic Consideration

On January 17, 1994, an earthquake of an estimated magnitude of 6.8 on the Richter Scale struck the Los Angeles are causing significant damage to public and private structures and facilities in a four-county area including northern Los Angeles County, Ventura County, and parts of Orange and San Bernardino Counties, which were declared as State and Federal disaster areas on January 18. The earthquake totally destroyed Clinicas' Fillmore Clinic. However, services to patients have never stopped and the Fillmore Clinic began seeing patients out of modular units. The Fillmore Clinic resided in the modular units for four years. Clinicas has since built a new two-story, 12,131 square foot health center, which opened in 1998. This site offers medical, dental, and mental health services, along with an outreach and health education staff.

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of Clinicas on its Loan, in connection with the Bonds:

CLINICAS DEL CAMINO REAL, INC.
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Loan Payment
2006	$ 125,000.00	$ 411,047.50	$ 536,047.50
2007	385,000.00	407,297.50	792,297.50
2008	395,000.00	395,747.50	790,747.50
2009	415,000.00	383,897.50	798,897.50
2010	430,000.00	369,372.50	799,372.50
2011	435,000.00	354,322.50	789,322.50
2012	450,000.00	338,662.50	788,662.50
2013	470,000.00	322,462.50	792,462.50
2014	495,000.00	305,072.50	800,072.50
2015	510,000.00	286,262.50	796,262.50
2016	525,000.00	266,500.00	791,500.00
2017	560,000.00	240,250.00	800,250.00
2018	580,000.00	212,250.00	792,250.00
2019	610,000.00	183,250.00	793,250.00
2020	645,000.00	152,750.00	797,750.00
2021	465,000.00	120,500.00	585,500.00
2022	490,000.00	97,250.00	587,250.00
2023	460,000.00	72,750.00	532,750.00
2024	485,000.00	49,750.00	534,750.00
2025	510,000.00	25,500.00	535,500.00
Total	$9,440,000.00	$4,994,895.00	$14,434,895.00

COMMUNITY MEDICAL CENTERS, INC.

History, Description of Facilities and Services

Community Medical Centers, Inc. (the "Center"), formerly known as Agricultural Workers' Health Centers, provides health care and related services to low-income, rural and urban residents and a large number of migrant and seasonal farm workers in the Counties of San Joaquin, Yolo, Solano and Calaveras. Initially established in 1967 as migrant-oriented health clinics operating out of mobile vans, the Center has grown to ten permanent sites (including one dental clinic) and now offers comprehensive, family oriented primary health care with a culturally diverse staff to all segments of the low to moderate income populations of the communities it serves. The Center's user base has grown from 2,000 in 1967 to more than 44,000 in 2004.

The Center's ten clinic sites include: one in the County of Yolo (Esparto), two in the County of Solano (Dixon and Vacaville), one in the County of Calaveras (San Andreas) and six in the County of San Joaquin (Stockton, Tracy and Lodi). The proceeds of the Prior Bonds were used for the City of Stockton site known as the San Joaquin Valley Health Center which later became the Channel Medical Center.

The Channel Medical Center and all the other Center's sites are certified as Federal Qualified Health Centers ("FQHC"). This designation entitles the clinics to prospective payment reimbursement for costs related to services covered by Medi-Cal, including overhead and debt service costs allocated to those services up to a cap. This is an important advantage over standard fixed-rate, fee-for-service Medi-Cal reimbursement. Furthermore, FQHC designation allows continued prospective payment rate reimbursement under managed care systems, which otherwise precludes cost-based reimbursement.

The Centers have received funding from Section 330/329 Community Health Center program since 1978 and the Migrant Health Center program since 1967.

Service Area Description

Management has identified the Center's primary service area, as far as medical visits are concerned, as a four-county area that includes eastern Solano, Yolo, Calaveras, and San Joaquin. The primary service area for dental visits is the County of San Joaquin.

Utilization of Facilities

Historical client utilization data for the Center's facility is shown in the following table:

COMMUNITY MEDICAL CENTERS, INC.
Client Utilization

	2000	2001	2002	2003	2004
Total Medical Encounters with Physicians and mid-level practitioners	84,842	91,465	108,906	126,976	131,396*

* Projected
Source: Community Medical Centers, Inc.

Primary Service Area Competitors

Management has identified no primary service area competitors.

Summary Financial Information

The following summary statement of revenues and expenses for the four fiscal years ended June 30, 2001 through 2004 are derived from the audited financial statements of the Center. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of the Center, included in Appendix B of the Official Statement.

COMMUNITY MEDICAL CENTERS, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending June 30

	2001	2002	2003	2004
GRANT REVENUE:				
Health and Human Services Funds	$1,843,930	$2,537,638	$2,203,065	$2,804,621
Health and Human Services other	392,360	544,529	468,197	517,596
HIV Care San Joaquin/Solano County				61,552
Special Supplemental Food Program for Women and Children	529,257	547,813	666,001	681,776
Non Governmental grants and other	474,300	497,757	667,984	204,236
State and County Funds	1,134,626	1,725,041	1,536,159	1,420,840
Total Grant Revenue	4,374,733	5,852,778	5,541,406	5,690,621
PROGRAM REVENUE:				
Private patients	1,998,338	2,096,204	2,161,119	2,691,766
Private insurance	448,764	731,751	414,379	771,760
Child Health, Disability and Prevention	594,647	589,632	599,547	196,156
Medi-Cal and Medicare	4,179,470	6,419,588	6,503,241	8,714,659
Denti-Cal	143,714	137,686	134,569	228,696
Family Planning	724,404	797,710	957,347	1,106,431
Pharmacy				679,004
Total Program Revenue	8,089,337	10,772,571	10,770,202	14,388,472
Less: write, off of uncollectible	(1,420,083)	(1,728,807)	(1,710,332)	(1,853,417)
Net program revenue	6,669,254	9,043,764	9,059,870	12,535,055
Net Assets Released	267,985	164,448	313,511	245,158
Total Revenue	11,311,972	15,060,990	14,914,787	18,470,834
EXPENSES:				
Salaries	6,945,516	8,067,484	9,768,317	11,149,203
Fringe benefits	716,284	893,573	1,234,948	1,662,204
Travel	96,853	121,664	131,917	166,176
Equipment	89,351	390,525	227,126	41,309
Supplies	93,682	131,819	164,096	131,141
Contractual	91,518	76,973	208,696	216,544
Drugs	360,211	153,000	174,569	503,618
Other	2,300,332	3,094,583	3,307,745	3,521,884
Total Expenses	10,693,747	12,929,621	15,217,414	17,392,079
OTHER INCOME:				
Interest income	29,194	35,802	51,259	31,327
Other income	7,051	2,886	7,910	9,695
Donation	0	0	0	195
Fire loss reimbursement	0	0	0	
Interest expense	(217,778)	(213,428)	(209,239)	(223,793)
Total Other Income	(181,533)	(174,740)	(150,070)	(182,576)
EXCESS OF REVENUE (EXPENSES)	$372,023	$1,956,629	$(452,697)	$896,179

The summary statement of revenues and expenses for the six month periods ended December 31, 2003 and 2004 shown in the subsequent table are derived from the unaudited financial statements and include all adjustments, consisting of normal recurring accruals, which management of the Center considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the six months ended December 31, 2004 are not necessarily indicative of the operating results to be expected for the entire fiscal year ending June 30, 2005.

COMMUNITY MEDICAL CENTERS, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Six Months Ending December 31

	Six Months 12/31/2003	Six Months 12/31/2004
GRANT REVENUE:		
Health and Human Services Funds	$1,287,312	$1,382,817
Health and Human Services other	243,630	200,007
HIV Care San Joaquin/Solano county	33,881	38,104
Special Supplemental Food Program for Women and Children	342,608	407,676
Non Governmental grants and other	173,046	102,550
State and County Funds	640,580	579,237
Total Grant Revenue	2,721,057	2,710,391
PROGRAM REVENUE:		
Private patients	1,088,020	1,114,124
Private insurance	157,720	258,949
Child Health, Disability and Prevention	116,375	76,259
Medi-Cal and Medicare	3,683,866	4,405,315
Denti-Cal	107,249	125,093
Pharmacy	0	558,072
Family Planning	777,091	776,140
Total Program Revenue	5,930,321	7,313,952
Less: write, off of uncollectible	(899,327)	(897,650)
Net program revenue	5,030,994	6,416,302
Net Assets Released	0	0
Total Revenue	$7,752,051	$9,126,693
EXPENSES:		
Salaries	5,471,016	5,916,839
Fringe benefits	596,841	871,816
Travel	81,127	70,122
Equipment	34,328	74,212
Supplies	62,380	71,722
Contractual	140,172	191,206
Drugs	41,698	310,725
Other	1,444,872	1,671,492
Total Expenses	7,872,434	9,178,134
OTHER INCOME:		
Interest income	19,344	14,800
Other income	6,051	1,166
Donation	195	0
Fire loss reimbursement	0	0
Interest expense	(103,010)	(112,523)
Total Other Income	(77,420)	(96,557)
EXCESS OF REVENUE (EXPENSES)	$(197,803)	$(147,998)

Note: The Six months ended December 31, 2003 and 2004 do not include non-operating income of managed care risk pool distributions which are booked at fiscal year end. Net Assets Released are also booked at Year End.

Capitalization

The following table sets forth the capitalization of the Center at June 30, 2004.

	June 30, 2004
Outstanding Long-Term Debt:	$2,580,000
Fund Balance Total:	5,698,848
Total Capitalization:	$8,278,848
Net Long-Term Debt as a percentage of Total Capitalization:	31.1%

Source: Community Medical Centers, Inc.

Other Indebtedness

After issuance of the Bonds to refund the portion of the STARTS Bonds relating to the Center, (as described in the Official Statement) the Center will have no other outstanding long term bonded indebtedness.

Sources of Revenues

A summary of revenue by source for fiscal years 2000 through 2004 is set forth in the following table:

COMMUNITY MEDICAL CENTERS, INC.
Historical Payor Class Mix

	2000	2001	2002	2003	2004
Grants and Contracts	4,074,523	4,374,733	5,852,778	5,250,141	5,690,621
Gross Fee for Service	6,635,177	6,669,254	9,043,764	9,351,135	12,535,055

Source: Community Medical Centers, Inc.

License

The facilities of the Center, including the Channel Medical Center facility, are licensed as community clinics by the State of California, Department of Health Services.

Professional Staff

As of September 30, 2004, the Center professional staff consisted of approximately 40. There was one professional staff (Nurse Practitioner) who left CMC in fiscal year ended June 30, 2004.

Employees

As of September 30, 2004, the Center employed a staff of approximately 311 individuals representing a total of approximately 251 full-time equivalent personnel. Full-time equivalent personnel has increased from 170 in 2000 to 251 in 2004. The Center's employees are not currently associated with any unions.

The Center enjoys a good working relationship with its employees. Approximately 15% have worked for the Center for over 5 years and approximately 11% have more than 10 years of service. Management estimates that employee turnover in the fiscal year ended June 30, 2004 was approximately 16%.

Governance

The Center is governed by its Board of Directors, which currently consists of ten members. Each director holds office for a term of three years.

The Board of Directors appoints the Chief Executive Officer, who is the direct representative of the Board of Directors in the management of the Center, and is responsible for the administration of all departments.

The Project

The Center's portion of the proceeds of the Bonds will be used to refinance the Center's portion of the Prior Bonds, the proceeds of which refunded bonds that were used to (i) defease a bridge loan on a building purchased near to the current facility of San Joaquin Valley Health Center in Stockton, California, (ii) renovate the new facility into a full service medical clinic and provide a parking lot, and (iii) renovate the current facility into a complete dental facility. In addition to the refinancing, the Center will also use approximately $157,000 of Bond proceeds to fund improvements to the Center's leased facility in the City of Lodi.

Litigation

There is no controversy or litigation of any nature now pending against the Center, or, to the knowledge of its officers threatened, restraining or enjoining the execution or delivery of its Loan Agreement, or the issuance, sale, execution and delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Center taken concerning the execution, delivery, issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds or for the payment of its obligations under its Loan Agreement or the existence or powers of the Center relating to the execution and delivery of its Loan Agreement.

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

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of the Center on its Loan, in connection with the Bonds:

COMMUNITY MEDICAL CENTERS, INC.
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Loan Payment
2006	$ 50,000.00	$ 139,511.26	$ 189,511.26
2007	135,000.00	138,011.26	273,011.26
2008	140,000.00	133,961.26	273,961.26
2009	145,000.00	129,761.26	274,761.26
2010	150,000.00	124,686.26	274,686.26
2011	155,000.00	119,436.26	274,436.26
2012	160,000.00	113,856.26	273,856.26
2013	165,000.00	108,096.26	273,096.26
2014	170,000.00	101,991.26	271,991.26
2015	175,000.00	95,531.26	270,531.26
2016	185,000.00	88,750.00	273,750.00
2017	195,000.00	79,500.00	274,500.00
2018	200,000.00	69,750.00	269,750.00
2019	215,000.00	59,750.00	274,750.00
2020	225,000.00	49,000.00	274,000.00
2021	235,000.00	37,750.00	272,750.00
2022	520,000.00	26,000.00	546,000.00
Total	$3,220,000.00	$1,615,342.60	$4,835,342.60

SOCIAL MODEL RECOVERY SYSTEMS, INC.

History, Description of Facilities and Services

Social Model Recovery Systems, Inc. ("Social Model") is a nonprofit 501(c)(3) corporation, incorporated in June 1986. One of Social Model's programs is Touchstones ("Touchstones"), a residential treatment facility addressing the needs of adolescents with alcohol and other drug addictions. Touchstones, which opened in March 1992, provides residential and nonresidential phase recovery programs with emphasis on family recovery and support services, providing group and individual counseling, introduction to self-help groups such as Alcoholics Anonymous, and formal academic instruction. Social Model operates 9 other treatment and prevention programs in Southern California, and conducts peer consultation and training throughout the State of California for various drug and alcohol programs.

Service Area Description

Touchstones' primary service area is the County of Orange. Secondary service areas include the Counties of Los Angeles, Riverside and San Diego.

Historical Utilization of Facilities

Historical client utilization data for the Touchstones facility only is shown in the table below:

SOCIAL MODEL RECOVERY SYSTEMS, INC.
Client Utilization

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004
Licensed Beds	23	23	23
Admissions	67	83	94
Patient Days	6,923	7,011	6,954
Occupancy	83%	84%	83%
Average Length of Stay (months)	2.87	3.4	2.64

Source: Social Model Recovery Systems, Inc.

Primary Service Area Competitors

Management has identified the following facilities as competitors of Touchstones:

Facility	Location
Med Pro	San Clemente
Phoenix House	Santa Ana
Positive Action Center, Chapman Hosp.	Orange

Summary Financial Information

The following summary statement of revenues and expenses for the three fiscal years ended June 30, 2002 through 2004 are derived from the audited financial statements of Social Model. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of Social Model, included in Appendix B of the Official Statement.

SOCIAL MODEL RECOVERY SYSTEMS, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending June 30

	Audited 2002	Audited 2003	Audited 2004
SUPPORT AND REVENUE			
Service Contracts	$2,805,044	$3,101,617	$3,129,612
Client Fees	1,292,100	1,355,334	1,424,964
Consulting Services	58,300	84,415	55,963
Community Housing Revenue	66,831	67,839	56,224
Contributions	500	12,745	4,031
Interest and Dividends	19,002	6,288	2,478
Other	25,000	63,000	43,483
Total Revenue	4,266,777	4,691,238	4,716,755
EXPENSES			
Staffing and related expenses	2,865,178	3,268,460	3,393,268
Facility Expense	367,058	399,706	255,838
Equipment Lease and Interest	65,222	73,482	74,388
Insurance	46,048	60,922	61,660
Resident Supplies	245,829	233,961	257,577
Travel and Vehicle	100,119	116,671	99,838
Professional Fees	142,071	123,096	97,057
Other	211,673	291,477	329,388
Total Expenses	4,043,198	4,567,776	4,569,014
INCREASE IN NET ASSETS FROM OPERATIONS	223,580	123,462	147,741
NET ASSETS AT BEGINNING OF YEAR	843,954	906,330	1,029,792
NET ASSETS AT END OF YEAR	$1,067,534	$1,029,792	$1,177,533

Source: Social Model's Audited Financial Statements for Fiscal Years 2002 through 2004.

The summary statement of revenues and expenses for the six-month periods ended December 31, 2003 and 2004 shown in following table are derived from the unaudited financial statements and includes all adjustments, consisting of normal recurring accruals, which management of Social Model considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the six months ended December 31, 2004 are not necessarily indicative of the operating results to be expected for the entire fiscal year ended June 30, 2005.

SOCIAL MODEL RECOVERY SYSTEMS, INC.
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Six Months Ending December 31

	Six Months 12/31/2003	Six Months 12/31/2004
SUPPORT AND REVENUE		
Service Contracts	$1,592,782	$1,748,823
Client Fees	622,709	716,313
Consulting Services	32,831	26,706
Community Housing Revenue	24,257	41,626
Contributions	3,528	8,357
interest and Dividends	1,226	3,483
Other	10,000	33,101
Total Revenue	2,287,335	2,578,411
EXPENSES		
Staffing and related expenses	1,672,771	1,808,449
Facility Expense	195,100	196,578
Equipment Lease and Interest	40,337	30,834
Insurance	29,113	29,290
Resident Supplies	121,541	141,412
Travel and Vehicle	61,606	52,990
Professional Fees	58,750	84,427
Other	91,010	98,141
Total Expenses	2,270,228	2,442,119
Increase in Assets From Operations	$17,105	$136,289

Source: Social Model Recovery Systems, Inc.

Capitalization

The following table sets forth the capitalization of Social Model at June 30 2004.

	June 30, 2004
Outstanding Long-Term Debt:	$2,529,153
Fund Balance Total:	1,029,792
Total Capitalization:	$3,558,945
Net Long-Term Debt as a Percentage of Total Capitalization:	71.06%

Source: Social Model Recovery Systems, Inc.

A summary of revenue by source for all of Social Model's facilities for fiscal years 2001 through 2004 is set forth in the following table.

SOCIAL MODEL RECOVERY SYSTEMS, INC.
Historical Revenue Sources

	2001	2002	2003	2004
County Contracts	62.06%	65.74%	66.12%	66.35%
Non-County Contracts	2.02	1.37	1.80	1.19
Client Fees	33.75	30.28	28.89	30.23
Other	2.17	2.61	3.19	2.23
	100.00%	100.00%	100.00%	100.00%

Source: Social Model Recovery Systems, Inc.

Sources of Revenues

A summary of revenue by source for fiscal years 2000 through 2004 is set forth in the following table:

SOCIAL MODEL RECOVERY SYSTEMS, INC.
Historical Revenues

	2000	2001	2002	2003	2004
County Contracts	$2,090,726	$2,366,396	$2,805,044	$3,101,617	$3,129,613
Non-County Contracts	57,717	76,940	58,300	84,415	55,963
Client Fees for Service	1,494,630	1,341,224	1,358,931	1,423,173	1,481,904
Other	23,455	28,216	44,502	82,032	49,276

Source: Social Model Recovery Systems, Inc.

Other Indebtedness

After issuance of the Bonds to refund the portion of the STARTS Bonds relating to Social Model, (as described in the Official Statement) the Center will have the following outstanding long term bonded indebtedness.

Notes Payable. At June 30, 2004, Social Model had vehicle notes payable totaling $65,210, with interest rates ranging from 0% to 11.9%.

Long-Term Debt. Other than the bonds being refunded with Bond proceeds, Social Model's only long-term indebtedness consists of a Loan Agreement, dated as of June 1, 2001, between the Authority and Social Model, which payments are on a parity with Social Model's obligation under the Loan, and will be cross-collateralized. The proceeds of the 2001 loan were used to finance the acquisition and renovation of a facility located on East Fork Road, Azusa, California. The outstanding balance on the 2001 loan is $1,755,000.

License

Social Model's Touchstone facility is licensed as a group home by the State of California, Department of Social Services.

Professional Staff

Touchstones is a nonmedical program, therefore no direct medical personnel are on staff. However, a psychiatrist who is on-call 24 hours is retained as a consultant.

Employees

As of September 30, 2004, Social Model employed a staff of approximately 80 individuals representing a total of approximately 65 full-time equivalent personnel. Social Model employees are not currently associated with any labor union.

Twenty seven percent (27%) of staff have worked for Social Model for over five years.

Governance

Social Model is governed by its Board of Directors, which currently consists of five members. Each director holds office for a period of three years.

The Board of Directors appoints the Chief Executive Officer, who is the direct representative of the Board in the management of Social Model, and is responsible for the administration of all departments.

The Project

Social Model's portion of the proceeds of the Bonds will be used to refinance Social Model 's portion of the Prior Bonds, the proceeds of which were used to purchase Touchstones Adolescent Alcohol and Other Drug Treatment Services at 515 North Parker Street, Orange, California 92868.

Litigation

There is no controversy or litigation of any nature now pending against Social Model, or to the knowledge of its officers threatened, restraining or enjoining the execution or delivery of its Loan Agreement, or the issuance, sale, execution and delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of Social Model taken concerning the execution, delivery, issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds or for the payment of its obligations under its Loan Agreement or the existence or powers of Social Model relating to the execution and delivery of its Loan Agreement.

There is no litigation of any nature now pending against Social Model, or to the knowledge of its officers threatened, which, in the judgment of Social Model, would materially adversely affect the operations or financial condition of Social Model.

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of Social Model on its Loan, in connection with the Bonds:

SOCIAL MODEL RECOVERY SYSTEMS, INC.
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Loan Payment
2006	$ 35,000.00	$ 40,571.26	$ 75,571.26
2007	45,000.00	39,521.26	84,521.26
2008	45,000.00	38,171.26	83,171.26
2009	45,000.00	36,821.26	81,821.26
2010	45,000.00	35,246.26	80,246.26
2011	50,000.00	33,671.26	83,671.26
2012	50,000.00	31,871.26	81,871.26
2013	50,000.00	30,071.26	80,071.26
2014	55,000.00	28,221.26	83,221.26
2015	55,000.00	26,131.26	81,131.26
2016	60,000.00	24,000.00	84,000.00
2017	60,000.00	21,000.00	81,000.00
2018	65,000.00	18,000.00	83,000.00
2019	70,000.00	14,750.00	84,750.00
2020	70,000.00	11,250.00	81,250.00
2021	75,000.00	7,750.00	82,750.00
2022	80,000.00	4,000.00	84,000.00
Total	$955,000.00	$441,047.60	$1,396,047.60

SOUTHERN CALIFORNIA ALCOHOL & DRUG PROGRAMS, INC.

Southern California Alcohol & Drug Programs, Inc. ("**SCADP**") is a nonprofit public benefit corporation founded in 1972. SCADP was organized by community volunteers, including parents, members of the judicial system and recovering alcoholics/addicts, in an effort to create a local resource to prevent and treat substance addiction and related problems, including homelessness. Although started as a grassroots effort, SCADP has grown to become one of Southern California's largest resources for nonprofit substance abuse recovery services, and currently serves over 4,000 homeless men, women and children each year. As its primary goal, SCADP seeks to provide shelter and treatment modalities for the needs of diverse, high-risk populations, including homeless families, women and their children, Latino families, Latinas and their children, Latino high-risk youth, the criminal justice population, deaf and hard of hearing persons, men and women and their children living with HIV/AIDS, mental health, and battered women and their children. SCADP's administrative offices are located in its corporate office in Downey, California.

SCADP provides a comprehensive continuum of care including detoxification, treatment, transitional housing, outpatient counseling, aftercare (employment development, skills building, placement, relapse prevention counseling), and permanent housing case management. SCADP provides a current static capacity of 500 residential beds and more than 2,000 outpatient slots in programs for men, women, youth and families. The treatment philosophy integrates social model principles (peer interaction and group therapies) with public health concepts and mental health therapies to form a multi-disciplinary mix of shelter and care.

Service Area Description

SCADP primarily serves the Los Angeles and Orange Counties. The southeast area of Los Angeles County comprises the bulk of SCADP's clients. This area has been identified as having the second largest Hispanic population in Los Angeles County and 37.5% of the clients served are Hispanic.

Historic Utilization of Facilities

Historic client utilization data for SCADP's facilities for fiscal years 2001 through 2004, with projections for 2005, is shown in the table below.

SOUTHERN CALIFORNIA ALCOHOL & DRUG PROGRAMS, INC.
Historic Client Utilization

Year Ending June 30	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Projected 2005
Residential - Existing Bed-Days	144,480	150,275	173,375	173,375	164,500
Clients Served - Residential	1,886	2,076	1,921	1,825	1,850
Average reimburs. per bed/day	67	63,	67	64	64
Average reimbursement per client	4,957	4,482	5,901	5,781	5,801
Average length stay days	77	72	90	95	94
Occupancy (%)	97%	98%	97%	95%	96%
Subtotal Client Fees - Residential	$9,349,542	$9,305,192	$11,336,745	$10,550,893	$10,731,616
% Client Fees - Residential	69.99%	64.41%	71.23%	66.28%	66.28%
Community/Outpatient/ DUI					
Clients Served Outpatient/Edu Services	3,163	3,198	3,249	3,638	3,950
Average Reimbursement per Client	478	704	493	657	562
Subtotal Client Fees Outpatient Services	$1,511,649	$2,251,456	$1,603,118	$2,390,525	$2,220,861
Total Client Served	5,049	5,274	5,170	5,463	5,800
Total Revenues per Client	2,151	2,191	2,503	2,369	2,233
Total Client Revenue	$10,861,191	$11,556,648	$12,939,663	$12,941,418	$12,952,477
Other Revenue	296,203	324,610	257,613	202,175	350,000
Total Revenue	$11,157,394	$11,881,258	$13,197,476	$13,143,593	$13,302,477

Source: Southern California Alcohol & Drug Programs, Inc.

Primary Service Area Competitors

There are approximately 250 Department of Health Services-ADPA funded programs in Los Angeles County, about a quarter of which provide residential services. In fiscal year 1998-99 the latest data year available) these programs served 36,000 unduplicated clients. This is approximately 10% higher than in 1996-97. SCADP defines its service area as Los Angeles and Orange Counties. In Los Angeles County the majority of SCADP's clients are from the cities of Downey, Norwalk, Long Beach and Whittier. In Orange County the majority of SCADP's clients are from the cities of Costa Mesa, Anaheim and Santa Ana.

SCADP is generally considered to be one of the larger providers of residential substance abuse services for men, women and children in California. Local providers include Behavioral Health Services, Social Model Recovery Services, and Prototypes, A Center for Innovation in Health, Mental Health and Social Services. In the areas that SCADP serves, it is second only to Behavioral Health Services in the amount of services it provides to Los Angeles. SCADP is the only provider of residential services to women and children in Orange County. However, County agencies contract with many different providers for social services. Increased competition from a wide variety of potential sources, including, but not limited to, other in-residence and outpatient social service facilities, clinics, behavioral health care professional, and others, could adversely affect the utilization and/or revenues of SCADP. Competition may, in the future, arise from new sources not currently anticipated. Further competition for SCADP's clients and funding sources may also arise as a result of changes in the funding mechanisms for social services. However, the passage of Proposition 36 by the voters of California to treat rather than incarcerate nonviolent drug offenders is expected to provide over 50 million dollars for treatment services in Los Angeles County. SCADP will be under contract with Los Angeles County to provide additional services for this population and continues to contract with various entities to provide residential and outpatient services to criminal justice populations.

Management of SCADP have identified the following primary service area competitors (as compared to SCADP):

Facility	No. of Beds
Tarzana Treatment Center	n/a
Southern California Alcohol & Drug Programs, Inc.	475
Behavioral Health Services	n/a
Clare Foundation	n/a

Summary Financial Information

The following summary statement of revenues and expenses for the four fiscal years ended June 30, 2001 through 2004 are derived from the audited financial statements of SCADP. Unaudited projected totals are shown for 2005. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of SCADP, included in Appendix B of the Official Statement.

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS INC
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending June 30

	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Projected 2005
Revenues					
Client Fees	$ 1,851,446	$ 1,864,255	$ 1,765,016	$ 1,522,832	$ 1,648,500
Govt. Contacts	7,631,712	8,762,112	10,136,136	10,297,503	9,961,522
Third Party Payments	4654,474	757,719	741,306	889,047	982,000
Other Non-Fed Contracts	723,559	172,562	297,405	232,036	360,455
Donated Facility	232,000	202,600	202,600	279,000	280,000
Interest Income	16,500	22,500	8,570	18,326	25,000
Other	47,703	99,510	46,443	(95,151)	45,000
Total	$15,157,394	$11,881,258	$13,197,476	$13,143,593	$13,302,477
Expenses					
Personnel	$6,058,394	$6,954,665	$8,100,824	$8,120,231	$8,288,165
Rental	791,677	699,860	761,620	856,662	752,500
Depreciation/Amortization	381,714	203,891	341,078	298,840	360,000
Other Operating	2,698,753	2,996,304	3,292,156	3,130,073	2,842,000
Interest	279,286	441,656	355,243	445,613	650,800
Total	$10,209,824	$11,296,376	$12,850,921	$12,851,419	$12,893,465
Increase in Net Assets	$947,570	$584,882	$346,555	$292,174	$ 409,012
Functional Expenses					
Salaries Wages & Benefits	$ 5,632,755	$ 6,470,257	$ 7,586,721	$ 7,520,887	$ 7,659,550
Payroll Taxes	425,640	484,408	514,103	599,344	628,615
Auto& Equip Leases	214,200	204,746	235,672	171,347	165,000
Bond Amort	15,205	19,248	26,214	25,669	25,000
Conferences/ Meetings	36,998	46,387	47,954	51,978	55,000
Depreciation	366,509	184,643	314,864	273,171	335,000
Films/Literature	20,515	20,266	26,571	23,411	25,550
Food	429,253	430,612	493,590	524,743	550,500
Furn&Equip	56,456	135,736	86,938	56,875	75,000
Govt Admin Fees	42,175	4,150	47,702	31,997	35,000
Housekeeping	161,800	248,393	181,414	175,789	175,000
Insurance	122,033	118,445	139,969	153,758	169,500
Interest	279,286	441,656	355,243	445,613	575,800
Office Supply	158,677	183,571	157,277	139,178	145,000
Other	241,827	221,580	250,918	301,895	215,500
Postage &Printing	41,518	31,443	30,516	23,591	25,000
Professional Fees	302,931	220,366	343,232	490,750	415,500
Rent	791,677	699,860	761,620	856,662	752,500
Repairs & Maintenance	415,276	607,284	693,355	419,130	375,000
Travel	113,383	112,276	110,884	116,885	115,500
Utilities/telephone	341,710	411,049	446,164	448,746	375,000
Total Expenditures	$10,209,824	$11,296,376	$12,850,921	$12,851,419	$12,893,465

Capitalization

The following table sets forth the capitalization of SCADP at June 30, 2004, as adjusted to reflect the incurrence of the loan under its Loan Agreement.

	June 30, 2004
Outstanding Long-Term Debt:	$ 8,501,787
Fund Balance Total:	4,617,190
Total Capitalization:	$13,118,977
Net Long-Term Debt as a percentage of Total Capitalization:	64.8%

Source: Southern California Alcohol & Drug Programs, Inc.

Sources of Revenues

A summary of revenue by source for fiscal years 2000-01 through 2003-04, with projections for 2004-05, is set forth in the following table:

SOUTHERN CALIFORNIA ALCOHOL & DRUG PROGRAMS, INC.
Revenue Sources

	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04	Projected 2004-05
Revenues					
Client Fees	$ 1,851,446	$ 1,864,255	$ 1,765,016	$ 1,522,832	$ 1,648,500
Govt. Contacts	7,631,712	8,762,112	10,136,136	10,297,503	9,961,522
Third Party Payments	4,654,474	757,719	741,306	889,047	982,000
Other Non-Fed Contracts	723,559	172,562	297,405	232,036	360,455
Donated Facility	232,000	202,600	202,600	279,000	280,000
Interest Income	16,500	22,500	8,570	18,326	25,000
Other	47,703	99,510	46,443	(95,151)	45,000
Total	$15,157,394	$11,881,258	$13,197,476	$13,143,593	$13,302,477

Source: Southern California Alcohol & Drug Programs, Inc.

Other Indebtedness

After issuance of the Bonds to refund the portion of the STARTS Bonds relating to the SCADP, (as described in the Official Statement), SCADP will have the following outstanding long term bonded indebtedness.

Note payable to Bank of the West. This note was entered into on March 31, 2004 in the original amount of $700,000; it is secured by real property with monthly payments of $3,889 principal and interest. The note is due March 1, 2019. Interest is set at a rate of 2.5% over the bank's cost of funds. The current interest rate on the note is 5.51%.

State Loan. An agreement was made with the State of California, Emergency Housing and Assistance Program to provide funding in the amount of $500,000 for the purchase of property used by SCADP. The loan is secured by the property. Repayment of the loan is deferred as long as the property is used as an emergency shelter and transitional housing facility. The-term of the loan is ten years at which time the outstanding balance will be forgiven.

$72,000 Note payable to John and Carolyn McFarland, dated July 11, 2000; the note is secured by real property. Interest-only payments of $660 per month are based on an 11% interest rate. The note matures on August 7, 2006.

$675,000 Note payable to Bank of the West, dated October 22, 2002. Principal payments of $3,750 beginning December 1, 2002 and continuing monthly until October 2017. Interest is at 2.5% over the bank's cost of funds. Current principal balance is $593,066.

$252,000 Note payable to Bank Of The West; secured by real property. Payments of $1,859 interest and principal beginning August 1, 2001, ending July 1, 2031. Interest is 7.875% per month.

$4,095,000 California Health Facility Financing Authority Insured Health Facility Revenue Bonds, 1997 Series A. Bonds are due December 1, 2022. Terms stipulate interest and principal payments of $26,543 per month. Interest is at 5.50% per year. Principal balance at June 30, 2004 was $3,400,804. This note is on a parity with SCADP's obligation under its Loan Agreement.

$1,780,000 California Health Faculties Financing Authority Insured Health. Facility Revenue Bonds, 2001 Series A. A twenty-five year mortgage note, issued May 1, 2001, matures May 1, 2026. The interest rate for the first year was 3.35%, which increases each year to a variable rate to 5.45% in 2026. Interest and principal payments are $10,814 per month. Principal balance at June 30, 2004 was $1,610,371. This note is on a parity with SCADP's obligation under its Loan Agreement.

License

The facilities of SCADP are licensed as outpatient and residential programs by the State of California, Department of Alcohol and Drug Programs as either adult alcoholism recovery or adult alcoholism and drug recovery facilities.

Professional Staff

SCADP maintains and utilizes Medical Directors who are independent contractors. The staff consists of a blend of professionals and paraprofessionals who contribute to the continuum of care (out-patient and residential services) provided by the agency. All professionals maintain professional licenses and para-professionals typically have a community college generated certificate in alcohol and drug studies. Although the philosophy is social model, oversight in many cases is provided by masters level and or licensed professional staff.

Employees

As of December 31, 2004, SCADP employed a staff of approximately 329 individuals representing a total of approximately 315 full-time equivalent personnel. Full-time equivalent personnel has increased from 290 in 2000 to 315 in 2004. SCADP's employees are not currently associated with any unions.

SCADP enjoys a good working relationship with its employees. Approximately 25% have worked for SCADP for over 5 years and approximately 35% have more than 10 years of service. Management estimates that employee turnover in the fiscal year ended June 30, 2004 was approximately 15%.

Governance and Management

SCADP is governed by its Board of Directors, which currently consists of 13 members and 4 officers. Each officer holds office for a period of one year. The members have a lifetime appointment.

The Board of Directors appoints the Executive Director/Chief Executive Officer, who is the direct representative of the Board of Directors in the management of SCADP, and is responsible for the administration of all departments.

Litigation

There is no controversy or litigation of any nature now pending against SCADP, or, to the knowledge of its officers threatened, restraining or enjoining the execution or delivery of its Loan Agreement, or the issuance, sale, execution and delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of SCADP taken concerning the execution, delivery, issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds or for the payment of its obligations under its Loan Agreement or the existence or powers of SCADP relating to the execution and delivery of its Loan Agreement.

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

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of SCADP on its Loan, in connection with the Bonds:

SOUTHERN CALIFORNIA ALCOHOL & DRUG PROGRAMS, INC.
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Loan Payment
2006	$ 30,000.00	$ 81,358.75	$ 111,358.75
2007	75,000.00	80,458.75	155,458.75
2008	85,000.00	78,208.75	163,208.75
2009	85,000.00	75,658.75	160,658.75
2010	90,000.00	72,683.75	162,683.75
2011	95,000.00	69,533.75	164,533.75
2012	95,000.00	66,113.75	161,113.75
2013	105,000.00	62,693.75	167,693.75
2014	105,000.00	58,808.75	163,808.75
2015	105,000.00	54,818.75	159,818.75
2016	115,000.00	50,750.00	165,750.00
2017	120,000.00	45,000.00	165,000.00
2018	125,000.00	39,000.00	164,000.00
2019	130,000.00	32,750.00	162,750.00
2020	140,000.00	26,250.00	166,250.00
2021	145,000.00	19,250.00	164,250.00
2022	150,000.00	12,000.00	162,000.00
2023	90,000.00	4,500.00	94,500.00
Total	$1,885,000.00	$929,837.50	$2,814,837.50

VERDUGO MENTAL HEALTH

History, Description of Facilities and Services

In 1957, Glendale Mental Health Services ("Glendale"), the predecessor to Verdugo Mental Health ("Verdugo"), was formed as a nonprofit corporation to provide outpatient psychiatric services for children and adults pursuant to the results by a survey conducted by the Glendale Welfare Planning Council assessing the community based need for local mental health services. Glendale's first clinic was located in the Glendale Memorial Hospital. In 1961, Glendale moved to larger quarters at 803 East Broadway in Glendale, California. At that time, its name was changed to the Glendale Guidance Clinic.

In 1962, Glendale was one of the first private agencies to establish a contract with the Los Angeles County Department of Mental Health, under the provision of the Short-Doyle Act. From 1963-73, Glendale moved several times as contract monies and client caseload increased. In 1973, an additional facility, the Burbank Child Guidance Clinic, opened to work specifically with child-related problems of the area's families. Glendale was also awarded a contract to provide treatment to first time drug offenders pursuant to Senate Bill 714 of the California Legislature and leased facilities to house its expanding Day Treatment program, Arden House. In 1981, the name of Glendale was changed to Verdugo.

In 1983, Verdugo developed programs for training, outreach, and youth employment. In 1985, a self-pay program was developed to provide low cost therapy to individuals who are not eligible to receive Short-Doyle services because of low clinical priority. In 1986, Verdugo opened its Positive Directions Center, as a drop-in center for persons in recovery and their families.

Utilizing funds received through a Community Development Block Grant, Verdugo constructed the Glen Roberts Child Study Center to provide space for child treatment and research. This facility opened in 1987. Under the auspices of Assembly Bill 3632, Verdugo provides intensive outpatient services to students in need from the local special education consortium (including the Burbank, Glendale and La Canada School Districts) on a Burbank school site. Children's services were enhanced with the opening of the Magnolia Park School project.

Verdugo decided to relocate its adult outpatient program and its administrative / fiscal services site from its Arden Avenue facility to a site closer to the Glen Roberts Child Study Center. In late 1993, Verdugo acquired property adjacent to the Glen Roberts Child Study Center at 1540 East Colorado Street in Glendale and relocated the adult outpatient program and administrative services to the new site during 1994.

Also in 1994, Verdugo transitioned from a traditional clinical model of mental health service delivery to a rehabilitation model for State of California, Department of Mental Health contract programs.

In 2001, Verdugo completed a minor name change from Verdugo Mental Health Center to Verdugo Mental Health and operates under that name currently.

Service Area Description

Management has identified Verdugo's primary service area as the Cities of Glendale, Burbank, Eagle Rock, La Crescenta, and parts of Sunland-Tujunga, in Southern California.

Historical Utilization of Facilities

Historical client utilization data for Verdugo's facilities is shown in the table below:

VERDUGO MENTAL HEALTH
Historic Client Utilization

	2000	2001	2002	2003	2004
Number of patients	2,347	2,350	2,499	2,168	1,803
Units of Service	1,659,428	1,292,177	1,718,604	1,537,817	1,086,499

Primary Service Area Competitors

There is no other clinic that operates in Verdugo's primary service area that has a Los Angeles County Department of Mental Health contract. Two local hospitals, Glendale Adventist Medical Center and Glendale Memorial Hospital, offer inpatient psychiatric beds. The two geographically closest clinics are Pacific Clinics (a private nonprofit agency) located in Pasadena, California and West Valley Mental Health (directly operated by the Los Angeles County Department of Mental Health) in Van Nuys, California.

Summary Financial Information

The following summary statement of revenues and expenses for the three fiscal years ended June 30, 2002 through 2004 are derived from the audited financial statements of Verdugo. The data set forth below is qualified by reference to, and should be read in conjunction with the financial statements and related notes thereto of Verdugo, included in Appendix B of the Official Statement.

Verdugo continues to have an unfunded pension liability. The pension fund program had been closed, and approximately $250,000 is being annually funded into the program. Verdugo expects the liability to be fully funded at the end of 2005 or early 2006.

VERDUGO MENTAL HEALTH
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending June 30

	2002	2003	2004
Public Support and Revenue:	$5,273,565	$5,640,440	$5,782,888
Public Support (United Way, Contributions, Fund Raising)	72,380	63,826	79,721
Revenue:			
Outpatient	4,095,125	4,447,042	4,652,226
Day services	388,074	372,939	361,280
Case Management	0	0	0
Outreach	28,991	28,991	28,991
Rehabilitation	0	0	0
Drug free	32,982	43,815	39,307
Alcohol recovery	305,513	353,754	325,481
JTPA administration – WIA	237,544	242,018	186,862
Noncontract	114,222	95,281	69,134
Investment Income	(1,266)	(7,226)	35,886
Rental Income	0	0	0
Total Revenue	5,201,185	5,576,614	5,703,167
Total Public Support and Revenue	$5,273,565	$5,640,440	$5,782,888
Expenditures:			
Salaries	$3,722,568	$3,442,662	$3,203,239
Payroll taxes	281,655	248,063	254,641
Benefits	504,301	743,171	900,086
Advertising	11,384	12,289	5,386
Auto & Mileage	15,709	8,925	11,486
Bad debts expense	604,150	3,009	0
Building Maintenance	60,301	62,946	85,386
Business meetings	13,687	13,876	14,560
Computer expense	11,349	3,322	1,953
Consulting & professional fees	52,305	126,772	148,541
Data processing	11,262	9,793	10,382
Depreciation	97,289	92,908	87,153
Dues & subscriptions	35,684	29,700	28,179
Equipment maintenance	11,154	13,465	9,162
Equipment rental	45,472	39,533	46,185
Facility leases	175,938	125,531	45,564
Fund raising expenses	8,091	1,509	11,675
Insurance	110,682	129,892	144,306
Interest	115,838	104,173	108,785
Legal & accounting	27,245	40,625	29,556
Moving expense	0	2,692	395
Office / Program supplies	133,560	122,593	116,939
Pharmacy & lab expense	28,208	25,295	11,792
Postage	4,532	6,780	5,093
Printing	19,816	20,215	24,181
Purchased services	104,318	90,944	135,919
Staff development	7,321	3,607	4,484
Supportive services	305	1,462	255
Taxes & licenses	3,237	2,553	2,352
Telephone	85,919	81,692	71,347
Utilities	43,878	49,222	39,851
Total Expenditures	6,347,158	5,609,997	5,559,715
Excess of Revenues over Expenditures	($1,073,593)	$ 30,443	$ 223,173

The summary statement of revenues and expenses for the six-month periods ended December 31, 2003 and 2004 shown in the following table are derived from the unaudited financial statements and includes all adjustments, consisting of normal-recurring accruals, which management of Verdugo considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the six months ended December 31, 2004 are not necessarily indicative of the operating results to be expected for the entire fiscal year ended June 30, 2005. The audited financial statements and related notes for Verdugo for the fiscal year ended June 30, 2004 is set forth in Appendix B hereto.

VERDUGO MENTAL HEALTH
SUMMARY STATEMENT OF REVENUES AND EXPENSES
Six Months Ending December 31

	Six Months 12/31/03	Six Months 12/31/04 (Unaudited)
Public Support and Revenue:		
Public Support (United Way, Contributions, Fund Raising)	$ 29,046	$ 25,911
Revenue:		
Outpatient	2,351,917	2,706,831
Day services		
Case Management		
Outreach - Homeless	16,373	5,433
Rehabilitation		
Drug free	18,217	7,369
Alcohol recovery	164,509	123,814
JTPA administration – WIA	99,911	89,745
Noncontract	31,982	44,710
Investment Income (loss)	(1,023)	12,313
Rental Income		
Total Revenue	2,681,886	2,990,215
Total Public Support and Revenue	2,710,932	3,016,126
Expenditures:		
Salaries	1,580,873	1,681,766
Payroll taxes	125,772	121,320
Benefits	470,936	396,716
Advertising	3,325	3,548
Auto & Mileage	1,791	3,439
Bad debts expense		
Building Maintenance	25,078	46,660
Business meetings	4,957	6,722
Computer expense	1,502	7,783
Consulting & professional fees	68,054	87,180
Data processing	5,125	5,319
Depreciation	43,470	43,593
Dues & subscriptions	16,835	15,492
Equipment maintenance	4,619	2,856
Equipment rental	16,247	40,995
Facility leases	28,643	18,851
Fund raising expenses	2,650	2,624
Insurance	71,794	71,555
Interest	54,073	49,876
Legal & accounting	24,556	17,314
Moving expense	396	-
Office / Program supplies	56,131	64,406
Pharmacy & lab expense	5,989	2,296
Postage	2,776	2,316
Printing	20,552	9,375
Purchased services	40,917	49,034
Staff development	1,602	1,066
Supportive services	148	2,573
Taxes & licenses	1,389	1,676
Telephone	34,887	34,080
Utilities	17,580	15,904
Total Expenditures	$2,732,667	$2,677,523
Excess of Revenues over Expenditures	$(21,735)	$209,791

Source: Verdugo Mental Health.

Capitalization

The following table sets forth capitalization of Verdugo at December 31, 2004.

	December 31, 2004
Outstanding Long-Term Debt:	$ 835,000
Fund Balance Total:	1,176,777
Total Capitalization:	$2,079,459
Net Long-Term Debt as a percentage of Total Capitalization:	0.40%

Source: Verdugo Mental Health.

Other Indebtedness

After issuance of the Bonds to refund the portion of the STARTS Bonds relating to Verdugo, (as described in the Official Statement), Verdugo will have no other outstanding long term bonded indebtedness.

Historical Revenues

A summary of revenue by source for fiscal years 2000 through 2004 is set forth in the following table.

VERDUGO MENTAL HEALTH
Historical Revenues

	2000	2001	2002	2003	2004
County Cont. Programs	$4,731,756	$4,976,860	$4,734,787	$5,182,536	$5,363,110
Non-County Program	762,740	674,133	467,664	401,304	304,171
Contributions	50,310	235,973	71,114	56,600	115,607
Total	$5,544,806	$5,886,966	$5,273,565	$5,640,440	$5,782,888

Source: Verdugo Mental Health.

License

The facilities of Verdugo are MediCal certified by the State of California.

Professional Staff

As of December 1, 2004, the Verdugo professional staff consisted of approximately 42 employees, including approximately 19.4 full-time equivalents.

Employees

As of December 1, 2004, Verdugo employed a staff of approximately 147 individuals representing a total of approximately 48.6 full-time equivalent personnel. Verdugo's employees are not currently associated with any unions.

Verdugo enjoys a good working relationship with its employees. Approximately 7% have worked for Verdugo for over five years and approximately 25% have more than 10 years of service.

Governance

Verdugo is governed by its Board of Directors, which currently consists of 8 members, 2 community support group representatives, and 8 emeritus members. Each director may hold office for a period of four years.

The Board of Directors appoints the Executive Director who is the direct representative of the Board of Directors in the management of Verdugo and is responsible for the administration of all departments.

The Project

Verdugo's portion of the proceeds of the Series B Bonds will be used to refinance Verdugo's portion of the Prior Bonds, the proceeds of which were used to (i) acquire property, and (ii) fund tenant improvements to relocate adult and administrative programs from the currently leased site.

Litigation

There is no controversy or litigation of any nature now pending against Verdugo, or to the knowledge of its officers threatened, restraining or enjoining the execution or delivery of its Loan Agreement, or the issuance, sale, execution and delivery of the Bonds, or in any contesting or affecting the validity of the Bonds, any proceedings of Verdugo taken concerning the execution, delivery, issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds or for the payment of its obligation under its Loan Agreement or the existence or powers of Verdugo relating to the execution and delivery of its Loan Agreement.

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

Loan Payment Schedule

Shown below is the Loan Payment schedule for the obligation of Verdugo on its Loan, in connection with the Bonds:

VERDUGO MENTAL HEALTH
Loan Payment Schedule

Year Ending (April 1)	Principal Payments	Interest	Total Loan Payment
2006	$ 20,000.00	$ 43,735.00	$ 63,735.00
2007	45,000.00	43,135.00	88,135.00
2008	50,000.00	41,785.00	91,785.00
2009	50,000.00	40,285.00	90,285.00
2010	50,000.00	38,535.00	88,535.00
2011	55,000.00	36,785.00	91,785.00
2012	55,000.00	34,805.00	89,805.00
2013	60,000.00	32,825.00	92,825.00
2014	60,000.00	30,605.00	90,605.00
2015	60,000.00	28,325.00	88,325.00
2016	65,000.00	26,000.00	91,000.00
2017	65,000.00	22,750.00	87,750.00
2018	70,000.00	19,500.00	89,500.00
2019	75,000.00	16,000.00	91,000.00
2020	80,000.00	12,250.00	92,250.00
2021	80,000.00	8,250.00	88,250.00
2022	85,000.00	4,250.00	89,250.00
Total	$1,025,000.00	$479,820.00	$1,504,820.00

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CORPORATIONS

AUDITED FINANCIAL STATEMENTS OF ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CORPORATIONS

AUDITED FINANCIAL STATEMENTS OF
ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY

ASIAN COMMUNITY CENTER
OF SACRAMENTO VALLEY, INC.

Financial Statements
and Additional Information

Years Ended
December 31, 2003 and 2002

ASIAN COMMUNITY CENTER
OF SACRAMENTO VALLEY, INC.

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EDL
certified public accountants
ESSARY
DAL PORTO
& LOWE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Asian Community Center of Sacramento Valley, Inc.
Sacramento, California

We have audited the accompanying statements of financial position of Asian Community Center of Sacramento Valley, Inc. (a nonprofit corporation) as of December 31, 2003 and 2002, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Asian Community Center of Sacramento Valley, Inc. as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Essary Dal Porto & Lowe

Certified Public Accountants
Sacramento, California
April 27, 2004

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ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY, INC.
Statements of Financial Position
December 31, 2003 and 2002

ASSETS

	2003	2002
Current assets:		
Cash and cash equivalents	$ 1,601,289	$ 1,635,523
Accounts receivable, net of allowance of $30,000 in 2003 and 2002	467,170	643,323
Grants receivable	26,742	21,219
Other accounts receivable	9,783	4,776
Supply inventory	28,863	21,422
Prepaid expenses	208,069	78,778
Investments	1,456,955	831,933
Total current assets	3,798,871	3,136,974
Long-term assets:		
Land, building, and equipment	3,808,175	3,952,617
Deposits	3,000	3,000
Patient trust fund	3,584	3,956
Cash held by trustees	512,711	592,606
Bond and organization costs	18,338	19,898
	4,345,808	4,572,077
Total assets	$ 8,144,679	$ 7,709,051

LIABILITIES AND NET ASSETS

	2003	2002
Current liabilities:		
Accounts payable	$ 202,880	$ 122,532
Medicare payable	-0-	2,219
Wages, vacation, and fringe benefits payable	344,971	277,802
Interest payable	44,625	47,025
Revenues received in advance	211,924	180,176
Current portion of bonds payable	125,000	120,000
Total current liabilities	929,400	749,754
Long-term liabilities:		
Patient trust fund payable	3,584	3,956
Bonds payable net of current portion and unamortized bond discount of $47,669 in 2003 and $51,726 in 2002	1,972,331	2,093,274
	1,975,915	2,097,230
Total liabilities	2,905,315	2,846,984
Net assets:		
Unrestricted	5,159,629	4,846,067
Temporarily restricted	79,735	16,000
	5,239,364	4,862,067
Total liabilities and net assets	$ 8,144,679	$ 7,709,051

See accompanying notes.

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY, INC.
Statements of Activities
Years Ended December 31, 2003 and 2002

	2003			2002		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and other support:						
Patient care	$ 4,999,976	$ -0-	$ 4,999,976	$ 4,766,655	$ -0-	$ 4,766,655
Bingo	353,539		353,539	337,311		337,311
Grants	196,089		196,089	166,946		166,946
Program revenue	51,493		51,493	14,518		14,518
Rental	10,767		10,767	5,994		5,994
Contributions and other	292,617	70,735	363,352	280,996	18,000	298,996
Net assets released from restrictions:						
Use restrictions satisfied	7,000	-7,000	-0-	11,435	-11,435	-0-
Total revenue and other support	5,911,481	63,735	5,975,216	5,583,855	6,565	5,590,420
Operating expenses:						
Programs	5,286,028		5,286,028	4,889,265		4,889,265
Management, general, and administrative	81,406		81,406	135,166		135,166
Fund-raising	307,227		307,227	306,396		306,396
Total expenses	5,674,661	-0-	5,674,661	5,330,827	-0-	5,330,827
Change in net assets from operations	236,820	63,735	300,555	253,028	6,565	259,593
Other changes:						
Interest and dividends	38,255		38,255	46,891		46,891
Net realized and unrealized gain (-loss) on investments	46,158		46,158	-110,286		-110,286
Investment fees	-7,671		-7,671	-11,087		-11,087
Total other changes	76,742	-0-	76,742	-74,482	-0-	-74,482
Change in net assets	313,562	63,735	377,297	178,546	6,565	185,111
Net assets at beginning of year	4,846,067	16,000	4,862,067	4,667,521	9,435	4,676,956
Net assets at end of year	$ 5,159,629	$ 79,735	$ 5,239,364	$ 4,846,067	$ 16,000	$ 4,862,067

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY, INC.
Statements of Functional Expenses
Years Ended December 31, 2003 and 2002

	2003 Program	2003 Management General & Admin.	2003 Fund-raising	2003 Total	2002 Program	2002 Management General & Admin.	2002 Fund-raising	2002 Total
Salaries and fringe benefits	$ 3,789,927	$ 55,999	$ 60,205	$ 3,906,131	$ 3,464,059	$ 94,408	$ 72,194	$ 3,630,661
Purchased services	118,440	1,846	1,984	122,270	106,221	1,243	951	108,415
Rent	-0-	-0-	88,774	88,774	-0-	-0-	85,593	85,593
Utilities	133,605	2,719	3,444	139,768	118,149	2,936	2,837	123,922
Supplies	405,670	1,047	50,731	457,448	410,994	1,554	50,912	463,460
Insurance	154,906	2,035	9,805	166,746	115,142	3,596	8,934	127,672
Other direct expenses	98,573	1,970	39,877	140,420	40,930	11,663	41,963	94,556
Professional fees	120,147	3,599	6,199	129,945	127,870	5,200	3,976	137,046
County fees and taxes	4,713	321	14,453	19,487	3,676	432	14,002	18,110
Volunteer	1,637	872	7,211	9,720	1,246	1,059	7,921	10,226
Repairs and maintenance	52,597	2,146	2,307	57,050	68,174	3,261	2,494	73,929
Depreciation and amortization	215,069	7,377	7,932	230,378	199,940	6,736	5,222	211,898
Fund-raising	-0-	-0-	12,719	12,719	-0-	-0-	7,043	7,043
Interest	138,675	-0-	-0-	138,675	145,402	-0-	-0-	145,402
Other expenses	52,069	1,475	1,586	55,130	87,462	3,078	2,354	92,894
	$ 5,286,028	$ 81,406	$ 307,227	$ 5,674,661	$ 4,889,265	$ 135,166	$ 306,396	$ 5,330,827

See accompanying notes.

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY, INC.
Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Change in net assets	$ 377,297	$ 185,111
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	230,378	211,898
(-Gain) loss on disposition of investments	-46,158	110,286
Decrease (-increase) in receivables	65,623	-84,407
Decrease in allowance for bad debts	-0-	-16,000
Increase in inventories	-7,441	-6,813
Increase in prepaid expenses and deposits	-129,291	-31,913
Increase (-decrease) in accounts payable and accrued expenses	145,298	-51,576
Decrease in interest payable	-2,400	-2,163
Increase in revenues received in advance	31,748	15,237
Net cash provided by operating activities	665,054	329,660
Cash flows from investing activities:		
Net decrease in cash held by trustee	79,895	83,320
Purchase of assets/investments	-1,068,224	-1,021,066
Proceeds from sale of investments	409,041	868,384
Net cash used by investing activities	-579,288	-69,362
Cash flows from financing activities:		
Principal payments on bonds	-120,000	-110,000
Net cash used by financing activities	-120,000	-110,000
Net change in cash and cash equivalents	-34,234	150,298
Cash and cash equivalents at beginning of year	1,635,523	1,485,225
Cash and cash equivalents at end of year	$ 1,601,289	$ 1,635,523
Cash paid for:		
Interest	$ 138,675	$ 145,402
Taxes	$ -0-	$ -0-

See accompanying notes.

Note 1: Summary of Significant Accounting Policies:

General

The Asian Community Center of Sacramento Valley, Inc. (Organization) was incorporated on April 3, 1972 as a California public benefit corporation, exempt from federal and state income taxes under IRC Section 501(c)(3) and Revenue and Tax Code 23701d, and is classified as an other than private foundation.

The Organization's primary program is the operation of the Asian Community Nursing Home, a 99-bed skilled nursing facility in Sacramento, California. In addition, the Organization operates a senior center and provides other services to the Asian community in Sacramento.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated certain unrestricted net assets for specific purposes. The Board may undesignate the funds and make them available for general operations at its discretion.

As of December 31, unrestricted net assets consist of:

	2003	2002
Non-designated	$ 4,046,081	$ 3,800,435
Designated by the Board of Directors:		
Depreciation reserve	1,044,850	983,756
Van and nursing home activities	68,698	61,876
	$ 5,159,629	$ 4,846,067

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If restrictions are met within the same reporting period as received, such contributions are reported as unrestricted support.

As of December 31, temporarily restricted net assets consist of:

	2003	2002
Donor-restricted grants and contributions:		
In-home visits	$ 1,000	$ 1,000
Capital campaign contributions	8,000	8,000
Major gift campaign contributions	70,735	-0-
Sierra Health Foundation Grant	-0-	7,000
	$ 79,735	$ 16,000

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets as of December 31, 2003 and 2002.

Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, cash in banks, money market funds, treasury bills, and treasury notes with maturities of three months or less.

Note 1: Summary of Significant Accounting Policies (continued):

Accounts Receivable

Patient care revenue is recorded at established billing rates or at the amount realizable under agreements with third-party payors, net of the provision for uncollectible accounts.

All accounts receivable are recorded on an accrual basis. Management determines past due accounts based upon review of the outstanding balances and status of noted collection efforts. Trade accounts receivable are deemed uncollectible and written off at management's discretion after all legal avenues for collection have been pursued. The allowance for uncollectible accounts is estimated by examining the status of individual trade accounts receivable and including an amount sufficient to cover unpaid accounts that are 90 days old and older. No finance charges are assessed and no collateral is required.

Supply Inventory

Inventory is calculated at cost using the first-in, first-out method.

Land, Building, and Equipment

Purchased property and equipment are carried at cost and donated fixed assets are carried at their fair market value at date of donation. Any item with an expected life greater than one year and a purchase price of at least $1,000 is capitalized. Depreciation is by the straight-line method, using the following estimated useful lives:

Building and improvements	5-36 years
Equipment	3-10 years

Long-Term Cash Accounts

The Organization accumulates funds to meet the interest, sinking fund, and other requirements on its long-term debt. The majority of the funds are held in a bond reserve fund and are reported on these statements as Cash Held by Trustee.

In addition, funds held on behalf of residents are deposited in a separate bank account and are reported as Patient Trust Funds. A corresponding long-term liability is reported.

Bond Costs and Discounts

Bond costs and discounts are stated at cost net of accumulated amortization and are being amortized over the life of the bond.

Revenue Received in Advance

Revenue received in advance represents amounts billed by the Nursing Home for the following year's services. These billings will be recognized as revenue in the succeeding year.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $20,442 in 2003 and $31,249 in 2002.

Estimates

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

Note 2: **Investments:**

Investments are carried at readily determinable fair market value. Following is a summary of investments classified by major type as of December 31:

	2003	2002
Equity securities	$ 592,312	$ 572,673
U.S. Treasury securities	202,786	259,260
Certificates of deposit	661,857	-0-
	$ 1,456,955	$ 831,933

Net losses on investments consist of:

Realized (-loss) gain	$ -8,136	$ 9,039
Unrealized gain (-loss)	54,294	-119,325
	$ 46,158	$ -110,286

Note 3: Land, Building and Equipment:

December 31, 2003	Cost or Donated Value	Accumulated Depreciation	Net Book Value
Land	$ 746,976	$ -0-	$ 746,976
Building and improvements	5,212,377	2,343,590	2,868,787
Equipment	882,506	690,094	192,412
	$ 6,841,859	$ 3,033,684	$ 3,808,175

December 31, 2002	Cost or Donated Value	Accumulated Depreciation	Net Book Value
Land	$ 746,976	$ -0-	$ 746,976
Building and improvements	5,203,727	2,171,033	3,032,694
Equipment	810,837	637,890	172,947
	$ 6,761,540	$ 2,808,923	$ 3,952,617

A portion of the Organization's building is rented to another non-profit organization on a month-to-month basis. The Organization received $10,767 and $5,994 in rent for the years ended December 31, 2003 and 2002, respectively.

Note 4: Bonds Payable:

$3,160,000 of Insured Health Facility Revenue 1992 Refunding Series D Bonds, secured by land and building, were issued October 1, 1992 bearing interest at 6.25% and are due September 1, 2015. Interest is payable in semi-annual installments, and principal payments commenced in 1993. The Organization makes monthly deposits to the trustee to fund these payments.

Scheduled long-term maturities are as follows:

2004	$ 125,000
2005	135,000
2006	140,000
2007	150,000
2008	160,000
Thereafter	1,435,000
	$ 2,145,000

ASIAN COMMUNITY CENTER OF SACRAMENTO VALLEY, INC.
Notes to Financial Statements

Note 5: Lease:

The Organization leases a bingo facility with a lease expiring in February 2004. There are two options to renew for an additional five year period at the end of the lease. Subsequent to December 31, 2003, the Organization exercised the option for an additional five year period.

Following is a schedule of future minimum rental payments required under the bingo facility operating lease for the next five years as of December 31, 2003:

2004	$ 7,605
2005	-0-
2006	-0-
2007	-0-
2008	-0-

Note 6: Medicare Reimbursement and Grants Receivable/Liability:

Revenue under third-party payor agreements and grants are subject to examination and retroactive adjustment. Provisions for estimated third-party payor and/or settlements are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in the year of settlement.

Note 7: Donated Services:

The Organization uses the services of many volunteers, particularly for the Bingo Fund operations. The value of these services is substantial, however, it cannot be estimated and in accordance with FASB 116 has not been recorded.

Note 8: Retirement Plan:

The Organization has a tax shelter annuity 403(b) plan available to its employees. Participation in the program is solely at the employee's option. The Organization does not make contributions to the 403(b) plan.

Note 9: Concentrations of Credit Risk:

As of December 31, 2003 and 2002, the Organization had cash balances in banks which were in excess of federally insured limits by $1,268,132 and $1,304,131, respectively. The Board of Directors approves all invested cash in excess of $100,000 except for the funds held by the Trustee. The funds held by the Trustee are held in Treasury Cash Reserves which are covered by the Security Investment Protection Corporation.

Investments that are not insured by the FDIC are covered by the Security Investment Protection Corporation.

Note 10: Constraints on Bingo Funds:

As required by the County Clerk of Sacramento, all profits derived from bingo games are kept in a special fund or account and are not commingled with any other fund or account. Profits from bingo games may be used for the Asian Community Center's charitable purposes only.

AUDITED FINANCIAL STATEMENTS OF CALIFORNIA AUTISM FOUNDATION, INC.

THE CALIFORNIA AUTISM FOUNDATION, INC.
and Subsidiary

December 31, 2003

FINANCIAL STATEMENTS

Bollinger Accountancy,
A Professional Corporation
Certified Public Accountants

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EXTRA ATTENTION & CONVENIENCE

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WINDSOR, CA 95492

INDEPENDENT AUDITORS REPORT

To the Board of Directors of
The California Autism Foundation, Inc.

We have audited the accompanying statement of financial position of The California Autism Foundation, Inc. (a nonprofit organization) and it's subsidiary as of December 31, 2003, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The California Autism Foundation, Inc and it's subsidiary as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2004, on our consideration of The California Autism Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Bollinger Accountancy,
A Professional Corporation
Certified Public Accountants
Santa Rosa, California

March 15, 2004

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EXTRA ATTENTION & CONVENIENCE

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March 15, 2004

To the Senior Management and
The Board of Directors of
The California Autism Foundation

In planning and performing our audit of the financial statements of The California Autism Foundation for the year ended December 31, 2003, we considered the Foundation's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and to provide assurance on internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated March 15, 2004, on the financial statements of The California Autism Foundation.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Bank Cash Accounts

Cash account balances continue to be healthier. We recommend reviewing periodically cash needs and investment strategies in order to maintain adequate liquidity and use any excess funds to reduce the outstanding balance on other debts.

We noted that the foundation places cash in several banking institutions. At times the amount on deposit exceeds the $100,00 Federal Depository Insurance limit of the institution. This exposes the Foundation to a collection risk. We recommend the Foundation monitor the situation and if necessary open additional bank accounts if the deposits exceed the $100,000 limit.

Bonds Payable

The bulk of the bonds payable to the California Health Facilities Financing Authority carry an interest rate of 6.25%. We recommend that the Foundation continue to monitor the interest rate environment in order to capitalize when the opportunity arises to refinance these bonds.

Accounting Manual

The Foundation does not have a completed formal accounting manual documenting the procedures for fiscal operations in accordance with the written policies. A written accounting manual is necessary to ensure that transactions are treated in a standardized, systemic manner and that proper internal controls exist in the accounting system. Should employees have a question as to the proper handling of a transaction in accordance with management's authorization, such information may not be available in writing.

Foundation personnel are aware of the need to have a formal accounting manual and have made considerable progress in documenting the procedures. We recommend that management continue to completion the accounting manual which should include operating guidelines for fiscal activities be prepared including a description of each fiscal procedure, such as invoice paying, maintenance of accounts receivable and accounts payable subsidiary records, and payroll procedures. In addition, an expense allocation methodology should also be incorporated into the accounting manual as well as policies and procedures for controlling updates to existing procedures and implementation of new ones.

Organizational Structure

The size of the Foundation's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of the Foundation to provide oversight and independent review functions.

We wish to thank the Executive Director and the Chief Financial Officer and their staffs for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Bollinger Accountancy, APC

Bollinger Accountancy, APC
Certified Public Accountants
Santa Rosa, California
March 15, 2004

THE CALIFORNIA AUTISM FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2003

ASSETS

Cash and cash equivalents (Note 2)	$	1,010,171
Cash and cash equivalents - restricted (Note 3)		590,119
Investments (Note 4)		860,351
Receivables, net of allowance for uncollectibles of $18,096 (Note 5)		989,372
Note receivable (Note 6)		935,000
Prepaid expenses		134,505
Script inventory		5,448
Property and equipment, net (Note 7)		7,186,386
Investment in affiliate (Note 8)		320,833
Total Assets	$	12,032,185

LIABILITIES AND NET ASSETS

Bank line of credit (Note 9)	$	613,700
Deferred revenue (Note 10)		198,800
Accounts payable and accrued expenses		408,874
Bonds payable (Note 11)		3,835,000
Other long-term debt (Note 12)		1,799,493
Total liabilities		6,855,867
Net assets		
Unrestricted		4,586,199
Temporarily restricted		590,119
Total net assets		5,176,318
Total liabilities and net assets	$	12,032,185

See accompanying notes to financial statements

THE CALIFORNIA AUTISM FOUNDATION, INC.
STATEMENT OF ACTIVITIES
DECEMBER 31, 2003

UNRESTRICTED NET ASSETS	
Revenue, gains and other support:	
Contributions	$ 1,360,032
Program services	9,394,257
Production revenue	1,081,508
Interest income	8,873
Rental income	23,814
Other income	117,195
Total unrestricted revenue, gains and other support	11,985,679
Changes to restricted net assets	
Decrease to bond reserve funds, net	(14,744)
Decrease in funds held on behalf of clients, net	(14,599)
Total unrestricted revenue, gains and other support and reclassifications	11,956,336
Expenditures:	
Program services	
Support services	7,626,058
Production expenses	801,001
Total program services	8,427,059
Supporting services	
Management and administrative	1,263,935
Fund raising	201,491
Total supporting services	1,465,426
Total expenditures	9,892,485
Increase in unrestricted net assets	2,063,851
TEMPORARILY RESTRICTED NET ASSETS	
Increase to bond reserve funds, net	14,744
Increase in funds held on behalf of clients, net	14,599
Increase in temporarily restricted net assets	29,343
NET ASSETS AT BEGINNING OF YEAR	3,083,124
NET ASSETS AT END OF YEAR	$ 5,176,318

See accompanying notes to financial statements

THE CALIFORNIA AUTISM FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENDITURES
DECEMBER 31, 2003

		PROGRAM SERVICES		SUPPORTING SERVICES	
	Total	Support	ABC Industries	Management and General	Fundraising
Personnel					
Compensation	$ 5,749,946	$ 4,671,815	$ 429,299	$ 648,832	$
Payroll taxes	569,763	484,181	32,778	52,804	
Employee benefits	438,913	368,535	29,158	41,220	
Staff recruiting and training	118,061	53,396	823	63,842	
Consultants	271,356	150,510	6,600	34,853	79,393
Occupancy					
Rent	102,683	98,008		4,675	
Utilities	268,347	167,124	43,373	57,850	
Food and housekeeping	0	0			
Repairs and maintenance	280,307	160,975	35,390	83,942	
Depreciation	228,753	161,541	10,158	57,054	
Other expenditures					
Interest	371,624	178,499	60,021	111,539	21,565
Insurance	565,901	454,950	58,584	52,367	
Program expenditures	751,774	570,154	87,680		93,940
Travel and transportation	45,191	31,718	3,307	10,166	
Other	129,866	74,652	3,830	44,791	6,593
	$ 9,892,485	$ 7,626,058	$ 801,001	$ 1,263,935	$ 201,491

See accompanying notes to financial statements

THE CALIFORNIA AUTISM FOUNDATION, INC.
STATEMENT OF CASH FLOWS
DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ 2,093,194
Adjustments to reconcile to net cash provided by operating activities -	
Depreciation and amortization	228,753
Donation of investments	(830,055)
Donation of furniture and fixtures	(51,900)
Donation of stock in affiliate	(320,833)
Gain on sale of investments	(28,531)
(Increase) decrease in operating assets	
Accounts receivable - net	87,131
Prepaid expenses	(58,643)
Script inventory	2,578
Increase (decrease) in operating liabilities	
Accounts payable and accrued liabilities	(62,794)
Net cash provided by operating activities	1,058,900
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in restricted cash	29,343
Acquisition of property & equipment	(412,360)
Construction in progress	(56,812)
Acquisition of investments	(415,698)
Proceeds from redemption of investments	416,364
Net cash used in investing activities	(439,163)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowings under line of credit agreements	452,578
Payments on bonds payable	(125,000)
Borrowing of notes/mortgages payable	222,000
Repayments of notes/mortgages payable	(667,619)
Net cash provided by financing activities	(118,041)
Net increase in cash and cash equivalents	501,696
Cash and cash equivalents, beginning of year	508,475
Cash and cash equivalents, end of year	$ 1,010,171
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 371,624

Noncash investing and financing activities in 2003 consist of selling property in return for a note receivable in the amount of $935,000.

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENT

YEAR ENDED DECEMBER 31, 2003

Note 1 – Summary of Significant Accounting Policies

Standards of Accounting and Reporting

The Foundation follows standards of accounting and financial reporting prescribed for not-for-profit organizations. In accordance with these standards, expenditures for leasehold improvements and equipment and the fair market value of donated property are capitalized. Donated materials and equipment are reflected as contributions by their estimated value at date of receipt. Depreciation of equipment is recorded over the estimated useful life of the asset. The accounting records are maintained on the accrual basis of accounting; revenue is recorded when earned, and expenditures are recorded when incurred. Investments are valued at market.

Donor Restrictions

Contributions are considered available and unrestricted for the general program unless temporarily or permanently restricted by the donor, and are reflected in the financial statements as such. Funds are considered temporarily restricted if a restriction is imposed which will either expire by the passage of time or will be fulfilled and removed by actions of the Foundation pursuant to those stipulations. At such time of fulfillment, those funds are removed from the temporary restricted category and are then considered unrestricted.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Reporting Entity

The California Autism Foundation, Inc. is a not-for-profit foundation exempt from federal and state taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundation's primary purpose is to provide specialized program services for people with autism and other developmental disabilities, to educate the public regarding developmental disabilities and the potential contribution of those with disabilities, and to employ developmentally disabled individuals to manufacture and sell goods and services. The Foundation provides residential and vocational services to achieve this goal.

The Foundation's wholly owned subsidiary, Portola – ABC IV, LLC, is a limited liability company formed to own and lease to the Foundation the property located at 1340 Portola Avenue, San Francisco, CA.

Note 1 – Summary of Significant Accounting Policies, continued

Support and Revenue

The Foundation has been approved by and contracts for services with the California Department of Rehabilitation Services, the Regional Center of the East Bay, the Golden Gate Regional Center and the California State Department of Education. Any reduction of government funding or loss of these contracts may seriously impact the Foundation's ability to continue providing services to its' clients.

Note 2 - Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash within ninety days of purchase. Cash and cash equivalents for purposes of the statement of cash flow exclude permanently restricted cash and cash equivalents.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Foundation to credit risk principally consist of bank balances and accounts receivable. The California Autism Foundation, Inc. utilizes various banks to deposit cash funds. The Federal Deposit Insurance Corporation (FDIC) insures these accounts to the extent that the accounts do not exceed $100,000. The Foundation at December 31, 2003 and periodically throughout the year has maintained balances in various operating and money market accounts in excess of federally insured limits. 76% and 23% of bank balances are held with Mechanics Bank and City National Bank, respectively. The Regional Center of the East Bay and the Golden Gate Regional Center represent 43% and 14%, respectively of accounts receivable.

Note 3 - Cash and Cash Equivalents - Restricted

The California Autism Foundation, Inc. has obtained the issuance of the California Health Facilities Financing Authority Insured Revenue Bonds (The California Autism Foundation, Inc., 1995 Series A Bonds, dated November 1, 1995) in the principal amount of $4,700,000. US Bank is trustee of that Indenture. Pursuant to Section 3.02 of the Indenture, certain funds are set aside to insure that there is adequate security for timely payments of the Bonds.

As of December 31, 2003, $557,817 is held in trust with US Bank in the following accounts:

Bond Reserve Fund	$ 374,376
Principal Account	23,084

NOTES TO THE FINANCIAL STATEMENT

YEAR ENDED DECEMBER 31, 2003

Note 3 - Cash and Cash Equivalents – Restricted, continued

Interest Account	20,352
Insurance Account	22,486
Revenue Account	117,519
Total held in trust with US Bank	$ 557,817

The balance of restricted cash is held in separate depository accounts, as required, on behalf of clients of the Foundation for personal items.

Held in trust for clients	$32,302
Total Cash and Cash Equivalents-Restricted	$ 590,119

Note 4 – Investment Securities

Investments are composed of funds investing in debt and equity securities and are carried at fair market.

Note 5 – Accounts Receivable

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, contracts and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. Changes in the valuation allowance account have not been material to the financial statements.

Note 6 – Note Receivable

Note Receivable, individual, secured by deeds of trust to real property, monthly interest installment at 6% per annum. Due on or before December 30, 2008 (See Note 10).

Note 7 - Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost basis if purchased, and fair value if donated. Depreciation of buildings and equipment is recorded on a straight-line basis over the estimated useful lives of the assets of five years for furniture and equipment, and of fifty years for buildings. Assets with a useful life of two or more years and a cost of $1,000 or more are capitalized.

At December 31, 2003, the cost and related accumulated depreciation for such assets is summarized as follows:

Note 7 - Land, Buildings, and Equipment, continued

Description	Cost Basis	Life	Depreciation Expense	Accumulated Depreciation
ABC I Home	$ 274,735	50 Yrs	$ 3,264	$ 36,342
ABC II Home	244,194	50 Yrs	2,611	47,887
ABC III Home	185,000	50 Yrs	1,908	22,767
ABC IV Home	439,277	50 Yrs	3,375	22,080
ABC V Home	253,051	50 Yrs	2,679	32,008
ABC VI Home	601,037	50 Yrs	9,541	18,154
ABC VII Home	350,358	50 Yrs	5,358	14,705
ABC VIII Home	317,714	50 Yrs	4,225	38,350
ABC IX Home	228,346	50 Yrs	2,485	7,443
ABC Truckee			12,942	
Corte Arango Land	375,000			
Lakeside Building	4,081,372	50 Yrs	59,164	410,832
Transportation Equipment	854,688	5 Yrs	103,117	496,707
Furniture & Equipment	316,918	5 Yrs	18,084	244,841
Totals	$8,521,690		$ 228,753	$ 1,392,116

Recap:

Land	$ 2,544,613
Buildings	4,805,471
Transportation Equipment	854,688
Furniture & Equipment	316,918
	8,521,690
Less accumulated depreciation	(1,392,116)
	7,129,574
Construction in progress	56,812
	$7,186,386

All land and buildings not encumbered by private mortgages are encumbered by the bonds payable described in Note 11.

Note 8 – Investment in Affiliate

On December 31, 2003, the director of the Foundation donated 25% of stock in Windsor Confections, Inc., a small private company owned by the director. The stock was donated at a cost of $320,833, determined by a certified appraisal report. Because the Foundation does not exercise significant influence over the company's operating and financial activities, the investment in stock is accounted for under the cost method.

Note 9 – Bank Lines of Credit

The Foundation has two lines of credit with financial institutions. One provides for a maximum borrowing of $500,000 and is collateralized by all accounts maintained by the foundation at UBS Financial Services. Interest is payable monthly at 1.75% over the London Interbank Offered Rate (2.876% at December 31, 2003). The director personally guarantees all borrowing. The second provides for a maximum borrowing of $350,000 and is collateralized by all the Foundations equipment. Interest is payable at 1.5% over the lender's index rate (5.25 – 6.0% at December 31, 2003).

Note 10 – Sale-Leaseback Transaction – Operating Lease

On December 29, 2003, the Foundation entered into a sale-leaseback arrangement. Under the arrangement, the Foundation sold the 13296 Hansel Avenue Truckee property and leased it back for a period of five years. The leaseback has been accounted for as an operating lease. The $198,800 realized in this transaction has been deferred and will be amortized to income in proportion to rental expense over the term of the lease. The operating lease includes a purchase option within one year of the agreement for an amount not to exceed $945,000.

Note 11 - Bonds Payable

The California Autism Foundation, Inc. has been successful in obtaining the issuance of the California Health Facilities Financing Authority Insured Revenue Bonds (The California Autism Foundation, Inc., 1995 Series A Bond, dated November 1, 1995) in the principal amount of $4,700,000. The initial interest was 4% and is increasing ratably over the life of the bond to 6.25%. The bonds mature on November 1, 2020.

Following is a summary of the bond principal maturities and interest requirements:

Year Ending

December 31	Principal	Coupon	Interest	Total
2004	$135,000	5.10	$237,045	$372,045
2005	140,000	5.20	230,025	370,025
2006	150,000	5.375	222,500	372,500
2007	160,000	6.25	213,125	373,125
2008	170,000	6.25	203,125	373,125
Thereafter	3,080,000	6.25	1,388,438	4,468,438
Totals	$3,835,000		$2,494,258	$6,329,258

Note 12 – Notes & Mortgages Payable

Security	Note Holder	Int Rate	Life	Monthly Payment	Ending Balance
ABC II Home	Housing Authority	3.0%	10 Yr	None	$42,000
ABC III Home	Housing Authority	3.0%	10 Yr	None	25,000
ABC IV Home	Mayor Office Housing	0.0%	50 Yr	None	323,480
ABC IV Home	Housing Authority	3.0%	Due upon sale	None	25,000
ABC VI	Union Bank	6.5%	30 Yr	2,781	429,530
ABC VII Home	Union Bank	6.625%	30 Yr	1,761	265,715
ABC VIII Home	GMAC Mortgage	6.625%	15 Yr	2,002	96,202
ABC IX Home	Union Bank	7.625%	30 Yr	708	195,247
ABC IX Home	Contra Costa County	3.0%	30 Yr	1,526	117,268
ABC Apt.	Comm Loan Fund	7.0%	3 Yr	6,683	274,024
Telephone System	Graybar Financial	17.2%	5 Yr	460	3,452
Welding System	1st Sierra Financial	15.0%	5 Yr	800	2,575
			Totals		$1,799,493

Scheduled maturities of long-term notes and mortgages payable are as follows:

Year ending December 31,	
2004	$ 102,041
2005	102,661
2006	109,786
2007	110,762
2008	34,497
Thereafter	1,339,746
	$ 1,799,493

Note 13 – Operating Lease Commitment

The Foundation has the following operating lease obligations:

Description	Monthly Payment	Maturity Date
Buildings:		
4138 Lakeside Drive	$ 6,123	Month to Month
Marin Day Program	1,400	Month to Month
13296 Hansel Avenue	4,675	12/30/2008 (See Notes 6 and 10)

Note 13 – Operating Lease Commitment, continued

Equipment:		
Copier	1,014	2/01/2005
Lift Truck	564	10/26/2005
Forklift	261	11/09/2005
Bundling Film Machine	376	5/12/2006

The Foundation also guarantees the monthly rent for seven Supported Living Facilities, although the consumer is responsible for payment of the rent.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of 1 year as of December 31, 2003 for each of the next five year and in the aggregate are:

Year ending December 31	Annual Rental Payments
2004	$82,680
2005	70,137
2006	57,604
2007	56,100
	$ 266,521

Note 14 – Retirement Plan

The Foundation maintains a qualified retirement plan covering all eligible employees. The plan is a deferred arrangement under section 403(b) of the Internal Revenue Code. The plan is funded by salary reductions of the participants.

Note 15 – Related Party Transaction

At December 31, 2003, an affiliated entity owed the Foundation $5,874. The amount is included in account receivable.

Note 16 – Litigation

The Foundation is involved in litigation at times, arising in the normal course of business, which, in the opinion of management, will not have a material adverse effect on the Foundation's financial position, results of operations and cash flows.

Note 17 – Subsequent Events

On February 26, 2004 the Foundation purchased the 4138 Lakeside Drive property in the amount of $674,520. The property was financed in part by a $505,890 note payable to a bank.

AUDITED FINANCIAL STATEMENTS OF
CLINICAS DEL CAMINO REAL

CLINICAS
DEL CAMINO REAL, INCORPORATED

Financial Statements
and
Supplementary Financial Information

For the Year Ended
June 30, 2004

CLINICAS DEL CAMINO REAL, INC.

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For the Fiscal Year Ended June 30, 2004

OGA

OSCAR G. ARMIJO
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clinicas Del Camino Real, Inc.
Ventura, California

We have audited the accompanying statement of financial position of Clinicas Del Camino Real, Inc. (a nonprofit organization) as of June 30, 2004, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clinicas Del Camino Real, Inc. as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with _Government Auditing Standards_, we have also issued our report dated September 30, 2004 on our consideration of Clinicas Del Camino Real, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with _Government Auditing Standards_ and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Clinicas Del Camino Real, Inc., taken as a whole. The supplementary financial information on pages 16 to 22, inclusive, and the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, _Audits of States, Local Governments, and Non-Profit Organizations_, and is not a required part of the basic financial statements. Such information has been subjected to the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 12, 2004

MEMBER
California Society of Certified Public Accountants

MEMBER
American Institute of Certified Public Accountants

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FINANCIAL STATEMENTS

CLINICAS DEL CAMINO REAL, INC.

Statement of Financial Position

June 30, 2004 with Comparative Totals
For the Year Ended June 30, 2004

Assets:	2004	2003
Current Assets		
Cash	$ 1,156,739	$ 1,528,484
Cash-restricted (Note C)	1,102,023	1,162,531
Patient accounts receivable-net (Note D)	1,411,852	506,524
Grants receivable (Note E)	2,342,795	1,251,376
Other receivables	-	379
Prepaid expenses	162,757	89,612
Inventory	84,760	244,094
Total Current Assets	6,260,926	4,783,000
Property and Equipment - Net (Note F)	12,496,918	11,989,250
TOTAL ASSETS	$ 18,757,844	$ 16,772,250
Liabilities and Net Assets:		
Current Liabilities		
Accounts payable	$ 572,056	$ 409,903
Estimated third-party payor settlements (Note G)	1,083,216	888,046
Accrued expenditures	977,996	857,573
Line of credit (Note H)	377,250	-
Other liabilities	296,096	356,171
Current portion of long-term debt (Note I)	339,739	322,207
Total Current Liabilities	3,646,353	2,833,900
Long-Term Debt (Note I)	9,113,668	9,433,428
Total Liabilities	12,760,021	12,267,328
Commitments and Contingencies (Note O)		
Net Assets		
Unrestricted	3,754,848	3,083,726
Temporarily restricted (Note J)	2,242,975	1,421,196
Total Net Assets	5,997,823	4,504,922
TOTAL LIABILITIES AND NET ASSETS	$ 18,757,844	$ 16,772,250

See accompanying notes to financial statements.

CLINICAS DEL CAMINO REAL, INC.

Statement of Activities

June 30, 2004 with Comparative Totals
For the Year Ended June 30, 2003

Unrestricted Net Assets:	2004	2003
Public Support and Revenues:		
Net patient revenue	$ 10,959,363	$ 9,791,759
Grant revenue	2,863,042	1,459,387
Other income	60,263	63,471
Total Public Support and Revenues	13,882,668	11,314,617
Net assets released from restrictions (Note J)		
Restrictions Satisfied by Provision of Services	1,421,196	2,716,781
Total Public Support, Revenues and Reclassifications	$ 15,303,864	$ 14,031,398
Expenses:		
Program Services:		
Medical services	6,231,445	5,770,182
Dental	1,468,752	1,222,283
Educational and social services	610,751	613,682
Other health services	1,429,986	1,265,420
Total Program Service Expenses	9,740,934	8,871,567
Supporting Services:		
Management and general	4,891,808	4,684,791
Total Expenses	14,632,742	13,556,358
Increase (Decrease) in Unrestricted Net Assets	671,122	475,040
Temporarily Restricted Net Assets:		
Federal, state and local grants	2,242,975	1,421,196
Net assets released from restrictions	(1,421,196)	(2,716,781)
Increase (Decrease) in Temporarily Restricted Net Assets	821,779	(1,295,585)
Increase (Decrease) in Net Assets	1,492,901	(820,545)
Net Assets at Beginning of Year	4,504,922	5,325,467
NET ASSETS AT END OF YEAR	$ 5,997,823	$ 4,504,922

See accompanying notes to financial statements.

CLINICAS DEL CAMINO REAL, INC.

Statement of Cash Flows

June 30, 2004 with Comparative Totals
For the Year Ended June 30, 2003

Cash Flows From Operating Activities:	2004	2003
Increase (Decrease) in net assets	$ 1,492,901	$ (820,545)
Adjustments to reconcile change in net cash provided (used) for operating activities		
Restatement of net assets	-	(245,026)
Depreciation and amortization	828,813	716,785
Increase (Decrease) in Operating Assets		
Patient accounts receivable	(905,328)	68,812
Grants receivable	(1,091,419)	77,403
Other receivables	379	12,892
Prepaid expenses	(73,145)	(76,807)
Inventory	159,334	278,937
Increase (Decrease) in Operating Liabilities		
Accounts payable	162,153	106,362
Estimated third-party payor settlements	195,170	(250,000)
Accrued expenditures	120,423	92,800
Other liabilities	(60,075)	(32,977)
Net Cash Provided (Used) by Operating Activities	829,206	(71,364)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(1,336,480)	(769,965)
Cash Flows From Financing Activities:		
Prinicpal payments on long-term debt	(327,289)	(284,710)
Proceeds from short-term borrowings	377,250	-
Issuance of long-term borrowings	25,060	-
Net Cash Provided (Used) by Financing Activities	75,021	(284,710)
Net (Decrease) in Cash and Cash Equivalents	(432,253)	(1,126,039)
Cash and Cash Equivalents - Beginning of Year	2,691,015	3,817,054
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,258,762	$ 2,691,015

See accompanying notes to financial statements.

CLINICAS DEL CAMINO REAL, INC.

Statement of Functional Expenses

June 30, 2004 with Comparative Totals
For the Year Ended June 30, 2003

	Medical Services	Dental Services	Educational & Social Services	Other Health Services	Management & General Services	2004 Total Expenses	2003 Total Expenses
Salaries	$ 3,928,568	$ 743,324	$ 395,751	$ 1,057,545	$ 1,813,364	$ 7,938,552	$ 6,963,736
Fringe Benefits	959,427	171,173	133,615	216,638	510,361	1,991,214	1,654,604
Total Salaries/Fringe Bebefits	4,887,995	914,497	529,366	1,274,183	2,323,725	9,929,766	8,618,340
Consultants/ Contractual Services	219,102	249,759	-	1,999	321,310	792,170	602,794
Dues & Memberships	27,139	-	-	-	11,526	38,665	48,797
Education	7,238	1,558	934	1,630	24,655	36,015	52,263
Equipment Lease & Rental	50,305	16,170	487	3,447	40,675	111,084	61,567
Insurance - General Liability	1,017	2,319	8,880	-	90,920	103,136	99,577
Insurance - Malpractice	22,662	8,816	-	7,377	-	38,855	39,671
Interest Expense	689	-	404	-	615,144	616,237	637,977
Postage	7,132	-	-	-	29,581	36,713	41,625
Printing & Duplication	68,894	8,448	2,994	5,831	32,466	118,633	124,245
Promotion	287,830	5,914	343	11,068	4,897	310,052	596,130
Publications & Subscriptions	2,164	171	-	266	4,454	7,055	9,971
Recruitment	37,088	12,611	602	227	5,965	56,493	16,668
Rent	442	-	-	-	139,610	140,052	134,375
Repairs & Maint - Auto	1,146	3,001	5,922	-	9,598	19,667	26,073
Repairs & Maint - Building	-	-	-	-	81,397	81,397	105,534
Security Services	-	-	-	-	-	-	5,569
Supplies-Dental	-	139,585	-	-	-	139,585	172,207
Supplies-Janitorial	-	-	-	-	29,692	29,692	40,814
Supplies-Laboratory	53,724	-	-	-	-	53,724	59,985
Supplies-Medical	105,083	-	12,438	3,210	-	120,731	76,439
Supplies-Office	86,611	6,842	1,012	2,992	52,143	149,600	133,443
Supplies-Optical	-	-	-	112,842	-	112,842	82,032
Supplies-Pharmacy	176,999	-	-	-	-	176,999	218,938
Supplies-X-Ray	4,164	-	-	-	-	4,164	3,713
Taxes & License	8,208	888	1,116	40	21,754	32,006	18,587
Telephone	88,457	1,037	-	1,654	80,529	171,677	144,950
Travel	27,100	446	8,950	2,425	32,427	71,348	88,075
Utilities	3,433	125	-	-	190,747	194,305	139,256
Miscellaneous	46,600	24,423	-	775	39,448	111,246	393,990
Total Expenses Before Depreciation	6,221,222	1,396,610	573,448	1,429,986	4,182,663	13,803,929	12,839,573
Depreciation	10,223	72,142	37,303	-	709,145	828,813	716,785
Total Expenses	$ 6,231,445	$ 1,468,752	$ 610,751	$ 1,429,986	$ 4,891,808	$ 14,632,742	$ 13,556,358

See accompanying notes to financial statements.

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NOTES FINANCIAL STATEMENTS

NOTE A: NATURE OF ACTIVITIES

Clinicas Del Camino Real, Inc. (the Organization), is a Non-Profit Corporation supported by federal, state and local grants, private foundations grants, and revenues from operations. Organization activities consist of providing quality medical and supportive services to the population of Ventura County. The Organization operates seven primary health care facilities located in Ventura, Oxnard, Fillmore, Santa Paula, Maravilla, Oceanview and Ojai. One Board of Directors governs all of the operations and programs of Clinicas Del Camino Real, Inc. Their underlying philosophy and objective is to provide high quality comprehensive health services to the people of the area, regardless of income.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Information

The financial statements for the 12 months ended June 30, 2004 (fiscal year 2004) are prepared in accordance with accounting principles generally accepted in the U.S., which require the Organization to make estimates and assumptions regarding the valuations of certain financial instruments, contractual allowance levels, the outcome of litigation, and other matters that affect the financial statements and related disclosures. The Organization believes that the estimates utilized in the preparation of the financial statements are prudent and reasonable. Actual results could differ materially from these estimates

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Non-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The Organization prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting. Consequently, revenue and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents

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

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in marketable securities are stated at fair market value. All gains and investment income are reported as unrestricted net assets.

Grants and Contributions

Contributions received from granting agencies are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any grantor restrictions.

Support that is restricted by the grantor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other grantor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Property and Equipment

Expenditures for property and equipment are stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Property acquired with federal grant supported funds is considered to be owned by the Organization while used in the program for which it was purchased or in other authorized programs. However, the federal government has a reversionary interest in the property equal to the federal share of the grant which acquisition cost of the property was charged.

Inventory

Inventories are stated at the lower of cost or market determined by the first-in, first-out method of accounting.

Third-Party Contractual Adjustments

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient services revenue is adjusted as required in subsequent period based on final settlements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

Patient service revenues are recorded at the Organization's established rates. Sliding fee scale adjustments, provision for uncollectible accounts, and contractual allowances are deducted to arrive at net patient service revenue.

Deductions from patient service revenue related to discounts provided to patients (sliding scale adjustments) aggregated to approximately $2,578,189 in 2004.

Donations

Annual donations are generally available for unrestricted use in the related year unless specifically restricted by the donor.

Vacation Pay

The Organization permits its employees to accumulate vacation leave over their working careers and to redeem vacation time in cash upon termination of employment. The estimated amount of unpaid vacation at June 30, 2004 was $321,490.

Leases

Leases that in substance transfer all of the benefits and risks equivalent to ownership of the property are classified as capital leases. The related assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased property at the beginning of the respective leased terms. Generally, such assets are amortized over their economic lives. Interest expense relating to the lease liabilities is recorded using the effective interest method over the terms of the leases. All other leases are classified as operating leases and related rentals and are charged as an expense when incurred.

Third-Party Payor Settlements

The Organization provides patient care services under the FQHC Medicare program. This program provides for current payment on a provisional basis, subject to adjustment after submission a cost report and audit by the contracting agencies. The Organization's policy is to estimate and record such adjustments in the year in which the services are rendered and to reflect any differences between such estimates and ultimate settlements when additional data becomes available or the amount of settlement is known.

Non-Profit Status

The Organization is a private Non-Profit Corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Service, and organized under the laws of the State of California. Accordingly, no provision for income taxes or the excess of revenues over expenditures is included in the accompanying financial statements.

NOTE C: RESTRICTED CASH

The Organization is required to maintain debt service reserve accounts with trustees appointed by the California Health Facilities Financing Authority to comply with provisions related to various tax-exempt bonds issued under the Cal-Pool program. As of June 30, 2004, the balances in these accounts were $1,102,023.

NOTE D: PATIENT ACCOUNTS RECEIVABLE

The patient accounts receivable balance as of June 30, 2004, is comprised of the following:

Private pay	$ 133,387
Medi-Cal	1,167,580
Medicare	292,548
Insurance	120,802
CHDP	46,482
Other third party	102,668
Total before allowance for doubtful accounts	1,863,467
Less allowance for doubtful accounts	(451,615)
Net Patient Accounts Receivable	$ 1,411,852

NOTE E: GRANTS AND CONTRACTS RECEIVABLE

The grants and contracts receivable balance as of June 30, 2004, is comprised of the following:

U.S. Dept. of Health and Human Services	
- Migrant Health Initiative	$ 935,068
- Expanded Medical Capacity Initiative	310,477
- New Access Point Initiative	446,053
State of California Health and Human Services Agency	
- Seasonal Agricultural and Migratory Workers Program	67,300
- Rural Health Services Development Program	18,990
Children & Families First Commission of Ventura County	
- Dental Health Initiative	71,481
- Mental Health Outpatient Services Program	229,989
- Kids Immunization Project Computer Registry Program	13,465
Delta Dental of California	
- Oral Health Demonstration Project	196,198
Tides Foundation and The California Endowment	
- Community Clinics Initiative	50,000
Ventura County	
- Collaborative Immunization Project	3,774
Total Grants and Contracts Receivable	$ 2,342,795

NOTE F: PROPERTY AND EQUIPMENT

The net property and equipment balance as of June 30, 2004, is comprised of the following:

Buildings & land	$15,873,908
Computers	532,709
Medical equipment	792,004
Office equipment	643,215
Facility equipment	76,708
Vehicles	516,768
Furniture & Fixtures	79,409
Leasehold improvements	587,789
	19,102,510
Less accumulated depreciation	(6,605,592)
Net Property and Equipment	$12,496,918

Depreciation expense for the twelve months ended June 30, 2004 was $828,813.

NOTE G: ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

During the fiscal year ended June 30, 2004, the balance in this account was adjusted to reflect final and tentative settlements proposed by the Department of Health Services, Audit Review and Analysis Section on FQHC Medi-cal and Medicare Cost reports filed by the Organization for prior years. The estimated balance due to the Medi-cal and Medicare programs at June 30, 2004 is $1,083,216.

NOTE H: LINE OF CREDIT

The Organization has a $500,000 revolving line of credit, of which $122,750 was unused at June 30, 2004. Bank advances on the line of credit are payable on demand and carry an interest rate of 6.25%. The credit line is secured by substantially all assets of the Organization.

NOTE I: LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2004 are summarized as follows:

Mortgages and Notes Payable

Loan from proceeds of Small Facilities Pool Loan Program (the "Starts" Program) issued by the California Health Facilities Financial Authority to refinance the construction and parking lot improvements of medical facilities. Total loan amount is $550,000.

NOTE I: LONG-TERM LIABILITIES (CONTINUED)

Mortgages and Notes Payable (continued)

The Starts loan is payable in monthly installments of $4,058. Loan is secured by property refinanced from loan proceeds.	$ 465,001
Loan from proceeds of sale of tax-exempt bonds issued by the Local Medical Facilities Financing Authority to finance the construction and acquisition of the Oxnard Clinic. Total amount authorized is $2,800,000. Bonds are payable in monthly installments of $20,975, including principal and interest. Loan is secured by property acquired from loan proceeds.	$ 2,190,000
Loan from proceeds of sale of insured Revenue Bond 1997 Series A, issued by the California Health Facilities Financing Authority, to finance the construction costs of the Saticoy Family Health Care Center. Total amount Authorized is $7,225,000. Bonds are payable in monthly installments of $49,327 including principal and interest from beginning of May 1, 1997. Loan is secured by property acquired from loan proceeds.	6,285,833
Notes payable to Chrysler Financial Corporation. Notes are secured by two vehicles and bear interest at 8.99%. Notes mature in November 2004, and have a combined monthly payment of $760.	3,716
Wells Fargo Bank (Note was assumed by the Organization from Jack E. and Martha Dunn. Original note amount was $234,693). Clinicas Del Camino Real, Inc. and other investors acquired the Santa Paula Medical Facility in a 50% joint ownership (note amount outstanding at acquisition was $193,113). In fiscal year 1997/98 the Organization became the sole owner of this facility. The note is secured by the building, with the interest rate being a variable rate set at 2.90% over the U.S. Treasury weekly index rate adjusted annually. Monthly installments on the note are $2,167.20, with the note maturing on December 17, 2005	38,847
Total Long-term Mortgages and Notes Payable	8,983,397
Less: Current Portion	(265,890)
Net Long-term Mortgages and Notes Payable	$ 8,717,507

NOTE I: LONG-TERM LIABILITIES (continued)

Mortgages and Notes Payable (continued)

Long-term Mortgages and Notes Payable repayments due in each of the next five fiscal years are:

Fiscal Year 2005	265,890
Fiscal Year 2006	265,842
Fiscal Year 2007	273,333
Fiscal Year 2008	292,083
Fiscal Year 2009	308,750
Thereafter	7,577,499
Total Long-term Mortgages and Notes Payable	$ 8,983,397

Capital Leases

Capital lease agreement with Santa Barbara Bank & Trust dated November 8, 2002, for the purchase and installation of modular buildings for the Oceanview Clinic. Lease requires monthly payments of $8,920, and bears an interest of 9.77%. Term of lease is to November, 2009.	$ 448,734
Capital lease agreement with Bank of the West dated January 20, 2004, for the purchase of medical equipment for the Ventura Clinic. Lease requires monthly payments of $827, and bears an interest rate of 12.258%. Term of lease is to December 2006.	21,276
Total Long-term Capital Leases	470,010
Less: Current Portion	(73,849)
Net Long-term Capital Leases	$ 396,161

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payment as of June 30, 2004:

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Fiscal Year 2005	116,964	73,850
Fiscal Year 2006	116,964	81,610
Fiscal Year 2007	112,002	85,101
Fiscal Year 2008	107,040	88,519
Fiscal Year 2009	107,040	97,565
Fiscal Year 2009	44,408	43,365
	$ 604,418	$ 470,010

NOTE I: LONG-TERM LIABILITIES (continued)

Mortgages, Notes Payable and Capital Leases

Total Long-term Mortgages, Notes Payable and Capital Leases	$ 9,453,407
Less: Current Portion	(339,739)
Net Long-term Mortgages, Notes Payable and Capital Leases	$ 9,113,668

NOTE J: TEMPORARILY RESTRICTED NET ASSETS

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

U.S. Dept. of Health and Human Services	
- Migrant Health Initiative	$ 935,068
- Expanded Medical Capacity Initiative	310,477
- New Access Point Initiative	446,053
Tides Foundation and The California Endowment	
- Community Clinics Initiative	50,000
Children & Families First Commission of Ventura County	
- Mental Health Outpatient Services Program	214,218
Delta Dental of California	
- Oral Health Demonstration Project	188,932
Ventura County	
- Collaborative Immunization Project	13,464
Medicine for People in Need (MedPin)	
- Pharmaceuticals and Indigent Care Program	84,763
Total Temporarily Restricted Net Assets	$ 2,242,975

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

U.S. Dept. of Health and Human Services	
- Migrant Health Initiative	$ 905,195
State of California Department of Health Services	
- Expanded Access to Primary Care Program	85
Tides Foundation and The California Endowment	
- Community Clinics Initiative	57,106
Children & Families First Commission of Ventura County	
- Dental Health Initiative	57,773
- Mental Health Outpatient Services Program	143,479
Ventura County	
- Collaborative Immunization Project	13,464
Medicine for People in Need (MedPin)	
- Pharmaceuticals and Indigent Care Program	244,094
Total Net Assets Released From Restriction	$ 1,421,196

NOTE K: FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE L: PENSION PLAN

The Organization has a pension plan that covers all eligible full-time employees. The Organization is not required to make annual contributions to the plan. The Organization made a contribution of $250,408 to the plan for the year ended June 30, 2004.

NOTE M: CASH RISK CONCENTRATION

The Organization maintains checking and savings accounts with Santa Barbara Bank and Trust and a money market account with American Express Company. The Federal Deposit Insurance Corporation (FDIC) insures up to $100,000 in accounts at each banking institution, while the Securities Investor Protection Corporation (SIPC) insures up to $100,000 in accounts held at each registered investment company. At June 30, 2004, the Clinic's uninsured cash balance totaled $1,020,396.

NOTE N: RECONCILIATION OF FINANCIAL STATUS REPORT

The following is a reconciliation of the financial status reports (FSR) prepared by the Organization and the audit report for the Organization's PHS Section 329/330/EMC/NAP grant.

Sec. 329/330/EMC/NAP Grant	Per FSR	Per Grant Totals Schedule #3	Difference Over/(Under)
Total Program Outlays	$14,690,348	$14,966,493	$ (276,145)
Total Federal Share of Program Outlays	2,096,456	2,096,456	-0-
Unobligated Balance of Federal Funds	-0-	-0-	-0-
Excess (Deficit) of Program Income	-0-	(258,508)	(258,508)

NOTE O: CONTINGENCIES

Claims and Litigation

The Organization is subject to various claims and litigation. In the opinion of management, the outcome of such matters will not have a material effect on the financial position of the Organization.

Program Funding

Continuing program funding is contingent upon availability of funds from federal and state sources and project performance. The funds are awarded on a yearly basis upon receipt and approval of program applications.

Medicare Cost Reports

The Organization as a federally qualified health center and has elected to participate in the Federally Qualified Health Center Medicare reimbursement program. This program requires the Organization to file a cost report at the end of its fiscal year. The purpose of this report is to determine total cost incurred in providing services to Medicare and to reconcile payments received with the total cost reported in the cost report. This cost report is subject to review and audit by the Medicare Fiscal Intermediary (United Government Services). In the opinion of management, final settlement of this report will not materially affect the financial statements of the Organization.

Grantor Restrictions

Financial awards from federal, state and local government entities in the form of grants are subject to special audits. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision can be made for any potential liabilities that may arise from such audits since no indication of noncompliance has been noted by management.

NOTE P: PRIOR YEAR SUMMARIZED INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2003, for which the summarized information was derived.

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SUPPLEMENTARY FINANCIAL INFORMATION

CLINICAS DEL CAMINO REAL, INC.

Schedule of Grant Expenditures

Year Ended June 30, 2004

PUBLIC HEALTH SERVICE PROJECT

Expenditures	Federal Grant 329/330 EMC/NAP	State Rural Health	State Farm-Workers	State Delta Dental CHDP	Local VCC Imx Project	Local United Way	Local California Endowment	Local Tides Foundation	Grantee Share	Total Public Health
Personnel	$ 1,512,518	$ 184,793	$ 645,581	$ 72,666	$ -	$ 47,423	$ 65,738	$ -	$ 7,401,047	$ 9,929,766
Supplies	120,043	5,105	19,549	-	-	3,648	-	-	638,992	787,337
Contractors	120,069	-	-	-	-	4,377	-	-	667,724	792,170
Travel	11,075	-	-	-	-	730	-	-	59,543	71,348
Space costs	63,575	-	-	-	-	7,296	-	-	344,883	415,754
Other costs	277,599	-	7,869	-	15,930	9,484	-	21,368	1,475,304	1,807,554
Total Operating Expenditures	2,104,879	189,898	672,999	72,666	15,930	72,958	65,738	21,368	10,587,493	13,803,929
Capital Expenditures	253,710	-	-	-	-	-	-	140,000	1,270,059	1,663,769
Total Expenditures	$ 2,358,589	$ 189,898	$ 672,999	$ 72,666	$ 15,930	$ 72,958	$ 65,738	$ 161,368	$ 11,857,552	$ 15,467,698

CLINICAS DEL CAMINO REAL, INC.

Grant Made By
The United States Department of Health and Human Services
Grant Number 3H80CS00550-02-03

PUBLIC HEALTH SERVICE PROJECT

Statement of Revenues and Expenditures
For the Period July 1, 2003 through March 31, 2004

	Federal	Non-Federal Grantee Participation	Total
REVENUES			
Revenues	$ 1,794,724	$ 9,784,641	$ 11,579,365
Total Revenues	1,794,724	9,784,641	11,579,365
OPERATING EXPENDITURES			
Personnel	1,140,707	6,056,562	7,197,269
Supplies	91,254	484,509	575,763
Contractors	86,787	460,792	547,579
Travel	9,658	51,276	60,934
Space Costs	49,498	262,806	312,304
Other Costs	223,705	1,187,766	1,411,471
Total Operating Expenditures	1,601,609	8,503,711	10,105,320
Capital Expenditures	193,115	1,025,335	1,218,450
Total Expenditures	1,794,724	9,529,046	11,323,770
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ 255,595	$ 255,595

CLINICAS DEL CAMINO REAL, INC.

Grant Made By
The United States Department of Health and Human Services
Grant Number 5H80CS00550-03-00

PUBLIC HEALTH SERVICE PROJECT

Statement of Revenues and Expenditures
For the Period April 1, 2004 through June 30, 2004

	Federal	Non-Federal Grantee Participation	Total
REVENUES			
Revenues	$ 563,865	$ 3,160,634	$ 3,724,499
Total Revenues	563,865	3,160,634	3,724,499
OPERATING EXPENDITURES			
Personnel	371,811	2,360,686	2,732,497
Supplies	28,789	182,785	211,574
Contractors	33,282	211,309	244,591
Travel	1,417	8,997	10,414
Space Costs	14,077	89,373	103,450
Other Costs	53,894	342,189	396,083
Total Operating Expenditures	503,270	3,195,339	3,698,609
Capital Expenditures	60,595	384,724	445,319
Total Expenditures	563,865	3,580,063	4,143,928
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ (419,429)	$ (419,429)

CLINICAS DEL CAMINO REAL, INC.

Grant Made By
The United States Department of Health and Human Services
Grant Number 3H80CS00550-02-03 and 5H80CS00550-03-00

PUBLIC HEALTH SERVICE PROJECT

Statement of Revenues and Expenditures
For the Year Ended June 30, 2004

	Federal	Non-Federal Grantee Participation	Total
REVENUES			
Revenues	$ 2,358,589	$ 12,945,275	$ 15,303,864
Total Revenues	2,358,589	12,945,275	15,303,864
OPERATING EXPENDITURES			
Personnel	1,512,518	8,417,248	9,929,766
Supplies	120,043	667,294	787,337
Contractors	120,069	672,101	792,170
Travel	11,075	60,273	71,348
Space Costs	63,575	352,179	415,754
Other Costs	277,599	1,529,955	1,807,554
Total Operating Expenditures	2,104,879	11,699,050	13,803,929
Capital Expenditures	253,710	1,410,059	1,663,769
Total Expenditures	2,358,589	13,109,109	15,467,698
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ (163,834)	$ (163,834)

CLINICAS DEL CAMINO REAL, INC.

Grant Made By
The United States Department of Health and Human Services
Grant Number 3H80CS00550-02-03

PUBLIC HEALTH SERVICE PROJECT

Statement of Revenues and Expenditures
For the Period April 1, 2003 through March 31, 2004

	Federal	Non-Federal Grantee Participation	Total
REVENUES			
Revenues	$ 2,096,456	$ 12,611,529	$ 14,707,985
Total Revenues	2,096,456	12,611,529	14,707,985
OPERATING EXPENDITURES			
Personnel	1,339,301	8,255,532	9,594,833
Supplies	111,706	710,964	822,670
Contractors	103,426	645,025	748,451
Travel	12,270	80,207	92,477
Space Costs	56,216	337,199	393,415
Other Costs	266,464	1,661,223	1,927,687
Total Operating Expenditures	1,889,383	11,690,150	13,579,533
Capital Expenditures	207,073	1,179,887	1,386,960
Total Expenditures	2,096,456	12,870,037	14,966,493
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ (258,508)	$ (258,508)

NOTE: This schedule includes the adjusted revenues and expenditures for the three months of the grant period, which were included in the prior year's audit report for the year ended June 30, 2003. In addition, it includes the revenues and expenditures for the last nine months of the grant period which are shown on Schedule 2. The combination of the revenues and expenditures from the two fiscal years is needed to reflect the activity of the program for the budget period which runs April 1, 2003 through March 31, 2004.

CLINICAS DEL CAMINO REAL, INC.

Public Health Services Project - Financial Status Report

For the period April 1, 2003 through March 31, 2004

FINANCIAL STATUS REPORT

DEPARTMENT OF HEALTH & HUMAN SERVICES
HEALTH RESOURCES/ PHS

CLINICAS DEL CAMINO REAL, INC
200 SOUTH WELLS ROAD, SUITE 200 / P.O. BOX 4568
VENTURA, CA 93007-1302

95-2977147

04/01/2003 – 03/31/2004

	Cumulative
a.	14,690,368
b.	0
c.	0
d.	14,690,368
e.	0
f.	0
g.	10,781,670
h.	1,832,292
i.	11,593,862
j.	2,096,456
k.	0
l.	0
m.	0
n.	2,096,456
o.	2,096,456
p.	0
r.	10,781,670
	0
	0
	10,781,670

ROBERTO R. JUAREZ CHIEF EXECUTIVE OFFICER

CLINICAS DEL CAMINO REAL, INC.

Schedule of Expenditures of Federal Awards

For the period July 1, 2003 through June 30, 2004

Program Name	Pass through Grantor	Federal CFDA Number	Revenue	Expenditures
Department of Health and Human Services				
Health Centers Cluster Community/Migrant Health Centers Program	N/A	93.224	$ 2,358,589	$ 2,358,589
		Total	$ 2,358,589	$ 2,358,589

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Basis of Accounting

The accompanying schedule of expenditures of Federal Awards is prepared on the accrual basis of accounting.

AUDITED FINANCIAL STATEMENTS OF COMMUNITY MEDICAL CENTERS

COMMUNITY MEDICAL CENTERS, INC

Stockton, California

Financial Statements
And
Other Financial Information

For The Years Ended June 30, 2003 and 2002

COMMUNITY MEDICAL CENTERS, INC.

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ɩICH & ASSOCIATES CPAs

4545 Georgetown Place, Bldg. D
Stockton, California 95207
(209) 478-8950
Fax (209) 472-0379

INDEPENDENT AUDITOR'S REPORT

'o the Board of Directors of
:ommunity Medical Centers, Inc.

Ve have audited the accompanying statements of financial position of Community Medical Centers, Inc. (a onprofit organization) as of June 30, 2003 and 2002, and the related statements of activities, functional xpenses, and cash flows for the years then ended. These financial statements are the responsibility of the rganization's management. Our responsibility is to express an opinion on these financial statements based n our audit.

Ve conducted our audit in accordance with auditing standards generally accepted in the United States of merica and the standards applicable to financial audits contained in *Government Auditing Standards*, ssued by the Comptroller General of the United States. Those standards require that we plan and perform ıe audit to obtain reasonable assurance about whether the financial statements are free of material ıisstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures ı the financial statements. An audit also includes assessing the accounting principles used and the ignificant estimates made by management, as well as evaluating the overall financial statement presentation. Ve believe that our audit provides a reasonable basis for our opinion.

ı our opinion, the financial statements referred to above present fairly, in all material respects, the financial osition of Community Medical Centers, Inc. as of June 30, 2003 and 2002, and the changes in its net assets nd its cash flows for the years then ended in conformity with accounting principles generally accepted in the Inited State of America.

ı accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2003, n our consideration of Community Medical Centers, Inc.'s internal control over financial reporting and our ısts of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an ıtegral part of an audit performed in accordance with *Government Auditing Standards* and should be read in onjunction with this report in considering the results of our audit.

Dur audit was performed for the purpose of forming an opinion on the basic financial statements of :ommunity Medical Centers, Inc. taken as a whole. The accompanying schedule of expenditures of ederal awards is presented for purposes of additional analysis as required by U.S. Office of Management nd Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is ot a required part of the basic financial statements. Such information has been subjected to the auditing rocedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all ıaterial respects, in relation to the basic financial statements taken as a whole.

Rich & Associates CPAs

:ich & Associates CPAs
tockton, California
)ctober 30, 2003

COMMUNITY MEDICAL CENTERS, INC.
(A Non- Profit Corporation)
Statements of Financial Position
June 30, 2003 and 2002

ASSETS

	June 30	
	2003	2002
CURRENT ASSETS		
Cash		
Office funds	$ 6,350	$ 6,150
Commercial accounts	1,335,188	936,554
Savings, money markets accounts	3,196,169	2,894,293
Total Cash	4,537,707	3,836,997
Accounts Receivable		
Private patients	1,537,261	1,424,908
Insurance	186,489	139,412
CHDP	113,466	102,375
Medicare/MediCal	45,600	185,486
	1,882,816	1,852,181
Less allowance for doubtful accounts	(1,131,108)	(1,010,309)
Net patient service receivable	751,708	841,872
WIC	126,088	105,277
Other	60,184	155,285
Due from HHS	120,839	104,577
State of California	282,190	369,882
Due from Counties	89,146	292,369
Total Accounts Receivable	1,430,155	1,869,262
Prepaid expenses	198,748	137,111
Funds held by bond trustee	121,492	121,002
	320,240	258,113
Total Current Assets	6,288,102	5,964,372
PROPERTY AND EQUIPMENT		
Land	242,272	242,272
Buildings	2,333,396	2,325,936
Furniture and equipment	1,738,073	1,453,429
Leasehold improvements	775,863	775,863
Total -At-Cost	5,089,604	4,797,500
Less accumulated depreciation and amortization	(2,436,335)	(2,176,325)
Net Property and Equipment	2,653,269	2,621,175
OTHER ASSETS		
Investment National Cooperative Bank	3,208	3,208
Self insurance fund	5,000	5,000
Deposits flex health care	3,000	-
Funds held by bond trustee	184,229	182,092
Unamortized bond costs	93,831	98,836
Total Other Assets	289,268	289,136
TOTAL ASSETS	$ 9,230,639	$ 8,874,683

See accountant's report and accompanying notes.

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Statements of Financial Position
June 30, 2003 and 2003

LIABILITIES AND NET ASSETS

	June 30	
	2003	2002
CURRENT LIABILITIES		
Note and bond payable - current portion	$ 70,000	$ 65,000
Accounts payable	166,047	46,321
Deferred income	5,064	21,746
Accrued expenses	62,091	63,073
Accrued payroll/vacation	876,337	727,027
Due to MediCal	408,476	-
Total Current Liabilities	1,588,015	923,167
LONG-TERM DEBT		
California Health Facilities Financing Authority 1994 Series B	2,655,000	2,725,000
Total Long-Term Debt	2,655,000	2,725,000
Total Liabilities	4,243,015	3,648,167
NET ASSETS		
Unrestricted		
Income fund	4,279,255	4,731,952
Principal fund	89,897	89,897
Grant fixed assets	275,059	69,052
Federal fixed assets	2,037	14,207
	4,646,248	4,905,108
Temporarily restricted (Note 7)	341,376	321,408
Total Net Assets	4,987,624	5,226,516
TOTAL LIABILITIES AND NET ASSETS	$ 9,230,639	$ 8,874,683

See accountant's report and accompanying notes

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Statements of Activities
For the Years Ended June 30, 2003 and 2002

	2003	2002
Changes in Unrestricted Net Assets		
Grant Revenue		
HHS funds - community health center, migratory & homeless	$ 2,203,065	$ 2,537,638
HHS - HIV	468,197	544,529
Special Supplemental Food Program for Women and Children	666,001	547,813
State and County Funds	1,536,159	1,725,041
Non Governmental grants and other	667,984	497,757
Total Grant Revenue	5,541,406	5,852,778
Program Revenue		
Private patients	2,161,119	1,974,268
Insurance	414,379	731,751
Child Health, Disability and Prevention	599,547	589,632
MediCal and Medicare	6,503,241	6,419,588
Denti-Cal	134,569	137,686
Family planning	957,347	797,710
Other	-	121,936
Total Program Revenue	10,770,202	10,772,571
Less: Charity and contractual adjustment	(1,710,332)	(1,728,807)
Net Program Revenue	9,059,870	9,043,764
Net Assets Released from Restrictions		
Restrictions satisfied by payment	313,511	164,448
Total Revenue	14,914,787	15,060,990
Expenses		
Program Expense		
Grant services	2,546,516	2,474,702
Patient services	10,701,874	8,874,401
Total Program Expense	13,248,390	11,349,103
Administrative expense	1,969,024	1,580,518
Total Expenses	15,217,414	12,929,621
Other Income (Expense)		
Interest income	51,259	35,802
Other income	9,071	8,270
Interest expense	(209,239)	(213,428)
Loss on disposal of fixed assets	(1,161)	(5,334)
Total Other Income (Expense)	(150,070)	(174,740)
Change in Unrestricted Net Assets	$ (452,697)	$ 1,956,629
Changes in Temporarily Restricted Net Assets		
Grant income	$ 333,479	$ 192,990
Restrictions satisfied by payment	(313,511)	(164,448)
Change in Temporarily Restricted Net Assets	$ 19,968	$ 28,542

See accountant's report and accompanying notes

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Statements of Changes in Net Assets
For the Years Ended June 30, 2003 and 2002

JUNE 30, 2003

	Income Fund	Principal Fund	Federal Fixed Assets	Grant Fund Assets	Temporarily Restricted
NET ASSETS - June 30, 2002	$ 4,731,952	$ 89,897	$ 14,207	$ 69,052	$ 321,408
Change in Net Assets	(452,697)	-	-	235,766	19,968
Total	4,279,255	89,897	14,207	304,818	341,376
Deductions:					
Depreciation Expense	-	-	12,170	29,759	-
Total Deductions	-	-	12,170	29,759	-
NET ASSETS - June 30, 2003	$ 4,279,255	$ 89,897	$ 2,037	$ 275,059	$ 341,376

JUNE 30, 2002

	Income Fund	Principal Fund	Federal Fixed Assets	Grant Fund Assets	Temporarily Restricted
NET ASSETS - June 30, 2001	$ 2,775,323	$ 89,897	$ 26,377	$ -	$ 292,866
Change in Net Assets	1,956,629	-	-	75,087	28,542
Total	4,731,952	89,897	26,377	75,087	321,408
Deductions:					
Depreciation Expense	-	-	12,170	6,035	-
Total Deductions	-	-	12,170	6,035	-
NET ASSETS - June 30, 2002	$ 4,731,952	$ 89,897	$ 14,207	$ 69,052	$ 321,408

See accountant's report and accompanying notes

Statement of Functional Expenses
For the Year Ended June 30, 2003

	Program Services				
	Grant Services	Patient Services	Total	Administration and General	Total Expenses
Wages	$ 1,553,475	$ 6,898,715	$ 8,452,190	$ 1,316,127	$ 9,768,317
Employee benefits	192,737	853,382	1,046,119	188,829	1,234,948
Total salaries and benefits	1,746,212	7,752,097	9,498,309	1,504,956	11,003,265
Physician/dental/hospital costs	48,690	147,985	196,675	-	196,675
Lab costs/x-ray expenses	34,049	82,494	116,543	-	116,543
Drug expense	9,780	164,789	174,569	-	174,569
Telephone	12,720	159,641	172,361	6,093	178,454
Professional fees	140,572	29,320	169,892	38,804	208,696
Data processing	-	-	-	82,748	82,748
Printing	13,875	113,992	127,867	44,196	172,063
Health education material	23,729	1,856	25,585	4	25,589
Postage	1,543	128,352	129,895	9,778	139,673
Office supplies	40,774	66,788	107,562	56,534	164,096
Medical/dental/lab supplies	2,843	525,232	528,075	236	528,311
Maintenance	710	26,196	26,906	640	27,546
Occupancy/janitorial/utilities	105,292	781,706	886,998	-	886,998
Expendable equipment	204,419	(23,726)	180,693	46,433	227,126
Dues/subscriptions	709	2,045	2,754	32,277	35,031
Travel	63,812	42,604	106,416	25,501	131,917
Committee meetings	953	14,693	15,646	13,357	29,003
Trainee/recruitment costs	25,178	113,046	138,224	24,078	162,302
Patient expenses	9,501	-	9,501	-	9,501
Program activities	25,232	-	25,232	-	25,232
Miscellaneous	221	786	1,007	1,601	2,608
Infectious material disposal	-	19,831	19,831	-	19,831
Insurance	1,320	53,191	54,511	32,261	86,772
Licenses and taxes	18	8,344	8,362	35	8,397
Promotion	7,191	240	7,431	-	7,431
Bond expense	-	3,295	3,295	774	4,069
Depreciation/amortization	27,173	191,280	218,453	48,718	267,171
Bad debt expense	-	295,797	295,797	-	295,797
	$ 2,546,516	$ 10,701,874	$ 13,248,390	$ 1,969,024	$ 15,217,414

See accountant's report and accompanying notes

Statement of Functional Expenses
For the Year Ended June 30, 2002

	Program Services				
	Grant Services	Patient Services	Total	Administration and General	Total Expenses
Wages	$ 1,497,723	$ 5,477,870	$ 6,975,593	$ 1,091,894	$ 8,067,487
Employee benefits	150,466	610,892	761,358	132,215	893,573
Total salaries and benefits	1,648,189	6,088,762	7,736,951	1,224,109	8,961,060
Physician/dental/hospital costs	53,063	151,901	204,964	-	204,964
Lab costs/x-ray expenses	36,490	115,202	151,692	-	151,692
Drug expense	10,007	142,993	153,000	-	153,000
Telephone	32,567	154,656	187,223	9,804	197,027
Professional fees	44,382	7,682	52,064	24,909	76,973
Data processing	6,000	1,276	7,276	56,483	63,759
Printing	12,647	77,338	89,985	52,387	142,372
Health education material	17,973	435	18,408	-	18,408
Postage	2,694	106,519	109,213	7,098	116,311
Office supplies	31,335	60,642	91,977	39,842	131,819
Medical/dental/lab supplies	13,632	387,738	401,370	-	401,370
Maintenance	2,435	18,090	20,525	31,302	51,827
Occupancy/janitorial/utilities	109,852	736,521	846,373	-	846,373
Expendable equipment	333,398	55,717	389,115	1,410	390,525
Dues/subscriptions	339	1,506	1,845	30,924	32,769
Travel	54,329	49,986	104,315	17,349	121,664
Committee meetings	70	1,513	1,583	9,141	10,724
Trainee/recruitment costs	40,362	67,428	107,790	10,585	118,375
Patient expenses	5,409	1,470	6,879	-	6,879
Program activities	9,633	183	9,816	-	9,816
Miscellaneous	9,045	20	9,065	1,293	10,358
Infectious material disposal	-	15,781	15,781	-	15,781
Insurance	-	88,676	88,676	7,932	96,608
Licenses and taxes	18	4,748	4,766	2,646	7,412
Bond expense	-	3,316	3,316	757	4,073
Depreciation/amortization	833	190,923	191,756	52,547	244,303
Bad debt expense	-	343,379	343,379	-	343,379
	$ $2,474,702	$ $8,874,401	$ $11,349,103	$ $1,580,518	$ $12,929,621

See accountant's report and accompanying notes

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002

	2003	2002
Cash Flows from Operating Activities:		
Change in net assets	$ (432,729)	$ 1,985,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	211,075	231,102
Assets disposed of	1,168	5,333
Increase in allowance for bad debts	120,799	85,059
(Increase) decrease in:		
Accounts receivable	318,308	(454,745)
Funds held by trustee	(2,627)	(5,819)
Prepaid expenses	(61,637)	(9,622)
Self insurance funds	-	(5,000)
Deposits	(3,000)	-
Increase (decrease) in:		
Accounts payable	119,726	(14,803)
Deferred income	(16,682)	10,119
Accrued expenses	148,328	121,620
Due to MediCal	408,476	-
Due to HHS	-	(36,143)
Net cash provided in operating activities	811,205	1,912,272
Cash flows from investing activities:		
Purchase of furniture, equipment & improvements	(45,495)	(51,348)
Net cash (used) in investing activities	(45,495)	(51,348)
Cash flows from financing activities:		
Bond principal payments	(65,000)	(60,000)
Payments on loans	-	(5,399)
Net cash (used) in financing activities	(65,000)	(65,399)
Net increase in cash and cash equivalents	700,710	1,795,525
Cash and cash equivalents, beginning of year	3,836,997	2,041,472
Cash and cash equivalents, end of year	$ 4,537,707	$ 3,836,997

See accountant's report and accompanying notes

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Statements of Cash Flows (cont)
For the Years Ended June 30, 2003 and 2002

Supplemental Disclosures of Cash and Cash Flows Information

Disclosure of accounting policy:

For the purpose of the statement of cash flows, the company considers cash in checking, savings and certificates of deposit and petty cash funds to be cash and cash equivalents.

Cash paid during the period for

Interest

Year ended June 30, 2003	$210,312
Year ended June 30, 2002	$214,390

See accountant's report and accompanying notes

Note 1 The Organization

Nature of Activities

Community Medical Centers, Inc. was formed on January 1, 1978. The Organization's activities are generally confined to primary and preventive health care delivery.

The Corporation was established to provide migrant workers and others with professional medical services including diagnosis of injury or sickness and educational programs.

The Centers are funded by grants from the Department of Health and Human Services, State of California, patient and insurance fees, and other organizations.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Community Medical Centers, Inc. (CMC) have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

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

Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and amount of time not collected. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, petty cash funds and cash held in checking, savings and certificates of deposit. At year-end and throughout the period covered by the financial statements, the organization's cash balances were deposited in several banks. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a natural classification in the statement of activity. Certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and Section 23701d of the California Revenue and Taxation Code. Community Medical Centers, Inc. is classified by the Internal Revenue Service as other-than-private foundation.

Property and Equipment

Acquisitions of property and equipment with useful lives greater than one year are recorded at cost. Property and equipment purchased with specific grant funds are expensed to the grant. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Acquisitions of property and equipment in excess of $500 are capitalized.

The costs and accumulated depreciation of equipment charged directly against federal grant income is reflected on the statement of financial position with a corresponding amount as Federal Fixed Assets appearing in the net asset section. Some of the costs and accumulated depreciation of equipment charged directly to grant income is reflected on the statement of financial position with a corresponding amount as Grant Fixed Assets in the net asset section.

Equipment shown on the statements of financial position includes:

	June 30, 2003		June 30, 2002	
	Federal Funds	Grant Funds	Federal Funds	Grant Funds
Cost	470,462	330,026	470,462	75,084
Accumulated Depreciation	468,254	54,967	456,254	6,035
Depreciation Expense	12,170	48,932	12,170	6,035

Restricted and Unrestricted Revenue and Support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Interest Expense

Interest expense originates from California Health Facilities Financing Authority 1994 Series B bonds. It is the company policy to charge all interest expense against program revenue and none of the interest expense is charged against grant revenue.

Note 3 United States Department of Health and Human Services Comprehensive Health Services for Agricultural Families Grant:

During 1978, United States Department of Health, Education and Welfare, now known as the Department of Health and Human Services, entered into a contract with the Community Medical Centers, Inc. to provide medical services and health education programs to migrant workers and others.

Annual awards have been made to the project for the fiscal years ending June 30, 1979, through November 30, 2003. Community Medical Centers, Inc. was awarded contract 6H80CS00138-02-01 in the amount of $2,234,049. This contract covers the twelve months period December 1, 2002 through November 30, 2003.

As of June 30, 2003, the grant costs since inception has been subject to audit by the United States Department of Health and Human Services. At present, no audit is being or has been performed.

Other funding from HHS included the following expenditures for the periods ending June 30, 2003 and 2002.

	2003	2002
HIV	$468,197	$528,082
Immunization grant	-	16,447
	$468,197	$544,529

Note 4 State and County Funds

State and County grant funds shown on the statements of activities consist of the following at June 30, 2003 and 2002:

	2003	2002
State of California grants	$ 985,926	$ 1,218,591
County grants	550,233	506,450
Total	$1,536,159	$1,725,041

Note 5 California Health Facilities Financing Authority 1994 Series B:

Community Medical Centers, Inc. issued tax exempt Insured Health Facility Revenue Bonds through the California Health Facilities Financing Authority to finance the purchase and remodeling of their medical clinic in Stockton, California. The bonds were sold on December 15, 1994 and the face value of the bonds was $3,050,000. The bonds are payable over a period of 28 years. The bonds have interest rates ranging from 5.0% to 7.5%. and the average interest rate is 7.39098%. The bonds are secured by the Stockton facility, all improvements and equipment purchased with the bond funds and all accounts receivable. Interest expense was $209,239 and $213,428 for the years ended June 30, 2003 and 2002 respectively.

Principal payments are due each April 1, commencing in 1998. Annual principal maturation of the bonds for each of the next five years and thereafter is as follows:

Fiscal Year	
2003/04	$ 70,000
2004/05	75,000
2005/06	80,000
2006/07	85,000
2007/08	90,000
Thereafter	2,325,000
	$2,725,000

Note 6 Lease Obligation:

Community Medical Centers, Inc. leases office spaces in Stockton, Lodi, Dixon, Tracy, San Andreas and Vacaville, California. The Stockton leases expire in August, 2003 and May 2004. The Lodi lease expires in June 2004, the Dixon lease expires in March 2007, the Tracy lease expires in October 2003, the San Andreas lease expires in May 2006 and the Vacaville lease expires in February 2004. Rental expense totaled $319,509 and $269,779 in fiscal 2002/03 and 2001/02. Minimum lease expense at June 30, 2003 is $402,215 and is detailed below.

Year	Stockton	San Andreas	Tracy	Dixon	Lodi	Vacaville
2003-04	$ 17,731	$ 31,770	$ 12,164	$ 43,546	$ 96,999	$19,360
2004-05	-	31,770	-	43,546	-	-
2005-06	-	29,123	-	43,546	-	-
2006-07	-	-	-	32,660	-	-
2007-08	-	-	-	-	-	-
Total	$ 17,731	$ 92,663	$ 12,164	$163,298	$ 96,999	$19,360

Note 7 Temporarily Restricted Net Assets

CMC has unexpended funds totaling $341,160 and $321,408 at June 30, 2003 and 2002 respectively to be used for restricted purposes. These are shown on the statements of financial position as temporarily restricted net assets and are detailed below.

	2003	2002
Dental clinic	$ 95,216	$ 95,216
Health fairs	3,137	5,000
Prenatal care	20,444	22,791
Assessment for CMSP patients	54,225	63,766
Dixon expansion	118,769	124,618
Dental care for qualified families with no insurance	716	1,517
Dental services	5,213	8,500
Safe and stable family program	7,387	-
Family resource support and child abuse prevention intervention and treatment program	1,579	-
Medical and office equipment	34,690	-
	$341,376	$321,408

Note 8 Reconciliation of Federal Status Report for period ending November 30, 2001 and 2002

The following is a reconciliation of the Federal Status Report for the period ending November 30, 2001 with the audited expenses for the period ended June 30, 2002.

Total audited expense for period ended June 30, 2002	$12,929,621
Interest expense period ended June 30, 2002	213,428
Loss disposal fixed assets period ended June 30, 2002	5,334
Bad debts period ended June 30, 2002	(343,379)
	12,805,004
Audit adjustments period ended June 30, 2002	(29,352)
	12,775,652
Add: expenses 12/1/00-6/30/01	6,299,988
Less: expenses 12/1/01 to 6/30/02	(7,801,734)
Total expenses 12/1/00-11/30/01	$11,273,906
Expense on Federal Status Report 12/1/99-11/30/01	$11,273,906

The following is a reconciliation of the Federal Status Report for the period ending November 30, 2002 with the audited expenses for the period ended June 30, 2003.

Total audited expense for period ended June 30, 2003	$15,217,414
Interest expense period ended June 30, 2003	209,239
Loss disposal fixed assets period ended June 30, 2003	1,161
Bad debts period ended June 30, 2003	(295,797)
	15,132,017
Audit adjustments period ended June 30, 2003	6,677
	15,138,694
Add: expenses 12/1/01-6/30/02	7,801,734
Less: expenses 12/1/02 to 6/30/03	(9,012,551)
Total expenses 12/1/01-11/30/02	$13,927,877
Expense on Federal Status Report 12/1/01-11/30/02	$13,927,877

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Notes to the Financial Statements (Continued)
June 30, 2003

Note 9 Certain Risks and Concentrations

At June 30, 2003, 14.5% and 60.0% of the gross accounts receivable represent State and County grants and private patients respectively.

In 2002/03 Community Medical Centers received 43.6% of its unrestricted support from MediCal and Medicare and 37.2% of its unrestricted support from federal, state, county and other grants and contracts.

The Organization maintains its cash balances at several financial institutions. The Federal Deposit Insurance Corporation insures accounts up to $100,000 at each institution. At June 30, 2003, the Organization's uninsured cash balances total $4,153,357.

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2003

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Contract Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct Program			
Community Health Center	93.224		$1,289,740
Health Centers Grants for Migratory and Seasonal	93.246		666,783
Homeless Population	93.151		246,542
Outpatient Early Intervention Services With Respect to HIV Disease	93.918		468,197
Total U.S. Department of Health and Human Services			2,671,262
U.S. Department of Agricultural			
Passed through State of California Department of Health Services			
Women, Infants, and Children Supplemental Nutrition Program	10.557	99-85705	666,001
Total Expenditures of Federal Awards			$3,337,263

The accompanying notes are an integral part of this schedule

COMMUNITY MEDICAL CENTERS, INC.
(A Non-Profit Corporation)
Notes to the Schedule of Expenditures of Federal Awards
For the Year ended June 30,2003

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Medical Centers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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AUDITED FINANCIAL STATEMENTS OF
SOUTHERN CALIFORNIA ALCOHOL & DRUG PROGRAMS

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.
(A CALIFORNIA NON PROFIT CORPORATION)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

WITH COMPARISON TO THE YEAR ENDED JUNE 30, 2003

AND INDEPENDENT AUDITORS' REPORT

WALTER C. OTTO AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS, INC.

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

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WALTER C. OTTO AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS, INC.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southern California Alcohol and
Drug Programs, Inc.
Downey, California

We have audited the accompanying statements of financial position of Southern California Alcohol and Drug Programs, Inc. (a California nonprofit corporation), as of June 30, 2004 and 2003, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Southern California Alcohol and Drug Programs, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern California Alcohol and Drug Programs, Inc. as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U. S. Government Auditing Standards, we have also issued our report dated September 24, 2004 on our consideration of internal control of Southern California Alcohol and Drug Programs, Inc. over financial reporting. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Independent Auditors' Report
Southern California Alcohol and Drug Programs, Inc.

We additionally issued our report dated September 24, 2004 on compliance of Southern California Alcohol and Drug Programs, Inc. with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Southern California Alcohol and Drug Programs, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2004 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Walter C. Otto and Associates
Certified Public Accountants, Inc.

Walter C. Otto and Associates

Newport Beach, California
September 24, 2004

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

COMPARATIVE STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
ASSETS		
Cash and Cash Equivalents	$ 2,258,085	$ 2,308,277
Contracts Receivable	1,245,097	1,388,334
Accounts Receivable	214,622	223,572
Property and Equipment, Net of Depreciation	9,067,453	8,099,293
Unamortized Bond Costs	583,171	608,840
Other Assets	349,198	335,104
TOTAL ASSETS	$ 13,717,626	$ 12,963,421
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	$ 120,878	$ 229,254
Accrued Compensation and Vacation Pay	378,024	439,679
Accrued Payroll Taxes	99,747	84,237
Notes Payable	8,501,787	7,885,235
TOTAL LIABILITIES	9,100,436	8,638,405
NET ASSETS		
Unrestricted	4,617,190	4,325,016
TOTAL LIABILITIES AND NET ASSETS	$ 13,717,626	$ 12,963,421

See accompanying notes

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.
COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
UNRESTRICTED NET ASSETS		
Support		
Client Fees	$ 1,522,832	$ 1,765,017
Federal Government Contracts	10,297,503	10,136,136
Other Non Federal Contracts	232,036	262,590
Donations	286,549	237,415
Third Party Payments	889,047	741,306
Other	4,887	6,500
Total Support	13,232,854	13,148,964
Expenses		
Functional Expenses		
Residential Services	7,575,875	8,114,595
Community Services	3,853,712	3,277,753
Administration	1,421,832	1,458,573
Total Expenses	12,851,419	12,850,921
INCREASE IN NET ASSETS BEFORE OTHER INCOME AND EXPENSES	381,435	298,043
Other Income and Expenses		
Interest Income	18,326	8,570
Increase (Decrease) in Market Value of Investments	(122,548)	39,942
Other Income	14,961	
Total Other Income and Expenses	(89,261)	48,512
CHANGE IN UNRESTRICTED NET ASSETS	292,174	346,555
NET ASSETS, BEGINNING OF YEAR	4,325,016	3,978,461
NET ASSETS, END OF YEAR	$ 4,617,190	$ 4,325,016

See accompanying notes

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003

	RESIDENTIAL SERVICES	COMMUNITY SERVICES	ADMINISTRATIVE SERVICES	TOTAL FUNCTIONAL EXPENSES 2004	TOTAL FUNCTIONAL EXPENSES 2003
Salaries, Wages, and Benefits	$ 4,355,274	$ 2,339,838	$ 825,775	$ 7,520,887	$ 7,586,721
Payroll Taxes	353,365	183,523	62,456	599,344	514,103
Total Salaries and Related Expenses	4,708,639	2,523,361	888,231	8,120,231	8,100,824
Auto and Equipment Leases	101,076	44,037	26,234	171,347	235,672
Bond Amortization	20,669	-	5,000	25,669	26,214
Conferences, Workshops, and Meetings	20,503	12,142	19,333	51,978	47,954
Depreciation	136,586	52,590	83,995	273,171	314,864
Films and Literature	11,031	6,758	5,622	23,411	26,571
Food Purchases	496,649	26,435	1,659	524,743	493,590
Furniture and Equipment, Low Value	48,854	5,706	2,314	56,875	86,938
Government Fees	-	31,997	-	31,997	47,702
Housekeeping	160,446	11,608	3,735	175,789	181,414
Insurance	95,768	48,040	9,950	153,758	139,969
Interest Expense	346,930	94,571	4,113	445,613	355,243
Office Supplies	61,883	45,063	32,232	139,178	157,277
Other	78,821	115,697	107,377	301,895	250,918
Postage and Printing	9,546	6,508	7,539	23,591	30,516
Professional Fees	214,925	216,178	59,648	490,750	343,232
Rent	476,665	350,171	29,826	856,662	761,620
Repairs and Maintenance	244,935	104,100	70,094	419,130	693,355
Travel Costs	68,283	23,655	24,947	116,885	110,884
Utilities and Telephone	273,667	135,094	39,983	448,744	446,164
Total Functional Expenses	$ 7,575,875	3,853,712	1,421,832	$ 12,851,419	$ 12,850,921

See accompanying notes

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
sh Flows from Operating Activities		
Increase in Net Assets	$ 292,174	$ 346,555
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	273,171	314,864
Unamortized Bond Cost	25,669	25,665
(Increase) Decrease in:		
Contracts Receivable	143,237	(163,220)
Accounts Receivable	8,951	(78,608)
Other Assets	(14,094)	6,912
Increase (Decrease) in:		
Accounts Payable	(108,376)	119,286
Accrued Compensation and Vacation Pay	(61,655)	34,920
Accrued Payroll Taxes	15,510	(27,447)
Net Cash Provided by Operating Activities	574,587	578,927
sh Flows Provided by (Used In) Investing Activities		
Buildings, Property, and Equipment	(1,241,333)	18,636
sh Flows From Financing Activities		
Notes Payable - Paid	(575,668)	(391,748)
Notes Payable - Increase	1,192,222	-
Net Increase (Decrease) in Cash	$ (50,192)	$ 205,815
Cash and Cash Equivalents, beginning of year	2,308,277	2,102,462
Cash and Cash Equivalents, end of year	$ 2,258,085	$ 2,308,277
plemental Disclosure		
ash paid during the year for interest	$ 445,613	$ 355,243
ash expensed during the year for capital leases	$ 171,347	$ 235,672

See accompanying notes

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

ORGANIZATION AND GENERAL

Southern California Alcohol and Drug Programs, Inc. (the Organization) is a nonprofit organization incorporated under the laws of the State of California on July 27, 1972.

Purpose
The Organization operates various programs which provide information, residency, counseling, instruction and referral services to the general public in Los Angeles and Orange counties with regard to alcoholism, drug and HIV related problems.

Southern California Alcohol and Drug Programs provides services to individuals and families with alcohol and drug dependency problems, homeless individuals, battered women, the deaf and hard of hearing, pregnant and parenting women, Latino families, persons with HIV and Aids, high risk boys and girls, and American Indian women and their children. The services provided are residential treatment programs, domestic violence shelters, counseling, information and referrals, educational treatment, drinking and driving diversion programs, community outreach, managed care, HIV testing and mental health services. These programs are provided by a staff of over 300 trained employees at 25 locations in Los Angeles and Orange County.

Contracts
Southern California Alcohol and Drug Programs, Inc. operates certain programs under contract with Los Angeles and Orange counties which provide reimbursement up to a fixed maximum for the cost of contract services performed. It has been the Organization's experience that these contracts have been renewed and it is expected that they will continue to be renewed in the future. Southern California Alcohol and Drug Programs, Inc. is also awarded specific purpose grants. Revenue is earned and classified as unrestricted when the related reimbursable costs are incurred. These programs are subject to review and audit by government agencies. Such audits may lead to requests for repayment for expenditures disallowed or payment in excess of allowable expenditures under the contracts. Management believes that the Organization has properly complied with the terms of all government contracts.

Donated Use of Space
The portion of the lease donated by Metropolitan State Hospital is estimated to be $279,000 annually. The lease is month to month at $8,148 per month.

Contributions
The Organization recognizes contributions when received. There are no unconditional promises to give or restricted donations.

No significant expenses for fundraising activities are incurred by the Organization nor does the Organization avail itself of the services of a professional fundraiser. Consequently, no expenditures for fundraising are reflected in the statement of functional expenses.

ORGANIZATION AND GENERAL, continued

Volunteers
A number of volunteers have made contributions of time to support the functions of the Organization. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

Retirement Plan
The Organization has adopted a 403(b) Retirement Plan also known as a Tax Shelter Annuity. Employees may contribute up to $13,000 for the year 2004 and 12,000 for the year 2003. Vesting is 100 percent. To be eligible, an employee must have 2 years of service with the Organization and have attained the age of 18. The plan is elective on the part of the employee. There is a discretionary contribution equal to a uniform percentage of the amount of salary reduction elected by the employee which is determined by the Organization each year. The current matching contribution by the Organization is three percent of the employee's salary. Employees that work less than 20 hours per week are not eligible. The complete plan description is available to employees upon request. The funding vehicle used to hold contributions made to the plan is an annuity contract issued by an insurance company and a custodial account. The employer contributions for the year 2003 was $60,935, and $61,183 for 2004.

Income Taxes
Southern California Alcohol and Drug Programs, Inc. is exempt from federal income taxes under section 501(c)(3), and from California franchise taxes under code section 23701(b).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southern California Alcohol and Drug Programs, Inc. follows the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations, which are in conformity with recommendations of the American Institute of Certified Public Accountants. Accordingly, the financial statements are stated on the accrual basis in conformity with accounting principles generally accepted in the United States of America.

Property and Equipment
Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	30 years
Furniture and equipment	3 to 10 years
Leasehold improvements	Shorter of useful life or term of lease

;UMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Jse of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cost Allocations
Indirect costs are allocated to the cost objectives on the basis of program wages and salaries or on the basis of square footage, whichever is applicable to the cost.

CASH AND CASH EQUIVALENTS

	2004	2003
Unrestricted:		
Cash Available for Operations:		
Cash in Banks	$ 903,547	$ 846,118
Petty Cash	4,700	4,900
Cash Equivalents	584,261	570,715
	1,492,508	1,423,733
Cash Designated for Payment of Long-Term Notes:		
U.S. Bank Corporate Trust	765,577	884,544
Total Cash and Cash Equivalents	$ 2,258,085	$ 2,308,277

Separate cash accounts are maintained in US Bank Trust Company as required by the bond indenture for the purpose of paying principal and interest on the mortgage notes payable.

Southern California Alcohol and Drug Programs, Inc. considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

In the course of a year, the cash will exceed the amount insured by the Federal Deposit Insurance Company.

CONTRACTS RECEIVABLE

Contracts receivable in the amount of $1,388,334 as of June 30, 2003 and $1,245,097 as of June 30, 2004 are due from various government agencies relating to contract services rendered and are considered current.

ACCOUNTS RECEIVABLE

Accounts receivable in the amount of $223,572 as of June 30, 2003 and $214,622 as of June 30, 2004 are due from individuals attending various programs operated by Southern California Alcohol and Drug Programs, Inc. These accounts receivable are reported at their net realizable value after a deduction of thirty percent as an allowance for uncollectible accounts. The Organization does not believe any additional allowance is necessary.

RELATED PARTY

Awakening Village Apartments is a subsidiary nonprofit public benefit corporation, exempt from federal income taxes under IRS code section 501(c)(3) and from California franchise taxes under code section 23701. It was incorporated December 14, 2001 under the laws of the State of California. Its purpose is to provide handicapped persons with housing facilities and services. Southern California Alcohol and Drug Programs, Inc. is the sponsor of Awakening Village Apartments. The two corporations have a common board of directors. The organization has advanced funds to Awakening Village Apartments in the amount of $31,434 and $9,195 for the year 2003 and 2004 respectively.

PROPERTY AND EQUIPMENT

	2004	2003
Land and Buildings	$ 9,579,669	$ 8,543,451
Furniture and Equipment	1,218,247	1,154,682
Leasehold Improvements	308,766	309,071
Vehicles	206,266	206,266
Total Property and Equipment	11,312,948	10,213,470
Less Accumulated Depreciation	2,245,495	2,114,177
Net Property and Equipment	$ 9,067,453	$ 8,099,293

CREDIT LINE

The Organization has a revolving credit line with Bank of the West. The agreement, dated May 25, 2001, expires January 31, 2005. The maximum amount available under the terms of the line is $1,000,000. Interest is at 1.5 percent over the bank refinance rate. The remaining credit available was $1,000,000 as of June 30, 2004 and $1,000,000 for 2003.

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

NOTES PAYABLE	2004	2003
Note payable to Bank of the West. Entered into on March 31, 2004 in the original amount of $700,000 with monthly payments of $3,889 principal and interest. The loan is due March 1, 2019. Interest is at 2.5 percent over the bank's cost of funds. Current interest is at 5.51 percent. Secured by real property.	$ 692,222	$ -0-
An agreement was made with the State of California, Emergency Housing and Assistance Program to provide funding in the amount of $500,000 for the purchase of property and is secured by the property. Interest is at 3 percent simple interest per year. Repayment of the loan is deferred as long as the development is used as an emergency shelter, a transitional housing facility. The term of the loan is ten years at which time the outstanding balance shall be forgiven.	500,000	-0-
Note payable to John and Carolyn McFarland, dated July 11, 2001. Interest only payments of $660 per month at 11 percent interest, maturing August 7, 2006. Secured by real property.	-0-	72,000
Note payable to Bank of the West, dated October 22, 2002 in the original amount of $675,000. Principal payments of $3,750 beginning December 1, 2002 and continuing monthly until October 17, 2017. Interest is at 2.5 percent over the bank's cost of funds.	593,066	652,500
Note payable to Bank Of The West. Payments of $1,859 interest and principal beginning August 1, 2001, ending July 1, 2031. Original amount $252,000. Interest at 7.875 percent per month. Secured by real property.	-0-	247,710
<u>Certificates of Participation</u> *California Health Facility Financing Authority Insured Health Facility Revenue Bonds, 1997 Series A.* Certificates are due December 1, 2022. The original principal balance was $4,095,000. Terms stipulate interest and principal payments of $26,543 per month. Interest is at 5.50 percent per year.	$ 3,400,804	$ 3,505,806

NOTES PAYABLE, (continued)	2004	2003
California Health Facilities Financing Authority Insured Revenue Bonds, 1992 Series A. A thirty-year mortgage note payable was issued on December 1, 1992, maturing November 30, 2022. The interest rate is 6.5 percent per year. Monthly payments of $8,464 consist of principal and interest. The original principal balance was $1,315,000.	$ 1,065,324	$ 1,096,848
California Health Facilities Financing Authority Small Facilities Pooled Loan Program, 1994 Series B. A thirty-year mortgage note payable was issued December 1, 1994 and matures June 11, 2023. Interest is at 3.2 percent per year. Monthly payments of $5,382 consist of principal plus interest. The original principal balance was $775,000.	640,000	655,000
California Health Facilities Financing Authority Insured Health Facility Revenue Bonds, 2001 Series A. A twenty-five year mortgage note payable, issued May 1, 2001, matures May 1, 2026. The interest rate for the first year is 3.35 percent, which increases each year to a variable rate to 5.45 percent in 2026. Interest and principal payments are $10,814 per month. The original principal balance was $1,780,000.	1,610,371	1,655,371
Total Long-Term Notes Payable	$ 8,501,787	$ 7,885,235

Principal payments for the years ended June 30 are as follows:

2005	$	299,068
2006		311,600
2007		318,352
2008		325,284
2009		339,588
Thereafter		6,907,895
Total	$	8,501,787

Under the terms of the loan agreements, the Organization is required to maintain certain minimum financial ratios in connection with the long-term debt. The debt service ratio requirement is that net income available equals as a minimum 100 percent of debt service average. The Program has met these requirements and is in compliance with the terms of the bond issues.

OPERATING LEASES

Description of Leasing Arrangements

The Organization conducts a part of its operations from eleven leased facilities, which include residential properties and office space. These leases are classified as operating leases. Seven have lease terms of 1 to 4 years with options to renew, and four leases have month-to-month terms.

The Organization leases passenger vans and other transportation equipment, and copy machines under operating leases that expire during the next four years. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced with other leases.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of June 30, 2004:

2005	$	386,064
2006		201,910
2007		49,620
2008		36,000
Total minimum payments	$	673,594

ADVERTISING COSTS

Advertising costs, expect for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received.

Advertising expense was $9,654 for the year 2003, and $5,776 for the year 2004.

RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. Commercial insurance is carried by the Organization for these risks.

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

CONTINGENCIES

Litigation

The Organization has been named as a party to a class action law suit filed in the Superior Court of the State of California, County of Los Angeles by an individual seeking premium pay pursuant to labor code 226.7 for denied meal and rest periods. The Organization's management believes that they will prevail in this action.

A suit has been filed against the Organization in the Superior Court of California, County of Los Angeles as a result of an auto accident involving an employee and a company vehicle. Management expects the claim to be covered by insurance.

AGREEMENTS

On August 20, 2003, an agreement was entered into with the Department of Housing and Urban Development for Capital Advance Financing in the amount of $453,000. The agreement is evidenced by a note secured by real estate. The note is interest free and is not subject to repayment as long as the secured property remains available to low income eligible individuals, as approved by HUD. The term is for 40 years.

SUBSEQUENT EVENTS

Southern California Alcohol and Drug Program has made an application with the State of California Emergency Housing and Assistance Program Capital Development for a loan to purchase property in the amount of $1,000,000. The loan will be a ten year forgivable loan. The loan has been approved and is now contingent on finding the property.

ASSET IMPAIRMENT

Long-lived assets are measured at the lower of carrying amount or fair value less cost to sell and requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. For long-lived assets to be held and used, an impairment loss will be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The fair value is determined based on discounted cash flows or appraised values depending on the nature of the asset.

Management periodically reviews such assets for possible impairment and expected losses, if any, are currently recorded. During the years ended June 30, 2004 and 2003, no impairment losses were incurred.

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH/PROGRAM TITLE	CFDA Number	Federal Expenditures DETAIL	Federal Expenditures TOTAL
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Los Angeles County Department Of Health Services, Alcohol and Drug Program Administration			
Cal Works Outpatient Residential Drug-Free Services Contract Number: H300463 A/C	93.959	$ 834,873	
General Relief Project Outpatient Drug-Free Services Contract Number: H300461 A/B	93.959	82,289	
Outpatient Drug-Free Counseling and Drug Abuse Residential Services - Proposition 36 Contract Number: H212702 A/B/C/D/E/F/G/H/I	93.959	2,110,038	
Alcohol and Drug-Free Residential Services General Relief Funds Contract Number: H200720 A/B/C/D	93.959	775,276	
Alcohol Drug-Free Counseling - Medical Contract Number: H207738 A/B/C/D/E/F/G	93.959	244,234	
Outpatient Drug Court Treatment Contract Number: H300462 A	93.959	375,501	
Prison Project Network Contract Number:H207325 A/B/C	93.959	222,194	
Subtotal CFDA Number: 93.959 (Los Angeles County)			$ 4,644,205 *
Orange County Department of Health Services Alcohol and Drug Program Administration			
County of Orange, Children and Family Commission Transitional Housing, Mothers and Pregnant Women, Medical, Proposition 36	93.959	$ 203,810	
Children and Families of Orange County Residential Contract Number: 062-B-00	93.959	271,244	
County of Orange, Health Care Agency Residential Treatment Center - Proposition 36 Alcohol and Drug Abuse for Women and Children	93.959	1,442,507	
Subtotal CFDA Number 93.959 (Orange County)			1,917,561 *
TOTAL CFDA Number 93.959			$ 6,561,766

EDERAL GRANTOR/PASS-THROUGH/PROGRAM TITLE	CFDA Number	Federal Expenditures DETAIL	Federal Expenditures TOTAL	
os Angeles County Department of Health Services, AIDS Program				
HIV Day Treatment Services Contract Number: 6H795W53781-03	93.230		$ 400,000	
HIV/AIDS Residential Transitional Housing Services Positive Steps Contract Number: H206933	93.230		63,400	
Public Health Services Substance Abuse and Mental Health Services Administration Positive Steps HIV/AIDS Service Contract Number: 5H79T114480-2	93.230		500,000	
HIV Positive Steps Residential Treatment Services Contract Number: 1H79T11260101	93.230		500,000	
TOTAL CFDA Number 93.230			$ 1,463,400	*
os Angeles County Department of Health Services lcohol and Drug Program Administration				
Outpatient Drug-Free Services (Medi-Cal) Contract Number: H212660 A/B/C/D/G	93.778		399,339	*
Los Angeles County Community Senior Services and Domestic Violence Shelter Contract-Angel Step Inn Contract Number: 48637 - Cal Works	93.592	$ 163,333		
Los Angeles County Community Senior Services and Domestic Violence Shelter Contract-Angel Step Inn Contract Number 48217 - Cal Works	93.592	70,000		
Subtotal CFDA Number 93.592			233,333	*
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			$ 8,657,838	

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH/PROGRAM TITLE	CFDA Number	Federal Expenditures DETAIL	Federal Expenditures TOTAL	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Los Angeles Homeless Services				
City of Los Angeles Homeless Services Authority, Los Angeles Area Homeless Initiative Contract Contract Number: CA16B100020	14.235	$ 180,897		
HUD Direct - Supportive Housing Contract Number: CA16B900-002	14.235	358,894		
Total CFDA Number 14.235			539,791	*
Los Angeles County Housing Authority Shelter Plus Care Program Contract Number: CA16C950003	14.238	29,629		
Los Angeles Housing Department - Housing Opportunities for Persons With AIDS Contract Number: 102155	14.241	122,227		
Subtotal Los Angeles Homeless Services			$ 691,647	
State of California				
Department of Health and Human Services Angel Step Emergency Shelter, Domestic Violence Contract Number: 00-90699	93.592		186,000	*
Community Challenge Youth Drop In Center Contract Number: 99-85651-A3	93.995		100,000	
Drug Program, Women's Center Contract Number: 03-3059	93.592		68,930	*
Office of Justice Criminal Domestic Violence Contract Number: DRO1011774	16.575		174,555	
Emergency Housing Assistance Program Contract Number: 9P235278	14.231		89,375	
Federal Emergency Shelter Program Contract Number: 03-E56-632	14.231		59,500	
TOTAL STATE OF CALIFORNIA			$ 678,360	

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

DERAL GRANTOR/PASS-THROUGH/PROGRAM TITLE	CFDA Number	Federal Expenditures DETAIL	Federal Expenditures TOTAL
ty of Los Angeles			
Community Development Department Domestic Violence Shelter Contract Number: 101223	14.218	$ 203,585	
Los Angeles Homeless Services Authority Contract Number 2002CDB629	14.181	68,073	
Subtotal: City of Los Angeles			271,658
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 10,297,503

IOTE: * denotes major program. See Schedule of Findings and Questioned Costs.

IOTE: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

SOUTHERN CALIFORNIA ALCOHOL AND DRUG PROGRAMS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Southern California Alcohol and Drug Programs, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general-purpose financial statements.

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AUDITED FINANCIAL STATEMENTS OF
SOCIAL MODEL RECOVERY SYSTEMS

Financial Statements of

Social Model Recovery Systems, Inc.

Year Ended June 30, 2004

and

Independent Auditor's Report

Social Model Recovery Systems, Inc.
Financial Statements
For the Year Ended June 30, 2004

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Barry Weiner & Associates

Income Taxes • Accounting • Business Valuations
Forensic / Litigation / Fraud Examinations

Independent Auditor's Report

To the Board of Directors
Social Model Recovery Systems, Inc.
250 East Rowland Street
Covina, California 91723

I have audited the accompanying Statement of Financial Position of Social Model Recovery Systems, Inc. ("Agency") as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted by audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provided a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated February 1, 2005, on my consideration of internal control and on its compliance with laws and regulations.

Barry Weiner
Barry Weiner, CPA
Tarzana, California
February 1, 2005

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Social Model Recovery Systems, Inc.
Balance Sheet
June 30, 2004

ASSETS	
Cash	$ 420,767
Contracts and Accounts Receivables, less Allowance for Client Fee Discounts of $59,633	944,786
Prepaid Expenses	15,998
Fixed Assets, at cost, less Accumulated Depreciation of $857,020	2,515,559
Other Assets	2,809
TOTAL ASSETS	$3,899,919
LIABILITIES AND FUND BALANCE	
Accrued Expenses	$ 138,176
Deferred Income	142,000
Note Payable	50,075
Mortgages Payable	2,392,135
Unrestricted Net Assets	1,177,533
TOTAL LIABILITIES AND NET ASSETS	$3,899,919

See Accompanying Notes and Accountant's Report

Social Model Recovery Systems, Inc.
Statement of Activities
and Changes in Net Assets
For The Year Ended June 30, 2004

REVENUE AND GAINS	
Service Contracts	$3,129,612
Client Fees	1,424,964
Consulting Services	55,963
Community Based Housing	56,224
Contributions	4,031
Interest and Dividends	2,478
Other	43,483
TOTAL REVENUE AND GAINS	4,716,755
EXPENSES AND LOSSES	
Salaries	$2,233,119
Employee Benefits	762,124
Facility Leases	95,432
Facility Mortgage Interest	149,970
Facility Mortgage Insurance	10,436
Vehicle Loan Interest	4,482
Equipment Leases	69,906
Insurance	61,660
Resident Supplies and Medications	82,511
Community Based Housing	62,916
Food & Kitchen	112,150
Utilities, Maintenance, and Supplies	136,075
Staffing, Office Supplies, and Telephone	398,025
Travel and Vehicle	99,838
Professional Fees	97,057
Marketing	65,956
Agency Development	1,120
Networking Events Expense	11,556
Depreciation	114,681
TOTAL EXPENSES AND LOSSES	4,569,014
INCREASE IN NET ASSETS	147,741
NET ASSETS, Beginning of year	1,029,792
NET ASSETS, End of year	$1,177,533

See Accompanying Notes and Accountant's Report

Social Model Recovery Systems, Inc.
Statement of Cash Flows
For The Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in Net Assets	$ 147,741
ADJUSTMENTS TO RECONCILE NET ASSETS TO NET CASH USED IN OPERATIONS:	
Depreciation	114,681
Increase in Contracts and Accounts Receivable	(42,477)
Decrease in Allowance for Client Fee Discounts	(41,336)
Increase in Prepaid Expenses	(1,448)
Decrease in Accrued Expenses	(42,567)
Net cash provided by operating activities	134,594
CASH FLOWS USED IN INVESTING ACTIVITIE	
Net decrease in depreciable assets	(35,046)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on Mortgage	(65,000)
Payments on Notes Payable	(14,288)
Decrease in Deferred Income	(30,000)
Total cash flows from financing activities	(109,288)
NET DECREASE IN CASH FROM OPERATIONS	(9,740)
CASH, Beginning of year	430,508
CASH, End of year	$ 420,768

See Accompanying Notes and Accountant's Report

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation - Social Model Recovery Systems, Inc. ("Agency") reports its financial statement in accordance with the American Institute of Certified Public Accountants' Statement of Position 78-10, "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations".

Fund Accounting - All funds over which the Board of Directors has discretionary control and all funds from contracts which are restricted as to use have been included in the operating fund.

Income Tax Status - The Agency qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes. In addition, the Agency qualifies for the charitable contribution deduction under Section 170(b) (A) and has been classified as an organization that is not a private foundation under Section 509(1) (2).

Fixed Assets - Fixed assets acquired by Social Model Recovery Systems, Inc. are considered to be owned by Social Model Recovery Systems, Inc. However, Federal funding sources may maintain equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets. The Federal Agencies have a reversionary interest in those assets purchased with its funds which have a cost of $500 or more and an estimated useful life of at least two years.

Social Model Recovery Systems, Inc. follows the practice of capitalizing, at cost, most expenditures for fixed assets in excess of $500, except some computer equipment with a useful life expected to be under three years.

Property and equipment is comprised of the following at June 30, 2003:

Land	$1,740,000
Buildings and Improvements	1,393,805
Furniture, Equipment & Fixtures	139,852
Vehicles	98,922
	3,372,579
Less accumulated depreciation	857,020
	$2,515,559

Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Building and improvements	20 - 40 years
Furniture and equipment	5 - 15 years
Vehicles	5 years

Revenue Recognition - Amounts received from contracts for services are recognized over the life of the contracts. Unrestricted contributions are recognized as income when received. Restricted grant income is deferred until expended for the purpose of the grant. Public relief funds are recognized when billed to the public agency. Fees from private residential patients are recognized as billed at estimated collection amount.

Note 2 – Nature and Purpose of the Organization

The Agency is a nonprofit California corporation whose mission "envisions a world where communities can pursue social, economic, educational, and spiritual wellness free from alcohol, other drug, and mental health problems." The Agency is known for the development of innovative model programs which break new ground, serve new target groups, and demonstrate the effectiveness of new recovery service designs. The Agency's focus is on four major areas: 1) treatment and recovery services, 2) training and technical assistance to alcohol and other drug recovery facilities, 3) development of affordable alcohol and drug-free housing, and 4) public policy, systems change, and prevention of alcohol and other drug related problems. The Agency is supported by government contracts, research grants, resident fees, and corporate and philanthropic donations.

Note 3 - Real Estate Transaction

On June 28, 2001, the Agency purchased River Community, the site of a residential treatment facility, which the Agency has rented since 1986. The purchase was funded by bonds of $1,896,653, underwritten by Altura, Nelson & Co. through the California Health Facilities Financing Authority. The bonds bear interest of 2.9 to 5.15 percent and are payable over 25 years.

Note 4 - Long-Term Debt

Social Model Recovery Systems, Inc. has financing on its Parker Street Property and on its River Community Property which they make monthly payments. They pay interest of between 2.9 and 7.5 % on the properties.

The following is a summary of the debt service requirements for the two properties:

June 30	Principle	Interest	Total
2005	70,000	145,172	215,172
2006	75,000	142,002	217,002
2007	75,000	138,346	213,346
2008	80,000	134,601	214,601
2009	85,000	130,580	215,580
2010-2026	2,007,137	1,182,252	3,189,389
	$ 2,392,137	$1,872,953	$ 4,265,090

Note 5 - Notes Payable

At June 30, 2004, Social Model Recovery System, Inc. had vehicle notes payable totaling $49,878 which included the following:

Note payable to a bank totaling $13,192, monthly payments are $627 principal and interest at 7.9%.

Note payable to a bank totaling $10,912, monthly payments are $357 principal and interest at 11.9%.

Note payable to a bank totaling $12,520, monthly payments are $392 principal and interest at 11.9%.

Note payable to a bank totaling $13,254, monthly payments are principal only at $282. It is 0% interest.

The interest on the vehicle notes for the year end June 30, 2004 totaled $ 4,481.

Note 7 - Deferred Income

A provider of treatment services prepaid $300,000 for future consulting services. $30,000 was earned in the year ended June 30, 2004, and the balance of $142,000 will be earned over the next one to two years.

Note 8 - Retirement Plan

Social Model Recovery Systems, Inc. has a qualified deferred compensation 403 (b) plan that enables eligible employees to contribute a portion of their salaries to the Plan. The Company is not required to make matching contributes to the plan. The Company made a discretionary contribution for the year ended June 30, 2004 was $ 71,316

Note 9 – Commitments

As of June 30, 2004, Social Model Recovery Systems, Inc. had entered into various non-cancelable lease agreements for the rental of offices, equipment, vehicles and residential facilities.

Minimum rentals, on an annual basis, are as follows:

Fiscal year ending June 30,	2005	81,073
	2006	58,500
	2007	16,330
	Thereafter	– 0 –
		$ 155,903

Social Model Recovery Systems, Inc. also has a number of month to month leases for various property and equipment.

Note 10 – Concentration of Risk

Social Model Recovery Systems, Inc maintains several bank accounts. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled $158,564 as of June 30, 2004.

Principles, Inc receives approximately 70% of its fees through government contracts. In the year ended June 30, 2003 the fees from government contracts totaled $3,486,930. The receivables from these contracts totaled $568,915, which is approximately 57% of the total receivables.

Social Model Recovery Systems, Inc.
Independent Auditor's Report
Schedule of Federal Financial Assistance

To the Board of Directors
Social Model Recovery Systems, Inc.
250 East Rowland Street
Covina, California 91723

I have audited the program statements of the programs operated by Social Model Recovery Systems, Inc. ("Agency") under contract with the agencies in the accompanying Schedule of Federal Financial Assistance for the year ended June 30, 2004. These program statements are the responsibility of the management of the Agency. My responsibility is to express an opinion on these program statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the program statements are free of material misstatement.

An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the program statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall program statement presentation. I believe my audit provides a reasonable basis for my opinion.

My audit was made for the purposes of forming an opinion on the program statements of the Agency taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the program statements. The information in that schedule has been subjected to the auditing procedures applied in the audit for the program statements and, in my opinion, is fairly presented in all material respects in relation to the program statements taken as a whole.

Barry Weiner, CPA
Tarzana, California
February 1, 2005

Social Model Recovery Systems, Inc.
Schedule of Federal Financial Assistance
For the Year Ended June 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Pass-through from State of California,		
Department of Alcohol & Drug Programs		
Pass-through from County of Los Angeles,		
Department of Health Services,		
Alcohol and Drug Program Administration	93.959	$229,876
U.S. Department of Health and Human Services		
Pass-through from State of California,		
Department of Alcohol & Drug Programs		
Pass-through from County of Los Angeles,		
Department of Health Services,		
Alcohol and Drug Program Administration	93.558	60,421
U.S. Department of Health and Human Services,		
Substance Abuse and Mental Health Services		
Pass-through from State of California,		
Department of Alcohol & Drug Programs		
Pass-through from County of Orange,		
Health Care Agency	93.959	509,019
TOTAL		$799,316

Barry Weiner & Associates

Income Taxes • Accounting • Business Valuations
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Social Model Recovery Systems, Inc.
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Social Model Recovery Systems, Inc.
250 East Rowland Street
Covina, California 91723

I have audited the financial statements of Social Model Recovery Systems, Inc. ("Agency") as of and for the year ended June 30, 2004, and have issued my report thereon dated February 1, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Agency's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Barry Weiner, CPA
Encino, California
February 1, 2005

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Social Model Recovery Systems, Inc.
Independent Auditor's Report on Compliance
To Requirements Applicable to Each Major Program and
Internal Control over Compliance in
Accordance with OMB Circular A-133

To the Board of Directors
Social Model Recovery Systems, Inc.
250 East Rowland Street
Covina, California 91723

I have audited the compliance of Social Model Recovery Systems, Inc. ("Agency") with the types of compliance requirements described in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. My responsibility is to express an opinion on the Agency's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Agency's compliance with those requirements.

In my opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Agency's internal control over compliance with requirements that could have a direct and material effection a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Social Model Recovery Systems, Inc.
Independent Auditor's Report on Compliance
With Requirements Applicable to Each Major Program
And Internal Control over Compliance
In Accordance with OMB Circular A-133
Page 2

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Barry Weiner, CPA
Tarzana, California
February 1, 2005

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Social Model Recovery Systems, Inc.
Independent Auditor's Report on
Schedule of Findings and Questioned Costs

To the Board of Directors
Social Model Recovery Systems, Inc.
250 East Rowland Street
Covina, California 91723

A. Summary of Audit Results

1. The auditor's report expressed an unqualified opinion on the financial statements of the Agency.
2. No reportable conditions in internal control were disclosed during the audit of the financial statements.
3. No instances of non-compliance material to the financial statements of the Agency were disclosed during the audit.
4. No reportable conditions in internal control over major programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the Agency expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for the Agency.
7. The major program was: Substance Abuse Prevention and Treatment Block Grant – CFDA 93-959.
8. The threshold for distinguishing Type A and B programs was $300,000.
9. The Agency was determined to be a low risk auditee.

B. Findings – Financial Statement Audit

None.

C. Findings and Questioned Costs – Major Federal Award Program

None.

D. Status of Prior Year Findings

None.

Barry Weiner, CPA
Tarzana, California
February 1, 2005

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AUDITED FINANCIAL STATEMENTS OF
VERDUGO MENTAL HEALTH

VERDUGO MENTAL HEALTH
(A Nonprofit Organization)

FEDERAL AWARD PROGRAMS
AUDIT REPORTS

YEARS ENDED JUNE 30, 2004 AND 2003

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Verdugo Mental Health

We have audited the accompanying statements of financial position and cash flows of Verdugo Mental Health (a California nonprofit organization) as of and for the years ended June 30, 2004 and 2003, and the related statements of activities and functional expenses for the year ended June 30, 2004. These financial statements are the responsibility of Verdugo Mental Health's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from VMH's June 30, 2003 financial statements and, in our report dated December 12, 2003, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and cash flows of Verdugo Mental Health as of and for the years ended June 30, 2004 and 2003, and the changes in its net assets for the year ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2004 on our consideration of Verdugo Mental Health's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Verdugo Mental Health taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hutchinson and Bloodgood LLP

Glendale, California
October 13, 2004

VERDUGO MENTAL HEALTH

STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and 2003

ASSETS	2004	2003
Cash and cash equivalents	$ 35,540	$ 224,639
Investments (Notes 2 and 6)	362,890	340,735
Accounts receivable, net of allowance for doubtful accounts (Note 9)	414,953	459,182
Other receivables	6,270	2,847
Prepaid expenses	73,697	71,514
Deposits	3,310	2,163
Property and equipment, net (Note 3)	2,713,414	2,776,916
Total assets	$ 3,610,074	$ 3,877,996
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 91,249	$ 321,848
Accrued expenses	597,057	734,879
Credit line (Note 5)	380,000	246,000
Notes payable (Note 4)	828,750	1,085,424
Unfunded accrued pension costs (Note 7)	536,241	536,241
Total liabilities	2,433,297	2,924,392
Net assets:		
Unrestricted:		
Undesignated	1,318,190	1,136,455
Unfunded pension losses (Note 7)	(793,218)	(793,218)
	524,972	343,237
Temporarily restricted (Note 6)	43,902	41,417
Permanently restricted (Note 6)	607,903	568,950
Total net assets	1,176,777	953,604
Total liabilities and net assets	$ 3,610,074	$ 3,877,996

The Notes to Financial Statements are an integral part of these statements.

VERDUGO MENTAL HEALTH

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004
(With Comparative Totals for the Year Ended June 30, 2003)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2004	Total 2003
PUBLIC SUPPORT AND REVENUE					
Contributions	$ 77,124	$ --	$ 2,597	$ 79,721	$ 63,826
Outpatient - Adult	1,693,580	--	--	1,693,580	1,577,784
AB2034	132,907	--	--	132,907	153,325
CalWORKs - DMH	187,198	--	--	187,198	244,880
Outpatient - Child	1,988,828	--	--	1,988,828	2,103,458
Outpatient - Magnolia Park	231,800	--	--	231,800	190,336
Outpatient - Foothills School	178,319	--	--	178,319	113,254
Day services	361,280	--	--	361,280	372,939
Drug free	39,307	--	--	39,307	43,815
Alcohol recovery	111,660	--	--	111,660	115,220
Proposition 36	159,005	--	--	159,005	147,447
WIA - Youth	153,274	--	--	153,274	204,615
WIA - Adult	33,588	--	--	33,588	37,403
CalWORKs - substance abuse	52,004	--	--	52,004	60,021
Homeless Outreach	28,991	--	--	28,991	28,991
School based	48,175	--	--	48,175	64,005
General relief	2,812	--	--	2,812	31,066
Non-contract	69,134	--	--	69,134	95,281
Investment income (loss)	(2,955)	2,485	36,356	35,886	(7,226)
Recovery of bad debts	195,419	--	--	195,419	--
Net assets released from restrictions:					
Satisfaction of program restrictions	--	--	--	--	--
Total public support and revenue	5,741,450	2,485	38,953	5,782,888	5,640,440
EXPENSES					
Program services	4,746,439	--	--	4,746,439	4,972,960
Support services	766,841	--	--	766,841	639,044
Fundraising services	46,435	--	--	46,435	47,215
Total expenses	5,559,715	--	--	5,559,715	5,659,219
CHANGE IN NET ASSETS	181,735	2,485	38,953	223,173	(18,779)
NET ASSETS, BEGINNING OF YEAR	343,237	41,417	568,950	953,604	972,383
NET ASSETS, END OF YEAR	$ 524,972	$ 43,902	$ 607,903	$1,176,777	$ 953,604

The Notes to Financial Statements are an integral part of this statement.

VERDUGO MENTAL HEALTH

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2004
(With Comparative Totals for the Year Ended June 30, 2003)

	PROGRAM			NSES
	DMH CONTRACT PROGRAM	DHS CONTRACT PROGRAM	WIA CONTRACT PROGRAM	2003
Salaries	$ 2,445,583	$ 219,732	$ 107,584	3,442,662
Payroll taxes	194,336	16,865	8,173	248,063
Employee benefits and retirement	676,264	54,924	29,551	743,171
Total salaries and related expenses	3,316,183	291,521	145,308	4,433,896
Advertising	1,276	1,025	1,978	12,289
Automobile and mileage	9,283	634	648	8,926
Bad debts expense	--	--	--	3,009
Building maintenance	64,511	6,765	2,772	62,947
Business meetings	3,965	76	--	13,875
Computer supplies and expenses	1,247	188	--	3,321
Consulting and professional fees	41,541	--	--	126,772
Data processing services	--	--	1,000	9,794
Dues and subscriptions	21,354	2,666	277	29,700
Equipment maintenance	4,998	568	378	13,464
Equipment rental	32,433	3,171	5,154	39,532
Facility leases	10,214	14,226	--	125,531
Insurance	106,943	9,981	9,665	129,894
Interest and bank charges	69,248	3,840	6,928	104,174
Legal and accounting	296	--	2,750	40,624
Fundraising expenses	--	--	--	1,509
Office and program supplies	83,905	9,434	1,535	122,594
Moving expense	--	--	--	2,692
Pharmacy and laboratory expenses	11,792	--	--	25,295
Postage	594	--	--	6,780
Printing and duplication	10,894	2,076	115	20,215
Purchased services	98,335	5,023	1,106	90,945
Staff development and training	2,116	747	74	3,607
Supportive services	--	--	255	1,462
Taxes and licences	1,258	17	24	2,552
Telephone and answering service	48,368	4,719	2,445	81,692
Utilities	30,323	4,123	2,985	49,222
Total expenses before depreciation	3,971,077	360,800	185,397	5,566,311
Depreciation	74,523	2,072	3,700	92,908
Total expenses	$ 4,045,600	$ 362,872	$ 189,097	5,659,219

The Notes to Financial Statements are an integral part of this statement.

VERDUGO MENTAL HEALTH

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 223,173	$ (18,779)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	87,153	92,908
Recovery of bad debts	(195,419)	--
Realized and unrealized loss (gain) on investments	(20,542)	16,341
Decrease (increase) in:		
Accounts receivable	239,648	56,802
Other receivables	(3,423)	(479)
Prepaid expenses	(2,183)	(5,715)
Deposits	(1,147)	--
Increase (decrease) in accounts payable and accrued expenses	(368,421)	305,902
Decrease in accrued pension liability	--	(40,023)
Interest and dividends restricted for long-term purposes	(11,132)	(9,115)
Net cash provided by (used in) operating activities	(52,293)	397,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments, net	12,065	(7,552)
Purchases of investments	(73,695)	(59,846)
Proceeds from disposition of investments	60,017	61,868
Purchases of equipment	--	(3,367)
Construction in process	(23,651)	--
Net cash used in investing activities	(25,264)	(8,897)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of interest and dividends restricted for long-term purposes	11,132	9,115
Advances (repayments) on line of credit	134,000	(250,000)
Principal payments on long-term debt	(256,674)	(40,201)
Net cash used in financing activities	(111,542)	(281,086)
Net increase (decrease) in cash and cash equivalents	(189,099)	107,859
CASH AND CASH EQUIVALENTS, beginning of year	224,639	116,780
CASH AND CASH EQUIVALENTS, end of year	$ 35,540	$ 224,639
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 106,146	$ 100,305

The Notes to Financial Statements are an integral part of these statements.

VERDUGO MENTAL HEALTH
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

Note 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Verdugo Mental Health (VMH) is a nonprofit corporation organized under the laws of the State of California for the purpose of providing mental health services to patients in Glendale and the surrounding areas. The primary sources of VMH revenues are the federal, state, and local governments. Effective September 11, 2001 VMH changed its name from Verdugo Mental Health Center to Verdugo Mental Health.

Method of Accounting

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with VMH's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue and Related Accounts

VMH receives program support from the County of Los Angeles Department of Mental Health. Revenue from these programs is recognized when the contracted services are provided. Fees may be collected from patients.

Note 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

VMH reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. VMH reports restricted contributions, whose restrictions are met in the same reporting period, as unrestricted support. In the absence of donor-imposed restrictions, VMH reports gifts of cash and other assets as unrestricted support.

Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values, based on quoted market prices, in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in net assets. No investment or group of investments represents a significant concentration of market risk.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the same reporting period in which the income and gains are recognized.

Accounts Receivable

Amounts in accounts receivable represent reimbursable expenses net of the allowance for doubtful accounts of $165,395 and $360,814 at June 30, 2004 and 2003, respectively.

Note 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

VMH capitalizes all expenditures for property and equipment in excess of $5,000. Property and equipment are recorded at cost. Donated property and equipment are recorded at market value at the time of transfer to VMH. Building and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful life used for equipment and buildings ranges from 3 to 40 years.

Statement of Cash Flows

For purposes of the statement of cash flows, VMH considers all unrestricted temporary cash investments purchased with a maturity of three months or less to be cash equivalents.

Income Taxes

VMH is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar California statutes. VMH is not considered a private foundation.

Note 2. INVESTMENTS

Qualifying equity securities and all debt securities are required to be measured at fair value, with gains and losses included in the statement of activities. Temporarily restricted investments represent gifts received by VMH. The gifts, along with dividends, interest and any appreciation, are restricted by the donor for building improvements. (See Note 6)

Note 2. INVESTMENTS (Continued)

	2004		2003	
	Cost	Market Value	Cost	Market Value
U.S. Treasury notes	$ 25,158	$ 24,320	$ 20,195	$ 20,366
U.S. Agency notes	30,446	31,250	30,446	32,870
Corporate notes	56,104	56,251	45,851	49,076
Common stock	225,669	237,757	227,647	213,058
Money market	13,312	13,312	25,365	25,365
	$350,689	$362,890	$349,504	$ 340,735

Investment income (loss) is as follows:

	2004	2003
Interest and dividend income	$ 15,344	$ 9,115
Loss on sale of investments	(439)	(5,517)
Unrealized loss on investments	20,981	(10,824)
	$ 35,886	$ (7,226)

Investment manager fees were $3,826 and $3,271 for the years ended June 30, 2004 and 2003, respectively.

Note 3. PROPERTY AND EQUIPMENT

Property and equipment at June 30 are as follows:

	2004	2003
Land	$1,068,953	$1,068,953
Buildings	2,509,959	2,509,959
Furniture and equipment	114,200	232,669
Construction in progress	23,651	--
	3,716,763	3,811,581
Less accumulated depreciation	1,003,349	1,034,665
	$2,713,414	$2,776,916

Note 4. NOTES PAYABLE

Notes payable at June 30 consist of the following:

	2004	2003
Note payable secured by building, interest at 6.5%, due May 2004, payable in monthly installments of $3,000 per month, including interest, with the balance due at maturity	$ --	$ 232,016
Note payable secured by building, with a fixed interest rate of 7.38%. The note is payable in monthly installments of $7,280 with additional predetermined calls of principal over the life of the loan, due 2022	828,750	853,408
	828,750	1,085,424
Less current portion	25,000	257,016
	$ 803,750	$ 828,408

Aggregate maturities or payments required on principal under the notes payable for each of the succeeding five years are as follows:

Year Ending June 30,	
2005	$ 25,000
2006	25,000
2007	26,250
2008	30,000
2009	35,000
Thereafter	687,500
	$ 828,750

Interest expense for the years ended June 30, 2004 and 2003 was $84,824 and $81,272, respectively.

Note 5. CREDIT LINE

VMH has a commercial line of credit secured by real estate at 1530 Colorado Boulevard and other business property. The total amount available is $500,000 and bears interest at the bank's prime rate plus 1.5% (4.0% at June 30, 2004). The line is due on demand and matures April 3, 2005. The balance due at June 30, 2004 and 2003 was $380,000 and $246,000, respectively.

Interest expense for the years ended June 30, 2004 and 2003 was $16,417 and $15,606, respectively.

Note 6. TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets amounting to $607,903 and $568,950 as of June 30, 2004 and 2003, respectively, are restricted to investment in perpetuity, the income from which is expendable to support VMH's children's and other programs. Temporarily restricted net assets amounting to $43,902 and $41,417 as of June 30, 2004 and 2003, respectively, are restricted to building expansion. VMH borrowed $220,000 from the permanently restricted investments and $36,763 from temporarily restricted investments during the years ended June 30, 2002 and 2001, respectively. These borrowings were used to fund operations and meet working capital needs. VMH's management anticipates repaying these funds as operations improve and cash flow allows.

Note 7. DEFINED BENEFIT PENSION PLAN

VMH has a noncontributory defined benefit pension plan that has been frozen since December 31, 1996. The plan covers all employees who have met the eligibility requirements. To be eligible, an employee must be 21 years of age (and under 65 years of age) and have completed one year of service, which may include any prior employment in the health and welfare field if within 3 years prior to the date of hire by VMH. Also, former participants in any plan of the provider are immediately eligible. VMH's funding policy changed during the year ended June 30, 2003 from making the minimum annual contribution that is required by applicable regulations to one that allows a more rapid funding of their obligations. The plan provides benefits, which are based on the employee's highest consecutive 36 months compensation during the last 10 years of service before retirement. During the fiscal year ended June 30, 1997, the measurement date was changed from June 30 to December 31. During the fiscal year ended June 30, 2003, the measurement date was changed from December 31 to June 30.

Note 7. DEFINED BENEFIT PENSION PLAN (Continued)

Pension expense for the years ended June 30, 2004 and 2003 was $296,194 and $361,282, respectively.

The projected benefit obligation is the actuarial present value of that portion of the projected benefits attributable to employee service rendered to date. Service cost is the actuarial present value of that portion of the projected benefits attributable to employee service rendered during the year.

For financial reporting purposes, a pension plan is considered underfunded when the fair value of plan assets is less than the accumulated benefit obligation. When that is the case, a liability must be recognized for the sum of the underfunded amount plus the amount of any prepaid pension contributions.

In recognizing such a liability, an intangible asset is usually recorded. However, the amount of the intangible asset may not be greater than the sum of the prior service costs not yet recognized and the unrecognized transition obligation as shown in the following table. When the liability to be recognized is greater than the intangible asset limit, a charge must be made to unrestricted net assets for the difference.

At June 30, 2004 and 2003, a liability of $536,241 was recognized. Offsetting the liability at June 30, 2004 and 2003 was a charge to unrestricted net assets of $793,218.

The following table sets forth the plan's funded status as of June 30:

	2004	2003
Benefit obligation	$ (1,438,923)	$ (1,442,727)
Plan assets at fair value	902,682	906,486
Unfunded benefit obligation	$ (536,241)	$ (536,241)
Accrued benefit cost	(327,068)	(427,433)
Benefit cost	--	--
Employer contribution	97,208	--
Benefits paid	308,772	59,676

Note 7. DEFINED BENEFIT PENSION PLAN (Continued)

The discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the benefit obligations were 6.0% at December 31, 2003 and 2002. The expected long-term rate of return on plan assets was 6.0% for the plan years ended December 31, 2003 and 2002.

Note 8. TAX-DEFERRED ANNUITY PLAN

On January 1, 1997, VMH entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of VMH. Effective on the date of their employment, employees are eligible to make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. After completing one year of service, the employee is eligible to receive an employer contribution at the employer's discretion. For the years ended June 30, 2004 and 2003, the employer did not contribute to the plan. The plan expenses were $600 for the years ended June 30, 2004 and 2003.

Note 9. MAJOR CUSTOMERS

Approximately 96% and 97% of VMH's total public support and revenues for the years ended June 30, 2004 and 2003, respectively, were derived through contracts with local governmental agencies. Accounts receivable with these agencies, net of any allowances, totaled $369,844 and $424,961 at June 30, 2004 and 2003, respectively. A significant reduction in the level of this support, if this were to occur, may have a significant effect on VMH's programs and activities.

Note 10. MANAGEMENT PLANS

Prior to the previous year end VMH had incurred unusual net losses over earlier years in part due to unreimbursed expenses incurred for certain State of California programs under which VMH had provided patient services. VMH continues to pursue and anticipates eventual reimbursements for these services during the fiscal year ending June 30, 2005; however the ultimate timing and amount of such reimbursements remain unknown at this time. VMH, by Board of Directors action, no longer provides such services. As a result of difficulties in achieving acceptable financial performance, VMH contracted with a management consulting firm to develop and implement a plan to align cost of operations with expected revenues, improve financial performance, diversify its revenue base, and enhance Board of Directors oversight and policy development and oversight. The management consulting firm remained engaged throughout the current fiscal year, under Board of Directors oversight, and assisted management with planning and implementation of initiatives in the areas of improved financial planning and management, infrastructure systems enhancement, revenue diversification strategies, and overall operating performance improvement. Among the actions taken and implemented are improvement in operations budgeting and performance monitoring, salary and benefit cost management, computer systems enhancements, computer hardware upgrades, management team organization, new revenue source identification, enhanced clinical program planning and management, facility improvement planning toward increased productivity of resources, and other infrastructure improvement.

The result of the above actions has been significant and positive for the financial performance of VMH, yielding an improved and strong financial result for the current fiscal year ended June 30, 2004. Operating performance continued to improve over the already significant improvement from the prior fiscal year. Management expects further implementation of initiatives related to those described above to continue through the fiscal year ending June 30, 2005 leading to continued beneficial results. Having achieved significant operating performance improvement, VMH management, with support of the Board of Directors and assistance of the currently engaged management consulting firm, is turning its focus toward future planning and implementation of initiatives designed to insure VMH viability and successful operation and service to the community into future years. Such initiatives are in process in the areas of new clinical program development, improved management information and infrastructure systems, fee-for-service revenue based programs, new product lines, cash reserves augmentation and management, and physical facilities re-development.

VERDUGO MENTAL HEALTH
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

Note 11. COMMITMENTS AND CONTINGENCIES

VMH leases facilities and equipment under noncancelable lease agreements, which expire through 2009. The future minimum lease payments are due by fiscal year-end as follows:

2005	$ 70,804
2006	61,945
2007	42,553
2008	7,728
2009	5,796
	$188,826

Certain leases provide for renewal options and cost-of-living adjustments. VMH also rents facilities on a month-to-month basis. Rent expense for the years ended June 30, 2004 and 2003 was $45,566 and $125,531, respectively.

VMH has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Such grants could generate expenditure disallowances under terms of the grants. There are no known expenditures under review at year-end for which VMH has not already recognized a liability.

VERDUGO MENTAL HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant/ Contract Number	Federal Expenditures
U.S. Department of Health and Human Services			
Pass-through from State Department of Mental Health to Los Angeles County Department of Mental Health			
Mental Health Services	93.778	01490	$ 2,053,741
Pass-through from Los Angeles County Department of Health Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	H212669A	95,429
	93.959	H212669C	146,543
	93.959	H212669B	36,251
	93.959	H300345	2,812
	93.959	H300345A	52,004
			333,039
Total U.S. Department of Health and Human Services			2,386,780
U.S. Department of Labor			
Pass-through from State Department of Employment to City of Glendale Community Development and Housing Department			
Workforce Investment Act	17.250	103378	37,621
	17.250	103379	115,653
	17.250	103416	33,588
Total U.S. Department of Labor			186,862

The accompanying notes are an integral part of this schedule.

VERDUGO MENTAL HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2004

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant/ Contract Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass-through from Los Angeles County Community Development Commission, Community Development Block Grant			
Verdugo Homeless Outreach Project	14.218	E97503-03	$ 28,991
Total U.S. Department of Housing and Urban Development			28,991
Total Federal Awards			$ 2,602,633

The accompanying notes are an integral part of this schedule.

VERDUGO MENTAL HEALTH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

Note 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Verdugo Mental Health provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Pass through from State Department Of Mental Health to Los Angeles County Department of Mental Health		
Medical Assistance Program	93.778	$ 412,500

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Verdugo Mental Health

We have audited the financial statements of Verdugo Mental Health (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Verdugo Mental Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. Our test did disclose immaterial instances of noncompliance that we have reported to management of Verdugo Mental Health in a separate letter dated October 13, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Verdugo Mental Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hutchinson and Bloodgood LLP

Glendale, California
October 13, 2004

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Verdugo Mental Health

Compliance

We have audited the compliance of Verdugo Mental Health (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Verdugo Mental Health's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Verdugo Mental Health's management. Our responsibility is to express an opinion on Verdugo Mental Health's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Verdugo Mental Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Verdugo Mental Health's compliance with those requirements.

In our opinion, Verdugo Mental Health complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Verdugo Mental Health is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Verdugo Mental Health's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hutchinson and Bloodgood LLP

Glendale, California
October 13, 2004

VERDUGO MENTAL HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

Section I – Summary of Auditors Results

Financial Statements

Type of auditors report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	____ Yes	_X_ No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	____ Yes	_X_ None reported
• Noncompliance material to financial statements noted?	____ Yes	_X_ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	____ Yes	_X_ No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	____ Yes	_X_ None reported
Type of auditors report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____ Yes	_X_ No

Identification of major program:

CFDA Number	*Name of Federal Program*
93.778	Medical Assistance Program

VERDUGO MENTAL HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

Section I – Summary of Auditors Results

Federal Awards (continued)

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	_X_ Yes	____ No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS OF CERTAIN TERMS

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

"Act" means the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the California Government Code, as now in effect and as it may from time to time hereafter be amended or supplemented.

"Additional Payments" means payments so designated and required to be made by the Corporations pursuant to the Loan Agreements.

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

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

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

"ALTA" means American Land Title Association.

"Asian Community" means Asian Community Center of Sacramento Valley, Inc., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Asian Community Loan Agreement or the Asian Community Regulatory Agreement.

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

"Asian Community Contract of Insurance" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and Asian Community, as originally executed and as amended from time to time in accordance with its terms.

"Asian Community Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by Asian Community, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"Asian Community Loan Agreement" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and Asian Community, as originally executed and as amended from time to time in accordance with its terms.

"Asian Community Regulatory Agreement" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and Asian Community, as originally executed and as amended from time to time in accordance with its terms.

"*Authority*" means the California Health Facilities Financing Authority, a public instrumentality of the State.

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

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

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

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

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

"*Bonds*" means the California Health Facilities Financing Authority Insured Refunding Revenue Bonds (Small Facilities Refinancing Program), 2005 Series A, issued under the Indenture.

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

"*Business Day*" means any day other than a Saturday, Sunday, or a day on which banking institutions in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed or a day on which the Federal Reserve System is closed.

"*California Autism*" means The California Autism Foundation, Inc., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the California Autism Loan Agreement or the California Autism Regulatory Agreement.

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

"*California Autism Contract of Insurance*" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and California Autism, as originally executed and as amended from time to time in accordance with its terms.

"*California Autism Deed of Trust*" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by California Autism, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"*California Autism Loan Agreement*" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and California Autism, as originally executed and as amended from time to time in accordance with its terms.

"*California Autism Regulatory Agreement*" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and California Autism, as originally executed and as amended from time to time in accordance with its terms.

"*Capital Replacement Amount*" means the amount required to be deposited in each Fiscal Year to the Capital Replacement Fund under each Regulatory Agreement. Such amount shall be calculated by each Corporation in each year and certified to the Office.

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

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

"Certificate," "Statement," "Request," "Requisition" and *"Order"* of the Authority, the Office or the Corporations mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by its Chairman, Executive Director, Deputy Executive Director or such other person as may be designated and authorized to sign for the Authority, or in the name of the Corporations or the Office by an Authorized Representative of the Corporations or the Office, respectively, and delivered to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"Clinicas" means Clinicas del Camino Real, Inc., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Clinicas Loan Agreement or the Clinicas Regulatory Agreement.

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

"Clinicas Contract of Insurance" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and Clinicas, as originally executed and as amended from time to time in accordance with its terms.

"Clinicas Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by Clinicas, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"Clinicas Loan Agreement" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and Clinicas, as originally executed and as amended from time to time in accordance with its terms.

"Clinicas Regulatory Agreement" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and Clinicas, as originally executed and as amended from time to time in accordance with its terms.

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

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

"Community Medical" means Community Medical Centers, Inc., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Community Medical Loan Agreement or the Community Medical Regulatory Agreement.

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

"Community Medical Contract of Insurance" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and Community Medical, as originally executed and as amended from time to time in accordance with its terms.

"Community Medical Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by Community Medical, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"Community Medical Loan Agreement" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and Community Medical, as originally executed and as amended from time to time in accordance with its terms.

"Community Medical Regulatory Agreement" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and Community Medical, as originally executed and as amended from time to time in accordance with its terms.

"Continuing Disclosure Certificates" means, collectively, the Asian Community Continuing Disclosure Certificate, the California Autism Continuing Disclosure Certificate, the Clinicas Continuing Disclosure Certificate, the Community Medical Continuing Disclosure Certificate, the Social Model Continuing Disclosure Certificate, the SCADP Continuing Disclosure Certificate and the Verdugo Continuing Disclosure Certificate.

"Contracts of Insurance" means, collectively, the Asian Community Contract of Insurance, the California Autism Contract of Insurance, the Clinicas Contract of Insurance, the Community Medical Contract of Insurance, the Social Model Contract of Insurance, the SCADP Contract of Insurance, and the Verdugo Contract of Insurance.

"Corporations" means, collectively, Asian Community, California Autism, Clinicas, Community Medical, Social Model, SCADP and Verdugo.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Corporations and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to the upfront premium and certification and inspection fees payable to the Office on the Closing Date, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee (including legal fees and charges of its counsel), legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Debt Service," when used with respect to any Long-Term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of

a. the interest falling due on such Long-Term Indebtedness during such period (except to the extent that such interest is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), and

b. the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-Term Indebtedness during such period (except to the extent such principal is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), computed on the assumption that no portion of such Long-Term Indebtedness shall cease to be outstanding during such period except by reason of the application of such scheduled payments, *provided, however*, that for purposes of such computation:

(1) if Long-Term Indebtedness is

(a) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least fifty million dollars ($50,000,000) and whose unsecured securities are rated in one of the two highest short-term or long-term Rating Categories (without regard to numerical modifier) by each rating agency then rating the Bonds, or

(b) insured by an insurance policy or surety bond issued by an insurance company rated at least A+ by Alfred M. Best Company in Best's Insurance Reports,

principal payments or deposits with respect to such Long-Term Indebtedness nominally due in the last Fiscal Year in which such Long-Term Indebtedness matures may, at the option of a Corporation, be treated as if they were due as specified in any loan agreement or installment sale/purchase agreement issued in connection with such letter of credit, line of credit, insurance policy or surety bond or pursuant to the repayment provisions of such letter of credit, line of credit, insurance policy or surety bond (or, if such loan agreement or installment sale/purchase agreement or repayment provisions provide for repayment over less than 20 years and the

Trustee receives a Statement of a Corporation to the effect that the Corporation intends to refinance such Long-Term Indebtedness prior to maturity, as if they were amortized over a 20-year period with substantially level debt service) and interest on such Long-Term Indebtedness after such Fiscal Year shall be assumed to be payable at an interest rate equal to a rate per annum equal to the 25-year revenue bond index most recently published preceding the date of calculation in *The Bond Buyer* (subject to any adjustment for errors therein which may be acknowledged by the publishers thereof);

(2) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of

(a) the average rate of interest borne (or which would have been borne) by such Long-Term Indebtedness during the Fiscal Year immediately preceding the date of calculation plus one percent (1%), or

(b) the average rate of interest borne by such Long-Term Indebtedness during the three full calendar months immediately preceding the date of calculation plus one percent (1%);

(3) if interest is capitalized with respect to Long-Term Indebtedness, Debt Service on such Long-Term Indebtedness shall be included in computations of Maximum Aggregate Annual Debt Service under the Regulatory Agreements only in proportion to the amount of interest payable in the then-current Fiscal Year from sources other than amounts funded to pay such capitalized interest;

(4) with respect to a Guarantee, there shall be included in the Debt Service of a Corporation

(a) twenty-five percent (25%) of the Corporation's maximum possible monetary liability under the Guarantee in any Fiscal Year unless the Guarantee is drawn upon, and

(b) one hundred percent (100%) of the Corporation's monetary liability under the Guarantee which has been drawn upon, until such time as all amounts drawn upon the Guarantee have been repaid to the Corporation, and for two Fiscal Years thereafter; and

(5) if moneys or Investment Securities described in Subsections (1), (2), (5) or (6) of the definition thereof contained in Section 1.01 of the Indenture (not callable by the issuer thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service.

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

"Deeds of Trust" means, collectively, the Asian Community Deed of Trust, the California Autism Deed of Trust, the Clinicas Deed of Trust, the Community Medical Deed of Trust, the Social Model Deed of Trust, the SCADP Deed of Trust and the Verdugo Deed of Trust.

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

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

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

"Facilities" means

a. the real property described in each Regulatory Agreement and all real property required to be added, from time to time, to this definition of Facilities pursuant to such Regulatory Agreement;

b. all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired; and

c. all tangible personal property owned by a Corporation, whether now existing or hereafter constructed, installed or acquired, and used in, around or about the aforesaid real property, including but not limited to the personal property described in its Regulatory Agreement.

"Fiscal Year" means the official fiscal year period of a Corporation.

"501(c)(3) Organization" means an organization described in section 501(c)(3) of the Code.

"Governmental Unit" shall have the meaning set forth in Section 150 of the Code.

"Gross Revenue Fund" means the fund by that name established pursuant to the Loan Agreements.

"Gross Revenues" means all revenues, income, receipts and money received in any period by a Corporation (other than donor-restricted gifts, grants, bequests, donations, contributions, and tax revenues), including, but without limiting the generality of the foregoing, the following:

a. gross revenues derived from its operation and possession of and pertaining to its properties,

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

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

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

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

"Hazardous Materials" means

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

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

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

d. any flammable substances or explosives,

e. any radioactive materials,

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

g. urea formaldehyde foam insulation,

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

i. pesticides, and

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

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

"Indebtedness" means (a) any Guarantee, and (b) any indebtedness or obligation of a Corporation (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles. Indebtedness shall not include Non-recourse Indebtedness.

"Indenture" means that certain Indenture, dated as of April 1, 2005, by and between the Authority and the Trustee, as amended, modified and supplemented from time to time.

"Independent," when referring to an Accountant, Counsel, Management Consultant or Person, means an Accountant, Counsel, Management Consultant or Person who (a) is independent of and not under the control of a Corporation, (b) does not have any substantial interest, direct or indirect, in a Corporation, and (c) in the case of an individual, is not connected, including through a spouse, with a Corporation as a director, officer or employee of a Corporation, and in the case of a firm, is not connected with the Corporation as a partner, director, officer or employee of a Corporation, but who may be regularly retained by a Corporation.

"Information Services" means Financial Information, Inc.'s *"Daily Called Bond Service,"* 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150 Charlotte, NC 28217, Attention: Called Bond Dept.; Kenny S&P, 55 Water Street, New York, NY 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission; or to such other addresses and/or such other national information services providing information with respect to the redemption of bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

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

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

"*Insurer*" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"*Insurer's Fiscal Agent*" means U.S. Bank Trust National Association, New York, New York, or any successor thereto.

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

"*Interest Payment Date*" means April 1 and October 1 of each year, commencing October 1, 2005.

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

(a) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America ("U.S. Government Securities").

(b) Direct obligations of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America (although the following are explicitly excluded from such securities: (i) all derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes; (ii) obligations that have a possibility of returning a zero or negative yield if held to maturity; (iii) obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and (iv) collateralized mortgage-backed Obligations ("CMOs")):

A. direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States

B. debentures of the Federal Housing Administration

C. participation certificates of the General Services Administration

D. guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMAs")

E. guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration

F. local authority bonds of the U.S. Department of Housing & Urban Development

G. guaranteed Title XI financings of the U.S. Maritime Administration

H. guaranteed transit bonds of the Washington Metropolitan Area Transit Authority

(c) Direct obligations of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America (although the following are explicitly excluded from such securities: (i) all derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes; (ii) obligations that have a possibility of returning a zero or negative yield if held to maturity; (iii) obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and (iv) CMOs):

A. senior debt obligations rated Aaa by Moody's and AAA by S&P of the Federal National Mortgage Association ("FNMAs")

B. participation certificates and senior debt obligations rated Aaa by Moody's and AAA by S&P of the Federal Home Loan Mortgage Corporation ("FHLMCs")

C. consolidated debt obligations of the Federal Home Loan Banks

D. debt obligations of the Student Loan Marketing Association

E. debt obligations of the Resolution Funding Corporation

(d) Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.

(e) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.

(g) Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-l by Moody's and A-l or better by S&P (not considering holding company ratings).

(h) Investments in money-market funds rated AAAm or AAAm-G by S&P.

(i) State-sponsored investment pools rated AA- or better by S&P.

(j) Repurchase agreements that meet the following criteria:

(i) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

(ii) Acceptable providers shall consist of (A) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-l or better by Moody's and A-/A-1 or better by S&P, or (B) domestic structured investment companies approved by the Insurer and rated Aaa by Moody's and AAA by S&P.

(iii) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-l from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

(iv) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in (b)(D), (c)(A) and (c)(B) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMAs, FNMAs or FHLMCs. The repurchase agreement shall require (A) the Trustee or the Agent to value the repurchase securities no less frequently than weekly, (B) the delivery of additional repurchase securities if the fair market value of the repurchase securities is below the required level on any valuation date, and (C) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(v) The repurchase securities shall be delivered free and clear of any lien to the Trustee or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (A) a Federal Reserve Bank, or (B) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than $50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(vi) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(vii) The repurchase agreement shall have a term of one year or less, or shall be due on demand.

(viii) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Insurer directs otherwise:

(A) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;

(B) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or

(C) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(k) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria, subject to such revisions as may be consented to by the Insurer:

(i) A master agreement or specific written investment agreement governs the transaction.

(ii) Acceptable providers of uncollateralized investment agreements shall consist of (A) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (B) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (C) domestic structured investment companies approved by the Insurer and rated Aaa by Moody's and AAA by S&P.

(iii) Acceptable providers of collateralized investment agreements shall consist of (A) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of Al or better by Moody's and A+ or better by S&P; (B) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Al by Moody's and A+ by S&P; (C) domestic insurance companies rated at least Al by Moody's and A+ by S&P; and (D) domestic structured investment companies approved by the Insurer and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth below.

(iv) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (A) repay the principal amount plus any accrued interest on the investment; or (B) deliver Permitted Collateral as provided below.

(v) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty.

(vi) The investment agreement shall provide for the delivery of collateral described in (A) or (B) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:

(A) U.S. Government Securities at 104% of principal plus accrued interest; or

(B) Obligations of GNMA, FNMA or FHLMC (described in (b)(iv), (c)(i) and (c)(ii) above) at 105% of principal and accrued interest.

(vii) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(A) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;

(B) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or

(C) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.

(viii) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

(ix) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under (k)(vi) above, the Trustee and the Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.

(x) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the Indenture, as well as the following:

(A) In the event of a deficiency in the Revenue Fund;

(B) Upon acceleration after an event of default;

(C) Upon refunding of the Bonds in whole or in part;

(D) Reduction of the debt service reserve requirement for the Bonds; or

(E) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the bonds and to make deposits to the debt service reserve fund.

(xi) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities, unless:

(A) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;

(B) Insolvency of the provider or the guarantor (if any) under the investment agreement;

(C) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;

(D) Failure by the provider to make a payment or observe any covenant under the agreement;

(E) The guaranty (if any) is terminated, repudiated or challenged; or

(F) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.

(xii) The investment agreement must incorporate the following general criteria:

(A) "Cure periods" for payment default shall not exceed two (2) business days;

(B) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Insurer;

(C) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of the Insurer;

(D) If the investment agreement is for a debt service reserve find, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.

(E) The provider shall be required to immediately notify the Insurer and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;

(F) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;

(G) The agreement shall require the provider to submit information reasonably requested by the Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.

Maturity of investments shall be governed by the following:

(a) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.

(b) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.

(c) Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

"*Loan Agreements*" means, collectively, the Asian Community Loan Agreement, the California Autism Loan Agreement, the Clinicas Loan Agreement, the Community Medical Loan Agreement, the Social Model Loan Agreement, the SCADP Loan Agreement and the Verdugo Loan Agreement.

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

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

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

"*Management Agent*" means that Person or those Persons with whom a Corporation has entered into a contract, whether as an independent contractor or employee, for managerial services, relating to the management or operation of all or substantially all of the Facilities. In the event the Corporation does not have a separate management contract, then "Management Agent" shall mean all of those Persons serving as the Corporation's CEO/President, chief financial officer, chief operating officer, or other similar officers. In the event the Corporation does not have such officers, then "Management Agent" shall mean all of those Persons that manage or operate all or substantially all of the Facilities.

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

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

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

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

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

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

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

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

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

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

"*1990 Clinicas Project*" means the financing and refinancing of the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Clinicas, financed with the proceeds of the 1990 Local Med COPs: (a) 650 Meta Street, Oxnard, California, (b) 1280 South Wells Road, Saticoy, California, and (c) 355 Central Avenue, Fillmore, California

"*1990 Local Med COPs*" means the portion of Local Med's $10,385,000 Local Medical Facilities Financing Authority Certificates of Participation (Insured California Health Clinic Projects), executed and delivered pursuant to the 1990 Trust Agreement allocable to Clinicas.

"*1990 Local Med Escrow Agreement*" means that certain escrow deposit and trust agreement, dated the Closing Date, by and among the 1990 Escrow Bank and Clinicas, relating to the defeasance of the 1990 Local Med COPs.

"*1990 Local Med Escrow Bank*" means U.S. Bank National Association, as escrow bank under and pursuant to the 1990 Escrow Agreement.

"*1990 Local Med Trust Agreement*" means the Trust Agreement, dated as of March 1, 1990, by and among Local Med, the 1990 Trustee, Clinicas and certain other corporations.

"*1990 Local Med Trustee*" means U.S. Bank National Association, as a successor trustee to Seattle First National Bank, as trustee for the 1990 Local Med COPs.

"*1992A CHFFA Bonds*" means the Authority's $5,735,0000 California Health Facilities Financing Authority Insured Revenue Bonds (Feedback Foundation, Inc., Olive Crest Treatment Centers and Southern California Alcohol & Drug Programs, Inc.), 1992 Series A, issued pursuant to the 1992A CHFFA Indenture for the benefit of SCADP.

"*1992A CHFFA Escrow Agreement*" means that certain escrow deposit and trust agreement, dated the Closing Date, by and among the 1992A Escrow Bank and SCADP, relating to the defeasance of the 1992A CHFFA Bonds allocable to SCADP.

"*1992A CHFFA Escrow Bank*" means U.S. Bank National Association, as escrow bank under and pursuant to the 1992A Escrow Agreement.

"*1992A CHFFA Indenture*" means the Indenture, dated as of December 1, 1992, by and between the Authority and the 1992A Trustee.

"*1992A CHFFA Trustee*" means U.S. Bank National Association, as a successor trustee to Seattle-First National Bank, as trustee for the 1992A Bonds.

"*1992A SCADP Project*" means the financing and refinancing of the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by SCADP: 2212 and 2218 Placentia Avenue, Costa Mesa, California.

"1992D Asian Community Bonds" means the Authority's $3,160,000 California Health Facilities Financing Authority Insured Revenue Bonds (Asian Community Center), 1992 Refunding Series D, issued pursuant to the 1992D Asian Community Indenture.

"1992D Asian Community Escrow Agreement" means that certain escrow deposit and trust agreement, dated the Closing Date, by and among the 1992D Asian Community Escrow Bank and Asian Community, relating to the defeasance of the 1992D Asian Community Bonds.

"1992D Asian Community Escrow Bank" means U.S. Bank National Association, as escrow bank under and pursuant to the 1992D Asian Community Escrow Agreement.

"1992D Asian Community Indenture" means the Indenture, dated as of October 1, 1992, by and between the Authority and the 1992D Asian Community Trustee.

"1992D Asian Community Project" means the financing and refinancing of the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Asian Community: 7801 Rush River Drive, Sacramento, California.

"1992D Asian Community Trustee" means U.S. Bank National Association, as successor trustee to U.S. Trust Company of California, N.A., as trustee for the 1992D Asian Community Bonds.

"1995A California Autism Bonds" means the Authority's $4,700,000 California Health Facilities Financing Authority Insured Revenue Bonds (California Autism Center), 1992 Refunding Series D, issued pursuant to the 1995A California Autism Indenture.

"1995A California Autism Escrow Agreement" means that certain escrow deposit and trust agreement, dated the Closing Date, by and among the 1995A California Autism Escrow Bank and California Autism, relating to the defeasance of the 1995A California Autism Bonds.

"1995A California Autism Escrow Bank" means U.S. Bank National Association, as escrow bank under and pursuant to the 1995A California Autism Escrow Agreement.

"1995A California Autism Indenture" means the Indenture, dated as of November 1, 1995, by and between the Authority and the 1995A California Autism Trustee.

"1995A California Autism Project" means the financing and refinancing of the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by California Autism: (a) 4175 Lakeside Drive, Richmond, California, (b) 982 Marlesta Road, Pinole, California, (c) 2632 Appaloosa Trail, Pinole, California, (d) 3592 Morningside Drive, El Sobrante, California, (e) 27 Carter Court, El Sobrante, California, and (f) 371 Devon Drive, San Rafael, California.

"1995A California Autism Trustee" means U.S. Bank National Association, as successor to First Trust of California, N.A., as trustee for the 1995A California Autism Bonds.

"1995A Clinicas Bonds" means the Authority's $7,225,000 California Health Facilities Financing Authority Insured Revenue Bonds (Clinicas del Camino Real, Inc.), 1995 Series A, issued pursuant to the 1995A Clinicas Indenture.

"1995A Clinicas Escrow Agreement" means that certain escrow deposit and trust agreement, dated the Closing Date, by and among the 1995A Clinicas Escrow Bank and Clinicas, relating to the defeasance of the 1995A Clinicas Bonds.

"1995A Clinicas Escrow Bank" means U.S. Bank National Association, as escrow bank under and pursuant to the 1995A Clinicas Escrow Agreement.

"1995A Clinicas Indenture" means the Indenture, dated as of May 1, 1995, by and between the Authority and the 1995A Clinicas Trustee.

"1995A Clinicas Project" means the financing and refinancing of the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by Clinicas: 200 South Wells Road, Ventura, California.

"*1995A Clinicas Trustee*" means U.S. Bank National Association, as a successor trustee to Seattle-First National Bank, as trustee for the 1995A Clinicas Bonds.

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

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

"*Opinion of Counsel*" means a written opinion of counsel (including, without limitation, counsel for the Authority) selected by the Authority and delivered to the Trustee.

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

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

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

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

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

"*Permitted Encumbrances*" means and includes:

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

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

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

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

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

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

g. present or future valid zoning laws and ordinances;

h. the rights of the Authority, the Corporations, the Office, the Trustee, the Insurer and holders of Parity Debt under the Loan Agreements, the Indenture, the Regulatory Agreements and the Deeds of Trust and the lien and charge of the Indenture, the Regulatory Agreements and the Deeds of Trust;

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

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

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

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

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

n. liens securing Parity Debt on a parity with the obligations of the Corporations under the Regulatory Agreements;

o. statutory rights of the United States of America to recover against the Corporations by reason of federal funds made available under 42 U.S.C. §291 *et seq.*, and similar rights under other federal and state statutes; and

p. other liens and encumbrances specifically approved in writing by the Office.

"Person" means 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.

"Policy" means the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of principal of and interest on the Bonds.

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

"Principal Corporate Trust Office" means the office of the Trustee at 1450 Fifth Avenue, 7th Floor, Seattle, WA 98101, or such other or additional offices as may be specified to the Authority by the Trustee except that, with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which at any particular time, its corporate trust agency shall be conducted, or such other office designated by the Trustee from time to time, or at such other or additional offices as may be specified by the Trustee in writing to the Authority.

"Program" means the Authority's program of making loans under the Act.

"Projects" means, collectively, the 1990 Clinicas Project, the 1992A SCADP Project, the 1992D Asian Community Project, the 1995A Clinicas Project, the 1995A California Autism Project, and the STARTS Projects.

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

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

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

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

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

"Regulatory Agreements" means, collectively, the Asian Community Regulatory Agreement, the California Autism Regulatory Agreement, the Clinicas Regulatory Agreement, the Community Medical Regulatory Agreement, the Social Model Regulatory Agreement, the SCADP Regulatory Agreement and the Verdugo Regulatory Agreement.

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

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

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

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

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

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232, or, in accordance with the then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or to no such depositories, as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

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

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

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

"Social Model" means Social Model Recovery Systems, Inc., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Social Model Loan Agreement or the Social Model Regulatory Agreement.

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

"Social Model Contract of Insurance" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and Social Model, as originally executed and as amended from time to time in accordance with its terms.

"Social Model Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by Social Model, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"Social Model Loan Agreement" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and Social Model, as originally executed and as amended from time to time in accordance with its terms.

"Social Model Regulatory Agreement" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and Social Model, as originally executed and as amended from time to time in accordance with its terms.

"SCADP" means Southern California Alcohol & Drug Programs, Inc., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the SCADP Loan Agreement or the SCADP Regulatory Agreement.

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

"SCADP Contract of Insurance" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and SCADP, as originally executed and as amended from time to time in accordance with its terms.

"SCADP Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by SCADP, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"SCADP Loan Agreement" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and SCADP, as originally executed and as amended from time to time in accordance with its terms.

"SCADP Regulatory Agreement" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and SCADP, as originally executed and as amended from time to time in accordance with its terms.

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

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

"STARTS Bonds" means the portion of the Authority's $19,405,000 California Health Facilities Financing Authority Insured Health Facility Revenue Bonds (Small Facilities Pooled Loan Program), Series B, issued pursuant to the STARTS Indenture for the benefit of the Corporations.

"STARTS Escrow Agreement" means that certain escrow deposit and trust agreement, dated the Closing Date, by and among the STARTS Escrow Bank and the Corporations, relating to the defeasance of the STARTS Bonds.

"STARTS Escrow Bank" means The Bank of New York Trust Company, N.A., as escrow bank under and pursuant to the STARTS Escrow Agreement.

"STARTS Indenture" means the Indenture, dated as of December 1, 1994, by and between the Authority and the STARTS Trustee.

"STARTS Projects" means the financing and refinancing of the acquisition, construction, installation, and/or equipping of projects at the following health care facilities, owned and operated by the Corporations, financed with the proceeds of the STARTS Bonds: (a) Clinicas: (i) 650 Meta Street, Oxnard, California; and (ii) 1250 Maricopa Highway, Ojai, California, (b) Community Medical: (i) 230 North California Street, Stockton, California; and (ii) 701 East Channel Street, Stockton, California, (c) Social Model: 525 North Parker Street, Orange, California, (d) SCADP: (i) 1755 Freeman Avenue, Long Beach, California; and (ii) 12322 Clearglenn Avenue, Whittier, California, and (e) Verdugo: (i) 1534-1552 East Colorado, Glendale, California; and (ii) 313 Lincoln Street, Glendale, California.

"STARTS Trustee" means The Bank of New York Trust Company, N.A., as a successor trustee to The Bank of New York, as trustee for the STARTS Bonds.

"State" means the State of California.

"Statement" means a written certification, certificate or statement or other appropriate written instrument normally provided in the applicable circumstance where required by the Regulatory Agreements to be provided or delivered by an Accountant, counsel, insurance agent, a Risk Management Consultant, a Management Consultant, the Corporations, the Office or other appropriate Person. The Statement shall be dated and signed by a person authorized to execute the Statement.

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

"Tax Agreement" means the Tax Certificate and Agreement with respect to the Bonds executed and delivered by the Authority and the Corporations, as originally executed and as the same may be amended and supplemented from time to time in accordance with the terms thereof.

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

"Trustee" means U.S. Bank National Association, as trustee, together with the Trustee's permitted successors as trustee, under the Indenture.

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

"Verdugo" means Verdugo Mental Health., a nonprofit, public benefit corporation and 501(c)(3) Organization duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Verdugo Loan Agreement or the Verdugo Regulatory Agreement.

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

"Verdugo Contract of Insurance" means that certain Contract of Insurance, dated as of April 1, 2005, among the Authority, the Office and Verdugo, as originally executed and as amended from time to time in accordance with its terms.

"Verdugo Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of April 1, 2005, to be executed by Verdugo, as trustor, in favor of the trustee thereunder for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

"Verdugo Loan Agreement" means that certain Loan Agreement, dated as of April 1, 2005, by and between the Authority and Verdugo, as originally executed and as amended from time to time in accordance with its terms.

"Verdugo Regulatory Agreement" means that certain Regulatory Agreement, dated as of April 1, 2005, among the Authority, the Office and Verdugo, as originally executed and as amended from time to time in accordance with its terms.

INDENTURE

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

Establishment of Funds and Accounts

The Indenture creates the Revenue Fund (and the Interest Account, Principal Account, Sinking Account and Bond Reserve Account established thereunder), the Redemption Fund (and the Optional Redemption Account and Special Redemption Account established thereunder), the Insurance and Condemnation Proceeds Fund, the Costs of Issuance Fund and the Rebate Fund; all of which are to be held by the Trustee. Separate accounts will be created within each such fund, as required, allocable to each Corporation.

Costs of Issuance Fund

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

Insurance and Condemnation Proceeds Fund

The Trustee will maintain and administer the Insurance and Condemnation Proceeds Fund as set forth in the Loan Agreements and the Regulatory Agreements. See "LOAN AGREEMENT" and "REGULATORY AGREEMENT—Disposition of Insurance and Condemnation Proceeds" herein.

Pledge and Assignment

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

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and other assets pledged above and all of the right, title and interest of the Authority in the Loan Agreements (except for the right to receive, in all cases to the extent payable to the Authority or the Trustee, certain expenses and indemnity), the Deeds of Trust, the Contracts of Insurance and the Regulatory Agreements. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions of the Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Corporations under the Loan Agreements, the Deeds of Trust, the Contracts of Insurance and the Regulatory Agreements.

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

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

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

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

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

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

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

Allocation of Revenues

On or before the twenty-fifth (25th) day of each month, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

First: to the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable during the next succeeding six months on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; *provided, however*, that from the date of delivery of the Bonds until the first interest payment date with respect to the Bonds (if less than six months), transfers to the Interest Account shall be sufficient on a monthly pro rata basis to pay the interest becoming due and payable on said interest payment date;

Second: to the Principal Account, one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds, in each case during the next ensuing twelve months, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; *provided, however*, that from the date of delivery of the Bonds until the first principal payment date with respect to the Bonds (if less than twelve months), transfers to the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said principal payment date;

Third: to the Bond Reserve Account, (i) one-twelfth of the aggregate amount of each prior withdrawal from the Bond Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), provided that no deposit need be made into the Bond Reserve Account if the balance in said account is at least equal to the Bond Reserve Account Requirement, and (ii) in the event the balance in said account shall be less than the Bond Reserve Account Requirement due to valuation of the Investment Securities deposited therein, the amount necessary to increase the balance in said account to an amount at least equal to the Bond Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount); and

Fourth: to the Rebate Fund, such amounts as are required to be deposited therein by the Indenture (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred first to the Office to the extent necessary to repay insurance advances made by the Office, including interest thereon as specified in the Regulatory Agreements, as certified to the Trustee by the Office, and thereafter to the Corporations.

Application of Interest Account

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

Application of Principal Account

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

Application of Redemption Fund

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

Application of Bond Reserve Account

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account (but, in each case, only with the consent of the Office) or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding.

Rebate Fund

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

Investments

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

Moneys in all funds and accounts (other than the Bond Reserve Account and the Rebate Fund) shall be invested in Investment Securities maturing not later than the date on which it is estimated by the Corporations that such moneys will be required for the purposes specified in the Indenture. Moneys in the Bond Reserve Account shall be invested in Investment Securities maturing prior to the final maturity of the Bonds but in no event longer than five (5) years from the date of investment therein; *provided, however*, moneys in the Bond Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five (5) years as long as said Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Bond Reserve Account under the Indenture) the corpus thereto at no less than the purchase price thereof without any loss in value. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

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

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

Tax Covenants

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

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

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

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

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

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

Continuing Disclosure

Pursuant to the Loan Agreements, the Corporations have undertaken all responsibility for compliance with continuing disclosure requirements, and none of the Authority, the Trustee or the Dissemination Agent shall have any liability to the Owners of the Bonds or any other person with respect to S.E.C Rule 15c2-12. The Trustee covenants and agrees that it will comply with and carry out all of the provisions of the Loan Agreements applicable to it. Notwithstanding any other provision of the Indenture, failure of the Corporations or the Dissemination Agent to comply with the Continuing Disclosure Certificates shall not be considered an Event of Default; however, the Trustee shall at the request of the Owners of at least 25% aggregate principal amount of Outstanding Bonds, to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys, or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporations to comply with its obligations under the Loan Agreements or to cause the Trustee to comply with its obligations under the Indenture. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Events of Default; Remedies on Default

"Events of Default" under the Indenture include: (1) default in the due and punctual payment of the principal or Redemption Price of or interest on any Bond or any premium due to the Office under the Contracts of Insurance; (2) default by the Authority to observe or perform any other covenants, agreement or conditions on its part contained in the Indenture or the Bonds, which failure shall have continued for a period of 60 days after written notice thereof to the Authority and the Corporations from the Trustee or to the Authority, the Corporations and the Trustee from the holders of not less than 25% in aggregate principal amount of the Outstanding Bonds; (3) a Loan Default Event; or (4) if a Corporation or its creditors file a petition alleging insolvency, requesting reorganization, or a composition of creditors, or for an assignment for the benefit of creditors, in any court, the Office shall have the right to vote in the place and stead of all Bondholders, so long as the Office provides to the Trustee ten (10) days or more before any such vote that the Contracts of Insurance will remain in effect after such vote, on any plan of reorganization, agreement for a composition of creditors, and on any assignment for the benefit of creditors. See "LOAN AGREEMENT—Loan Default Events."

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

In addition, the Trustee in its discretion may, and upon written request of the Office or the holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding and the written consent of the Office, and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of such Bondholders under the Indenture, the Loan Agreements, the Regulatory Agreements, the Contracts of Insurance, the Deeds of Trust or the Act or other law. No Bondholder has the right to institute any proceeding unless (1) such Bondholder shall have given written notice to the Trustee of the occurrence of an Event of Default, (2) the holders of not less than 25% in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to institute such proceedings in its own name, (3) such Bondholder or Bondholders shall have tendered to the Trustee reasonable indemnity against the expenses to be incurred in compliance with such request, (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after receipt of such written notice and tender of indemnity; and (5) except as otherwise permitted under the Indenture, the Office has consented in writing.

Collection Upon Insurance

Upon the occurrence and continuance of an Event of Default, the Trustee shall proceed to take such steps as are necessary, in the reasonable judgment of the Trustee, to collect upon the insurance required by the Insurance Law. If the Office and the Treasurer of the State have notified the Trustee in writing that they elect to pay such insurance by means of debentures of the Office's Health Facility Construction Loan Insurance Fund, the Trustee shall as soon as practicable provide notice to each Owner of the exchange of such debentures for the Bonds then Outstanding in the same manner as for notice of redemption, and shall deliver to each Owner, as soon as practicable after surrender of such Owner's Bonds, debentures received from the Office in a principal amount equal to the principal amount of such Bonds plus accrued interest thereon and having maturities the same as such Bonds, bearing interest at such rate or rates equal to the rates on the respective Bonds. Bonds not delivered for exchange are no longer entitled to payment and become evidence of only the right to receive the related debenture, Bonds shall be delivered to the Office as required by the Act, and upon redelivery to the Trustee by the Office in accordance with the provisions of the Contracts of Insurance, Bonds shall be cancelled and destroyed by the Trustee.

Amendment of Indenture

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

Defeasance

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

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

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

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

If the Authority shall pay all Outstanding Bonds and shall also pay all other sums payable under the Indenture by the Authority, then at the election of the Authority the Indenture and the pledge of the Revenues and other assets and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied except that thereafter, Bondholders shall he entitled to payment by the Authority, and the Authority shall remain liable therefor, but only out of such money or securities deposited with the Trustee.

Bond Insurance Provisions

Payments Under the Policy.

(a) If, on the third day preceding any Interest Payment Date there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Bonds due on such date, the Trustee shall immediately notify the Insurer and the Insurer's Fiscal Agent of the amount of such deficiency. If, by said Interest Payment Date, the Authority has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the Insurer and to the Insurer's Fiscal Agent the registration books of the Trustee. In addition:

(i) The Trustee shall provide the Insurer with a list of the Owners entitled to receive principal or interest payments from the Insurer under the terms of the Policy and shall make arrangements for the Insurer and the Insurer's Fiscal Agent (1) to mail checks or drafts to Owners entitled to receive full or partial interest payments from the Insurer and (2) to pay principal of the Bonds surrendered to the Insurer's Fiscal Agent by the Owners entitled to receive full or partial principal payments from the Insurer; and

(ii) The Trustee shall, at the time it makes the registration books of the Trustee available to the Insurer pursuant to (i) above, notify Owners entitled to receive the payment of principal of or interest on the Bonds from the Insurer (1) as to the fact of such entitlement, (2) that the Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Policy, (3) that, except as provided in paragraph (b) below, in the event that any Owner is entitled to receive full payment of principal from the Insurer, such Owner must tender his Bond with the instrument of transfer in the form provided on the Bond executed in the name of the Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Owner is entitled to receive partial payment of principal from the Insurer, such Owner must tender his Bond for payment first to the Trustee, which shall note on such Bond the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Insurer, to the Insurer's Fiscal Agent, which will then pay the unpaid portion of principal to the Owner subject to the terms of the Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from an Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance wit the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the Insurer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from Owners, and the dates on which such payments were made.

(c) The Insurer shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of such Bonds and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Trustee upon receipt of proof of the payment of principal thereof to the Owners of such Bonds. Notwithstanding anything in the Indenture or the Bonds to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the Insurer to the extent that the Insurer is a subrogee with respect thereto.

Default-Related Provisions

(a) In determining whether a payment default has occurred or whether a payment on the Bonds has been made under the Indenture, no effect shall be given to payments made under the Policy.

(b) Any acceleration of the Bonds or any annulment thereof shall be subject to the prior written consent of the Insurer (if it has not failed to comply with its payment obligations under the Policy)

(c) The Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee within 30 days of the Trustee's knowledge thereof.

(d) For all purposes of the Indenture provisions governing events of default and remedies, except the giving of notice of default to Owners, the Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Policy.

(e) The Insurer shall be included as a party in interest and as a party entitled to (i) notify the Authority, the Trustee or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Insurer.

Amendments and Supplements. Any amendment or supplement to the Indenture or the Loan Agreement shall be subject to the prior written consent of the Insurer. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Successor Trustees. Any successor Trustee or co-Trustee must have combined capital, surplus and undivided profits of at least $50 million, unless the Insurer shall otherwise approve. No resignation or removal of the Trustee shall become effective until a successor has been appointed and has accepted the duties of Trustee. The Insurer shall be furnished with written notice of the resignation or removal of the Trustee and the appointment of any successor thereto.

Defeasance Provisions. Only Defeasance Obligations shall be used to effect defeasance of the Bonds unless the Insurer otherwise approves. In the event of an advance refunding, the Authority shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and docs not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

Reporting Requirements. The Insurer shall be provided with the following information:

(a) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the Bond Reserve Account;

(b) Notice of any material events pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934;

(c) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof; and

(d) Such additional information as the Insurer may reasonably request from time to time.

LOAN AGREEMENT

The Loan Agreements provide the terms of the loan of Bond proceeds to the Corporations and the repayment of and security for such loan provided by the Corporations. Certain of the provisions of the Loan Agreements are summarized below. *This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreements.* ***The following summary of the Loan Agreements, though written in the singular tense, should be assumed to be identical for all Loan Agreements.***

Payment of Loan Repayments

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

Additional Payments

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

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

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

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

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

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

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

Gross Revenue Fund

The Corporation agrees that, so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues of the Corporation shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Corporation shall establish and maintain in an account or accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Trustee and to the Office for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation pledges and, to the extent permitted by law, grants a security interest to the Trustee (as assignee of the Authority) and to the Office in, the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the payment of Loan Repayments and the performance by the Corporation of its other obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt. The Corporation agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, agrees to execute a deposit account control agreement with the Depository Bank with respect to the security interest granted under the Loan Agreement and agrees to execute and deliver such other documents (including, but not limited to, control agreements and continuation statements) as may be necessary or reasonably requested by the Authority, the Office or the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided below. In the event that the Corporation is delinquent for more than one Business Day in the payment of any Loan Repayment or any payment required with respect to Parity Debt, the Authority or the Trustee will notify the Corporation, the Office and the Depository Bank(s) of such delinquency, and, unless such Loan Repayment or payment with respect to Parity Debt is paid within ten days after receipt of such notice, upon request of the Trustee the Corporation shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, but only with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder). All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Fund but to the name and credit of the Trustee until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Loan Repayments and payments with respect to Parity Debt in default and all other Loan

Default Events and events of default with respect to Parity Debt known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use the withdrawn amounts in said fund from time to time to make Loan Repayments, Additional Payments, and the other payments required of the Corporation under the Loan Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Repayments, Additional Payments and Debt Service on such Parity Debt ratably, according to the amounts due respectively for Loan Repayments and such Debt Service, without any discrimination or preference, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the holders of the Bonds and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues of the Corporation unless and to the extent that the Trustee, at its sole discretion (or as directed by the Office), so directs for the payment of current or past due operating expenses of the Corporation; *provided, however*, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Corporation. The Corporation further agrees that a failure to comply with the terms of the Gross Revenue pledge shall cause irreparable harm to the holders from time to time of the Bonds and of Parity Debt, and shall entitle the Trustee, with or without notice to the Corporation but with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder), to take immediate action to compel the specific performance of the obligations of the Corporation as provided above.

Security for Corporation's Obligations

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

Obligations of the Corporation Unconditional; Net Contract

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

Prepayment

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

Maintenance of the Facilities

The Corporation shall maintain or cause to be maintained, throughout the term of the Loan Agreement, the Facilities as specified in the Regulatory Agreement.

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

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

Rates and Charges; Debt Coverage

The Corporation shall operate the Facilities as revenue producing health care facilities. The Corporation shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.20 times Maximum Aggregate Annual Debt Service for such Fiscal Year.

Within one hundred twenty (120) days after the end of each Fiscal Year (commencing with the first full Fiscal Year after the Closing Date), the Corporation shall compute the Net Income Available for Debt Service and Maximum Aggregate Annual Debt Service and promptly furnish to the Authority, the Trustee and the Office a Statement setting forth the results of such computation. The Corporation further covenants and agrees that if, at the end of such Fiscal Year, Net Income Available for Debt Service shall have been less than 1.20 times Maximum Aggregate Annual Debt Service for such Fiscal Year, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result in producing Net Income Available for Debt Service at least equal to 1.20 times Maximum Aggregate Annual Debt Service in the current Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fails to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the covenants set forth above for such Fiscal Year, notwithstanding that Net Income Available for Debt Service shall be less than the amount required above; provided, that (1) this sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under the Regulatory Agreement or be construed as constituting a waiver of any other event of default under the Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

Limitation on Encumbrances

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

Limitation on Indebtedness

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

Limitations on Disposition of Property

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

Limitation on Acquisition of Property

The Corporation shall not acquire additional property, plant and equipment (except (1) in the ordinary course of business, (2) with the proceeds of indebtedness permitted by the Loan Agreement, or (3) as part of a merger or consolidation permitted by Loan Agreement) by gift (other than unrestricted gifts of cash or unencumbered personal property), purchase, construction, merger or consolidation, except as permitted by the Regulatory Agreement.

Accounting Records, Financial Statements and Budget

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

Licensing

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

Compliance with United States and California Constitutions

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

Tax Covenants

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

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

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

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

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

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

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

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

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

Prohibited Uses

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

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

Continuing Disclosure

The Corporation covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Certificate shall not be considered a Loan Default Event; however, the Trustee shall, at the request of the Holders of at least 25% aggregate principal amount in Outstanding Bonds, to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys, or any Bondowner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with such obligations. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Covenants Relating to the Insurer

Reporting Requirements. The Corporation covenants and agrees to provide notification to the Insurer in the event of any significant change in the financial condition of the Corporation and agrees to deliver its annual audited financial statements to the Insurer within 120 days after the end of each Fiscal Year.

The Corporation will permit the Insurer to discuss the affairs, finances and accounts of the Corporation or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Corporation. The Corporation will permit the Insurer to have access to and make copies of all books and records relating to the Bonds and the security therefor at any reasonable time.

Reimbursement. The Corporation shall pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with the (i) administration, enforcement, defense, or preservation of any rights or security under the Loan Agreement or under the Indenture; (ii) the pursuit of any remedies under the Loan Agreement or under the Indenture or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to the Loan Agreement or the Indenture whether or not executed or completed, (iv) the violation by the Corporation of any law, rule, or regulation or any judgment, order or decree applicable to it, or (v) any litigation or other dispute in connection with the Loan Agreement or the Indenture or the transactions contemplated thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Policy. The Insurer reserves the right to charge an administrative fee as a condition to executing any amendment, waiver or consent proposed in respect of any document or action taken after Closing Date in connection with the Bonds, the Loan Agreement or the Indenture. The Insurer reserves the right to require the payment of the reasonable fees and expenses of its counsel or other agents as a condition to executing any amendment, waiver or consent proposed in respect of any document or action taken after Closing Date in connection with the Bonds. The obligations of the Corporation to the Insurer shall survive discharge and termination of the Loan Agreement.

Indemnification. The Corporation shall protect, hold harmless and indemnify the Insurer for, from and against any and all liability, obligations, losses, claims and damages paid or incurred in connection with its business or properties, the Loan Agreement, the Indenture and any related instrument (including all environmental liabilities regarding its properties, except that the Corporation shall not protect, hold harmless or indemnify the Insurer for the willful or wanton acts or omissions, mistakes, gross negligence of the Insurer, to the extent that such acts, omissions, mistakes, gross negligence of such party are successfully alleged to have caused the liability, obligation, loss, claim or damage) and expenses in connection with the Loan Agreement including reasonable attorneys' fees and expenses. The obligations of the Corporation to the Insurer shall survive discharge and termination of the Loan Agreement.

Parties in Interest. The Insurer is and shall be a third party beneficiary of the Loan Agreement.

Insurance Required

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

Disposition of Insurance and Condemnation Proceeds

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

Nonliability of Authority

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

Indemnification

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

Loan Default Events

The following, among other things, will be "Loan Default Events" under the Loan Agreement: (1) failure to pay in full any payment required under the Loan Agreement when due; (2) failure to pay or cause to be paid any premiums required under the Contract of Insurance; (3) if any representation or warranty made by the Corporation in the Loan Agreement or in certain other documents in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; (4) failure by the Corporation to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement or Regulatory Agreement for a period of 60 days after written notice to the Corporation by the Authority, the Office or the Trustee, except that if such failure can be remedied but not within such 60 days, and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60 days, then such failure shall not become a Loan Default Event for so long as the Corporation diligently attempts such remedy subject to directions and limitations of time established by the Trustee or the Office; (5) if the Corporation abandons the Facilities, or any substantial part thereof and such abandonment continues for a period of 30 days after written notice thereof has been given to the Corporation by the Authority or the Trustee; (6) if any default shall exist under any agreement respecting Long-Term Indebtedness (other than Parity Debt) and if, as a result thereof, Long-Term Indebtedness in an aggregate principal amount in excess of 10% of the Corporation's Adjusted Annual Operating Revenues are declared immediately due and payable or a proceeding for enforcement is brought, except if the Corporation establishes reserves or obtains a surety bond acceptable to the Office for the payment of such Long-Term Indebtedness which, in the opinion of the Office, are adequate; (7) if any default exists under any instrument pursuant to which Parity Debt was issued and is Outstanding and such default continues after the grace period; (8) certain incidents of bankruptcy, insolvency or similar conditions; and (9) any Event of Default under the Indenture.

Remedies on Default

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

DEED OF TRUST

Certain of the provisions of the Deeds of Trust are summarized below. *This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Deeds of Trust.* ***The following summary of the Deeds of Trust, though written in the singular tense, should be assumed to be identical for all Deeds of Trust.***

The obligations of the Corporation pursuant to the Loan Agreement and the Regulatory Agreement are secured by the lien of a Deed of Trust upon the Facilities until such time as such purchase money obligation is paid in

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

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

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

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

CONTRACT OF INSURANCE

Certain of the provisions of the Contracts of Insurance are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Contracts of Insurance. ***The following summary of the Contracts of Insurance, though written in the singular tense, should be assumed to be identical for all Contracts of Insurance.***

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

(a) The Office shall (i) make curative payments pursuant to Insurance Law Section 129145 with respect to the Bonds until amounts in the Health Facility Construction Loan Insurance Fund maintained by the Office (the "Insurance Fund") fall below $10,000,000; and (ii) request that the Bonds be exchanged for debentures pursuant to the provisions of the Act and the Indenture when amounts in the Insurance Fund fall below $20,000,000.

(b) The Office agrees to request of all appropriate officials of the State, at the time debentures are issued in exchange for the Bonds, that the debentures and the debenture indenture incorporate all requirements of Insurer with respect to the Bonds, as set forth in Insurer's commitment with respect to the Bonds, as if the debentures were Bonds.

(c) With respect to any Bond not delivered to the Trustee in connection with a debenture exchange with respect to the Bonds, the Office shall deliver the related debentures to the Trustee, and each such debenture, and all payments under each such debenture, shall be held by the Trustee in trust for the holder of the related Bond until such Bond is delivered to the Trustee for exchange.

(d) Bonds delivered to the Office in exchange for debentures shall, immediately upon such delivery, be redelivered to the Trustee for cancellation in accordance with the Indenture.

(e) The Office covenants and agrees to provide its activity report as of June 30 to the Insurer within 120 days after the end of each fiscal year.

(f) The Office will permit Insurer and/or the Insurance Trustee to discuss the affairs, finances and accounts of the Office or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Office. The Office will permit the Insurer and/or the Insurance Trustee to have access to and make copies of all books and records relating to the Bonds, and the security therefor at any reasonable time.

(g) The Office shall pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with the failure of the Office to honor its obligations under the Indenture.

(h) The Office shall protect, hold harmless and indemnify the Insurer for, from and against any and all liability, obligations, losses, claims and damages paid or incurred in connection with the failure of the Office to honor its obligations under the Indenture, except that the Office shall not protect, hold harmless or indemnify the Insurer for the willful or wanton acts or omissions, mistakes, gross negligence of the Insurer, to the extent that such acts, omissions, mistakes, gross negligence of such party are successfully alleged to have caused the liability, obligation, loss, claim or damage) and expenses in connection with the Indenture including reasonable attorneys' fees and expenses.

REGULATORY AGREEMENT

Certain of the provisions of the Regulatory Agreements are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Regulatory Agreements. ***The following summary of the Regulatory Agreements, though written in the singular tense, should be assumed to be identical for all Regulatory Agreements.***

The Regulatory Agreement is an agreement among the Office, the Authority and the Corporation to establish the requirements of the Office with respect to certain details of the financing transaction. The Regulatory Agreement also sets out certain business covenants of the Corporation, including maintenance, operation and management of the Facilities and limitations on encumbrances, assignment and transfer of any part of the Facilities and other matters. The Regulatory Agreement also provides for the rights and obligations of the parties in the event of a default and provides for the manner in which the benefits of the insurance are to be paid. Specifically, the Office shall notify the State Treasurer, upon surrender to the Office by the Trustee of (1) title or the security interest created by the Deed of Trust, (2) assignment of all claims of the Authority and the Trustee against the Corporation or others, arising out of the sale of the Bonds or foreclosure proceedings, and (3) each Bond which has been surrendered to the Trustee, and the Office shall have the option, at any time and from time to time thereafter to cause debt service payments with respect to the Bonds to be made from any money available therefor including the Insurance Fund, or to request the State Treasurer to issue to the Trustee debentures having the same maturities and interest rates as the surrendered Bonds, in a total face amount equal to all amounts due under the Indenture. The Regulatory Agreement provides that the Office shall share in the lien of the Deed of Trust for, and to the extent of, insurance payments.

Rates and Charges; Debt Coverage

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

B. Within one hundred twenty (120) days after the end of each Fiscal Year (commencing with the first full Fiscal Year after the Closing Date), the Corporation shall compute the Net Income Available for Debt Service and Maximum Aggregate Annual Debt Service, and promptly furnish to the Authority, the Trustee and the Office a Statement setting forth the results of such computation.

The Corporation further covenants and agrees that if, at the end of such Fiscal Year Net Income Available for Debt Service shall have been less than as covenanted, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result in producing Net Income Available for Debt Service at least equal to less than as covenanted in the current Fiscal Year; *provided, however*, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fails to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the above covenants for such Fiscal Year, notwithstanding that Net Income Available for Debt Service shall be less than the amount required under paragraph A above; *provided*, that (1) this sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under the Regulatory Agreement or be construed as constituting a waiver of any other event of default under the Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

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

Limitation on Encumbrances

The Corporation shall not create, assume or suffer to exist and shall immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facilities or the Gross Revenues; *provided, however*, that notwithstanding the foregoing provision, the Corporation may create, assume or suffer to exist Permitted Encumbrances.

Limitation on Indebtedness

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

1. Obligations and liabilities under the Regulatory Agreement, the Loan Agreement, or the Indenture, including any supplements or amendments thereto in connection with the issuance of any additional series of Bonds;

2. Contractual liabilities (other than liabilities for borrowed money or liabilities which would otherwise be considered indebtedness under generally accepted accounting principles) for which moneys are available in the Project Fund under the Indenture or otherwise;

3. Short-Term Indebtedness with the prior written consent of the Office and provided that no amount of Short-Term Indebtedness shall be outstanding for a period of thirty (30) consecutive days during each Fiscal Year. The aggregate amount incurred by the Corporation under this subsection shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

4. Liabilities for contributions to self-insurance programs;

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

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

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

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

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

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

Maximum Aggregate Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

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

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

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

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

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

8. Long-Term Indebtedness (excluding Parity Debt) provided that

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

b. the aggregate amount incurred by the Corporation under the Regulatory Agreement and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

9. Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; provided that the aggregate amount incurred by the Corporation under the Regulatory Agreement and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

10. Non-recourse Indebtedness, provided that the Office has approved in writing the incurrence of such indebtedness and such indebtedness does not encumber the Facilities;

11. Repayment obligations under reimbursement or similar agreements with banks or insurance companies relating to letters or lines of credit or other credit facilities used to secure Long-Term Indebtedness;

12. Indebtedness, not for borrowed money, incurred in the ordinary course of business; and

13. Any indebtedness or obligations of the Corporation consented to in writing by the Office.

Limitations on Disposition of Property

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

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

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

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

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

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

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

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

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

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

Limitation on Acquisition of Property, Plant and Equipment

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

Parity Debt

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

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

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

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

b. Rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders of Bonds under the Indenture, except that if the Parity Debt is not covered under the Contract of Insurance, the holders of Parity Debt shall have no rights under the Contract of Insurance for payments made with respect thereto; and

c. Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, the Regulatory Agreement and the Loan Agreement, and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interest) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Bondowners shall be equally protected;

3. Any collateral given or to be given to secure Parity Debt shall also secure the Bonds on a pari passu basis; provided that the Bond Reserve Account shall only secure the Bonds and the Corporation may but need not establish similar reserve accounts for debt service of Parity Debt;

4. The Parity Debt shall be prepayable in accordance with terms substantially in the form of and under the conditions prescribed in the Indenture; and

5. The Parity Debt shall be insured by the Office under the Insurance Law, or if the Parity Debt can be issued as such without being insured under the Insurance Law, with the consent of the Office.

Insurance

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

1. **Property Insurance**.

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

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

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

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

2. **Builders Risk**. During the course of any substantial addition, extension, alteration, or improvement to the Facilities, the Corporation shall maintain or cause to be maintained builders risk insurance in the amount of the full completed value of such construction work, subject to reasonable

deductibles per occurrence, covering all risk of physical loss or damage with such exclusions as are acceptable to the Office. The Office and the Authority shall be loss payees on all policies maintained pursuant to this subsection.

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

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

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

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

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

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

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

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

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

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

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

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

Disposition of Insurance and Condemnation Proceeds

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

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

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

Remedies Upon Default

A. Notice and Declaration of a Default under the Regulatory Agreement. Upon a violation of any of the provisions of the Regulatory Agreement by the Corporation, the Office may give written notice thereof to the Corporation by registered or certified mail, addressed to the address stated in the Regulatory Agreement, or such other address as may subsequently, upon appropriate written notice thereof to the Office, be designated by the Corporation as its legal business address. If such violation is not corrected to the satisfaction of the Office within thirty (30) days, or in the event the default is the result of the failure of the Corporation to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Corporation, then five (5) days, after the date such notice is mailed or within such further time as the Office determines in the Office's sole discretion is necessary to correct the violation, without further notice the Office may declare a default under the Regulatory Agreement effective on the date of such declaration of default.

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Issuance of Debentures.

1. In any case in which

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Replacement Fund

A. The Corporation shall establish a separate fund designated as the "Capital Replacement Fund." For each of the Corporation's Fiscal Years, the Corporation shall deposit on a quarterly basis one quarter of the Capital Replacement Amount for the respective Fiscal Year; provided that if the Corporation has received grants for the purchase of, or have purchased equipment for capital purposes, or have expended sums for the repair or maintenance of the Facilities, such grants, the value of such equipment or expended sums may be credited against the amount to be deposited as specified in a Statement of the Corporation filed with the Trustee, the Office and the Insurer; provided further that the Corporation may reduce the deposit required to the Capital Replacement Fund by a Capital Replacement Fund credit which shall be an amount equal to the expenditures of the Corporation for the previous Fiscal Year for property which is depreciable (in accordance with generally accepted accounting principles). In order to be entitled to receive such a credit, the Corporation must certify in writing to the Office and the Insurer along with the certification required in subsection C below:

1. the amount of such expenditure(s),

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

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

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

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

1. For the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property.

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

3. For the construction of additions to or improvements, extensions, enlargements or remodeling of the Facilities.

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

5. To pay or provide funds for payment of the principal (whether pursuant to stated maturity or mandatory sinking fund or other redemption requirement) or interest on any obligations of the

Corporation, but only if and to the extent that the Corporation would otherwise be unable to make such payment or provide such funds without incurring additional indebtedness.

C. The Corporation, on or prior to November 1 in each year, commencing November 1, 2004, shall calculate the Capital Replacement Amount and send written certification of such amount to the Office.

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

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

2. the Gross Revenue Fund is transferred to the name and credit of the Trustee pursuant to the Loan Agreement.

Debt Coverage Ratio Reporting

Within forty-five (45) days after each March 31, June 30, September 30 and December 31, (each three-month period ending on each such date being referred to in the Regulatory Agreement as a "Fiscal Quarter") commencing with the Fiscal Quarter ending December 31, 2004, the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Quarter and for the twelve-month period ending on the last day of such Fiscal Quarter ("Running Twelve-Month Period") and promptly furnish to the Office and the Insurer a Statement setting forth the results of such computation. If at the end of such Fiscal Quarter the Net Income Available for Debt Service shall have been less than 1.20 times Maximum Aggregate Annual Debt Service for such Running Twelve-Month Period, the Corporation shall, upon the request of the Office and the Insurer, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Facilities or the methods of operation of the Facilities which will result in producing Net Income Available for Debt Service equal to at least 1.20 times Maximum Aggregate Annual Debt Service for such Fiscal Quarter. Copies of the recommendations of the Management Consultant shall be provided to the Office and the Insurer. The Office and the Insurer also may retain attorneys and consultants to assist in an evaluation of the operation and management of the Facilities and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any expenses incurred by the Office and the Insurer in that connection.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

California Health Facilities Financing Authority
915 Capitol Mall, Suite 590
Sacramento, California 9581

OPINION: $22,545,000,000 California Health Facilities Financing Authority Insured Health Facility Refunding Revenue Bonds (Small Facilities Refinancing Program), 2005 Series A

Members of the Authority:

We have acted as bond counsel in connection with the issuance by the California Health Facilities Financing Authority (the "Authority") of $22,545,000 Insured Health Facility Refunding Revenue Bonds (Small Facilities Refinancing Program), 2005 Series A (the "Bonds"), pursuant to the provisions of the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the California Government Code (the "Law"), an Indenture of Trust, dated as of April 1, 2005, by and between the Authority and U.S. Bank National Association, as trustee (the "Indenture"), and a resolution adopted by the Authority on February 24, 2005. The Bonds have been issued by the Authority to provide funds to refinance the acquisition, construction, installation, improvement and equipping of certain health facilities owned and operated by Asian Community Center of Sacramento Valley, Inc., The California Autism Foundation, Inc., Clinicas del Camino Real, Inc., Community Medical Centers, Inc., Social Model Recovery Systems, Inc., Southern California Alcohol & Drug Programs, Inc. and Verdugo Mental Health (collectively, the "Corporations"), each a California nonprofit public benefit corporation, to be loaned to the Corporations pursuant to separate Loan Agreements, each dated as of April 1, 2005, by and between the Authority and each Corporation (collectively, the "Loan Agreements"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

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

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

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

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

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the Corporations comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreements may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[Each Corporation will execute a Continuing Disclosure Certificate substantially in the form set forth below]

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed by [NAME OF CORPORATION], a California nonprofit public benefit corporation (the "Corporation"), in connection with the issuance of $22,545,000 California Health Facilities Financing Authority Insured Refunding Revenue Bonds (Small Facilities Refinancing Program), 2005 Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of April 1, 2005 (the "Indenture"), by and between the California Health Facilities Financing Authority (the "Authority") and the U.S. Bank National Association, as trustee (the "Trustee"). A portion of the proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of April 1, 2005, by and between the Authority and the Corporation (the "Loan Agreement"). Pursuant to Section 6.10 of the Indenture and Section 5.14 of the Loan Agreement, the Corporation covenants and agree as follows:

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

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

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

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

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

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

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

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

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

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

Section 3. Provision of Annual Reports. The Corporation shall, or shall cause the Dissemination Agent to, after such materials are available, commencing for the fiscal year ending [CORPORATION'S FISCAL YEAR END], 2005, provide to any person who requests it an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee. An Annual Report shall consist of the most recently available documents of the type to be included in the Annual Report (see Section 4) at the time the request is received.

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

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

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

Section 5. Reporting of Significant Events.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: [Closing Date]

[NAME OF CORPORATION]

By ____________________________________
Name _________________________________
Title __________________________________

APPENDIX F

SPECIMEN INSURANCE POLICY

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Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

SPECIMEN

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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