

In the opinion of Jones Day, San Francisco, California, Bond Counsel to American Baptist Homes of the West, assuming compliance with certain covenants, under current law, interest on the Series 2010 Bonds will not be includible in gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2010 Bonds will be taken into account, however, in computing an adjustment used in determining the corporate alternative minimum tax and the branch profits tax. Interest accruing on the Series 2010 Bonds will be exempt from the Personal Income Tax Law imposed by the State of California under Sections 17001 through 19802 of the California Revenue and Taxation Code. See "TAX MATTERS" for a more detailed discussion of some of the federal income tax consequences of owning the Series 2010 Bonds, and certain tax laws of the State of California.



\$106,580,000
California Statewide Communities Development Authority
Revenue Bonds, Series 2010
(American Baptist Homes of the West)

Dated: Date of Delivery

Due: October 1, as shown below

The California Statewide Communities Development Authority (including its successors and assigns, the "Authority") is issuing its \$106,580,000 aggregate principal amount of Revenue Bonds, Series 2010 (American Baptist Homes of the West) (the "Series 2010 Bonds") pursuant to a Bond Trust Indenture dated as of February 1, 2010 (the "Bond Indenture"), between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). The proceeds of the Series 2010 Bonds will be loaned to American Baptist Homes of the West ("ABHOW") to (1) refinance certain outstanding Certificates of Participation described more fully herein; (2) finance the acquisition, construction and equipping of capital improvements at continuing care retirement communities facilities of ABHOW in California; (3) fund a debt service reserve fund; and (4) pay certain expenses of issuing the Series 2010 Bonds. A more detailed description of the use of the proceeds from the sale of the Series 2010 Bonds is included under the captions "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF FINANCE" herein. Except as described in this Official Statement, the Series 2010 Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement dated as of February 1, 2010 (the "Loan Agreement"), between the Authority and ABHOW and ABHOW's Direct Note Obligation No. 3 (the "Series 2010 Obligation") issued by ABHOW under a Master Trust Indenture (the "Master Indenture") dated as of February 1, 2010 between ABHOW, any future Member of the Obligated Group and U.S. Bank National Association, as master trustee (the "Master Trustee"). The Series 2010 Bonds are payable by the Bond Trustee out of the payments to be made by ABHOW under the Loan Agreement and on the Series 2010 Obligation and from certain funds held under the Bond Indenture. The sources of payment of, and security for, the Series 2010 Bonds are more fully described in this Official Statement. American Baptist Homes Foundation of the West, pursuant to the Guaranty and Liquidity Agreement dated as of February 1, 2010, in favor of ABHOW, the Bond Trustee and the Master Trustee, unconditionally guarantees and promises to pay and perform on demand, or cause to be paid and performed on demand to the Bond Trustee, all of ABHOW's obligations under the Loan Agreement and fund payments to assist ABHOW in satisfying its obligations under certain financial covenants of the Master Indenture.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

\$3,760,000	4.250%	Term Bonds Due: October 1, 2015, to Yield 4.25%	CUSIP [†] : 130795S73
\$4,730,000	5.375%	Term Bonds Due: October 1, 2020, to Yield 5.60%	CUSIP [†] : 130795S81
\$6,175,000	5.750%	Term Bonds Due: October 1, 2025, to Yield 6.00%	CUSIP [†] : 130795S99
\$10,375,000	6.000%	Term Bonds Due: October 1, 2029, to Yield 6.25%	CUSIP [†] : 130795T23
\$81,540,000	6.250%	Term Bonds Due: October 1, 2039, to Yield 6.47%	CUSIP [†] : 130795T31

When issued, the Series 2010 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2010 Bonds. Purchases will be made only in book-entry form through the Participants (as herein defined) in DTC, and no physical delivery of the Series 2010 Bonds will be made to Beneficial Owners (as herein defined) except as described herein. So long as Cede & Co. is the registered owner of the Series 2010 Bonds, as nominee of DTC, references herein to the Bondholders, Holders or registered owners of the Series 2010 Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2010 Bonds. See "BOOK-ENTRY SYSTEM" herein.

The principal of, premium, if any, and interest on the Series 2010 Bonds will be paid by the Bond Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Series 2010 Bonds. Disbursements of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants as more fully described herein.

An investment in the Series 2010 Bonds involves a certain degree of risk related to the nature of the business of ABHOW, the regulatory environment, and the provisions of the principal documents. A prospective holder of the Series 2010 Bonds is advised to read "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010 BONDS" and "RISK FACTORS" herein for a description of the security for the Series 2010 Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Series 2010 Bonds. **The Series 2010 Bonds must be held by purchasers who are "Qualified Institutional Buyers" as defined under Rule 144A of the Securities Act of 1933 and as set forth in the Bond Indenture.** See "THE SERIES 2010 BONDS - Limitations on Investors and Restrictions on Transfer" herein.

The Series 2010 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein under "THE SERIES 2010 BONDS - Redemption Provisions" herein.

THE SERIES 2010 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY 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. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2010 BONDS, OR THE REDEMPTION PREMIUM OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE BOND INDENTURE, THE LOAN AGREEMENT AND THE SERIES 2010 OBLIGATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE REDEMPTION PREMIUM OR INTEREST ON THE SERIES 2010 BONDS. THE ISSUANCE OF THE SERIES 2010 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 OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

The Series 2010 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Series 2010 Bonds by Jones Day, San Francisco, California, Bond Counsel to ABHOW. Certain legal matters will be passed upon for ABHOW and the American Baptist Homes Foundation of the West, Inc. by their financing counsel, Holland & Knight LLP, San Francisco, California; for the Underwriter by its counsel, Kaiten Muchin Rosenman LLP, Los Angeles, California and Chicago, Illinois; for the Authority by its counsel, Orrick, Herrington & Sutcliffe LLP; and for the Bond Trustee and the Master Trustee by their counsel, Dorsey & Whitney LLP, Irvine, California. It is expected that the Series 2010 Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about February 24, 2010.

This cover page contains certain information for ease of reference only. It does not constitute a summary of the Series 2010 Bonds or the security therefor. Potential investors must read this entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision.

ZIEGLER CAPITAL MARKETS

a division of B.C. Ziegler and Company

The date of this Official Statement is February 4, 2010

[†] Copyright 2009, American Bankers Association, CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. The CUSIP numbers are provided for convenience and reference only.

ABHOW



- ★ Corporate Office
- Obligated Group CCRCs



Terrace of Los Gatos



Piedmont Gardens



Plymouth Village



Grand Lake Gardens



Rosewood



San Joaquin Gardens



Valle Verde



Pilgrim Haven

REGARDING USE OF THIS OFFICIAL STATEMENT

The information contained herein under the heading “**THE AUTHORITY**” and “**LITIGATION – Authority**” has been furnished by the California Statewide Communities Development Authority (the “Authority”). The information under the heading “**BOOK-ENTRY SYSTEM**” has been obtained from The Depository Trust Company. All other information contained herein has been obtained from American Baptist Homes of the West (“ABHOW”), American Baptist Homes Foundation of the West (the “Foundation”) and other sources (other than the Authority) which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as or construed as a promise or representation by, the Authority or Ziegler Capital Markets, a division of B.C. Ziegler and Company (the “Underwriter”). The Underwriter has provided the following sentence for inclusion in the Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the Authority, ABHOW or its affiliated organizations or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be a sale of Series 2010 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority, ABHOW or its affiliated organizations since the date hereof.

The Authority has consented to the use of this Official Statement. The Authority does not assume any responsibility for the accuracy or completeness of any information contained in this Official Statement, except such information relating specifically to the Authority under the captions, “**THE AUTHORITY**” and “**LITIGATION – Authority.**”

In making an investment decision, investors must rely upon their own examination of the terms of the offering, including the merits and risks involved.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2010 BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE BOND INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2010 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2010 BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS RECOMMENDATIONS THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2010 BONDS OR THE

ACCURACY OR COMPLETENESS OF THE OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS
IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER ABHOW NOR THE FOUNDATION PLANS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
THE AUTHORITY	6
THE SERIES 2010 BONDS	6
General	6
The Series 2010 Bonds	6
Limitations on Investors and Restrictions on Transfer	7
Redemption Provisions	8
BOOK-ENTRY SYSTEM.....	11
SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010 BONDS	13
General	13
The Series 2010 Obligation	14
The Series 2006 Obligations	15
Additional Indebtedness; Additional Obligations	15
Debt Service Reserve Fund	15
Security Interest in Gross Revenues and the Deeds of Trust	16
THE GUARANTY	17
PLAN OF FINANCE.....	18
The Project	19
The Refunding.....	19
ESTIMATED SOURCES AND USES OF FUNDS	20
ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS	21
CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE ..	22
Rate Covenant	22
Liquidity Covenant.....	23
Approval of Consultants.....	24
RISK FACTORS	24
General	24
Impact of Disruptions in the Credit Markets and General Economic Factors.....	25
California State Budget	25
Seismic Risk.....	26
Uncertainty of Revenues	26
Failure to Achieve and Maintain Occupancy and Turnover	26
Sale of Personal Residences	27
Nature of the Income of the Elderly	27
Utilization Demand	27
Competition.....	27
Uncertainty of Investment Income	28
Philanthropy	28
Rights of Residents.....	28
Construction Risks	28
Present and Prospective Federal and State Regulation	29
Increases in Medical Costs.....	34
Malpractice Claims	34

Nursing Shortage.....	35
Risks Related to Tax Exempt-Status.....	35
Taxpayer Relief Act of 1997 and Unrelated Business Taxation.....	36
Property Taxes; State and Local Tax Exemption.....	37
Amendments to the Documents.....	37
Additional Indebtedness.....	38
Bankruptcy.....	38
Certain Matters Relating to Enforceability.....	38
Lockboxes.....	39
Certain Risks Associated with the Deeds of Trust.....	40
Environmental Matters.....	41
Other Possible Risk Factors.....	42
LITIGATION.....	43
Authority.....	43
ABHOW.....	43
LEGAL MATTERS.....	43
TAX MATTERS.....	44
Federal Income Taxation.....	44
California State Taxation.....	45
Original Issue Discount.....	45
UNDERWRITING.....	46
RATINGS.....	47
FINANCIAL REPORTING.....	47
CONTINUING DISCLOSURE.....	49
The Obligated Group.....	49
The Foundation.....	51
MISCELLANEOUS.....	52
APPENDIX A – AMERICAN BAPTIST HOMES OF THE WEST AND AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC.	
APPENDIX B – AUDITED FINANCIAL STATEMENTS OF ABHOW AND COMBINED AFFILIATES	
APPENDIX C – SUMMARY OF PRINCIPAL DOCUMENTS	
APPENDIX D – FORM OF OPINION OF BOND COUNSEL	

OFFICIAL STATEMENT

relating to

\$106,580,000

**California Statewide Communities Development Authority
Revenue Bonds, Series 2010
(American Baptist Homes of the West)**

INTRODUCTION

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See **APPENDIX C** for definitions of certain words and terms used herein. The following descriptions and summaries of the Series 2010 Bonds, the Bond Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Series 2010 Obligation, the Deeds of Trust and the Master Indenture in this Official Statement are qualified by reference to the complete text of the documents being described or summarized. Copies of such documents will be available for inspection at the designated corporate trust office of the Bond Trustee. The Official Statement speaks only as of its date, and the information contained herein is subject to change.

Purpose of this Official Statement. The purpose of this Official Statement, including the cover page and the Appendices hereto, is to set forth information in connection with the offering of \$106,580,000 in aggregate principal amount of Revenue Bonds, Series 2010 (American Baptist Homes of the West) (the “Series 2010 Bonds”) of the California Statewide Communities Development Authority (including its successors and assigns, the “Authority”).

The Series 2010 Bonds. The Series 2010 Bonds will be issued pursuant to the provisions of a Bond Trust Indenture dated as of February 1, 2010 (the “Bond Indenture”) between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”). The Authority will loan the proceeds of the Series 2010 Bonds to American Baptist Homes of the West (“ABHOW”), a California nonprofit public benefit corporation, pursuant to the provisions of a Loan Agreement dated as of February 1, 2010 (the “Loan Agreement”) between the Authority and ABHOW. **The eligibility to purchase, and the ability to subsequently sell or transfer, the Series 2010 Bonds is limited to Qualified Institutional Buyers, as defined under Rule 144A of the Securities Act of 1933.** If the Series 2010 Bonds obtain a rating of “A-” or better from any rating agency then rating the Series 2010 Bonds, without regard to any credit enhancement, this investor restriction would no longer be applicable. Additionally, the Series 2010 Bonds are issued in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof; provided however, that denominations may be reduced to \$5,000 at such time that the Series 2010 Bonds obtain a rating of “A-” or better from any rating agency then rating the Series 2010 Bonds. See **“THE SERIES 2010 BONDS – Limitations on Investors and Restrictions on Transfer”** herein.

Purpose of the Series 2010 Bonds. The proceeds of the Series 2010 Bonds will be loaned to ABHOW to (1) refinance the outstanding COPs (described in the following sentence); (2) finance the acquisition, construction and equipping of capital improvements at continuing care retirement communities facilities of ABHOW in California; (3) fund a debt service reserve fund; and (4) pay certain expenses of issuing the Series 2010 Bonds. ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority (“ABAG”), ABHOW and U.S. Bank National Association, as successor to

First Trust of California, National Association, as trustee (the “Series 1997 Trustee”) have previously entered into a Trust Agreement, dated as of October 1, 1997, and several supplements, under which ABAG issued four series of Revenue Refunding Certificates of Participation (American Baptist Home of the West Project) evidencing direct, undivided fractional interests of the owners thereof in purchase payments to be made by ABAG from installment payments received from ABHOW (collectively, the “COPs”). A more detailed description of the use of the proceeds from the sale of the Series 2010 Bonds is included under the captions “**ESTIMATED SOURCES AND USES OF FUNDS**” and “**PLAN OF FINANCE**” herein.

The Obligated Group and the Foundation. ABHOW was founded in 1949 as Pilgrim Haven Home Corporation when its first retirement community was acquired. It was incorporated in 1955 as American Baptist Homes of the West, a California nonprofit public benefit corporation. ABHOW has received a determination letter from the Internal Revenue Service (the “IRS”) that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 (the “Code”) as an organization described in Section 501(c)(3) of the Code. ABHOW (i) owns and operates eight continuing care retirement communities (“CCRCs”) located in California, (ii) operates a home office providing services to ABHOW and its various affiliated entities, (iii) manages three CCRCs located in Washington, Nevada and Arizona, (iv) manages eight affiliated affordable housing communities located in California and Washington, (v) manages thirteen unaffiliated affordable housing communities located in California, (vi) has three other affordable housing communities under development in California, and (vii) is the sole member of fifteen nonprofit corporations and the sole shareholder of a for-profit corporation. ABHOW’s home office is in Pleasanton, California.

American Baptist Homes Foundation of the West, Inc. (the “Foundation”) was incorporated in 1968 as a California nonprofit public benefit corporation. ABHOW is the sole corporate member of the Foundation. The primary purpose of the Foundation is to support ABHOW and its affiliated corporations. The Foundation’s principal corporate office is in Pleasanton, California. Among the purposes of the Foundation is to provide a financial safety net for ABHOW residents through the creation and maintenance of an endowment fund designed to assist ABHOW residents who have exhausted their financial resources. The Foundation has also received a determination letter from the IRS that it is exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code. The Foundation is not a member of the Obligated Group.

See **APPENDICES A** and **B** for additional information about ABHOW, the Foundation and other affiliates of ABHOW. The financial and statistical information in **APPENDIX A** is with respect to the operations of ABHOW (including the home office and the eight California CCRCs) and, in certain instances, the Foundation. The combined audited financial statements of ABHOW and Combined Affiliates in **APPENDIX B** include financial information of ABHOW, the Foundation and other affiliates of ABHOW.

ONLY ABHOW AND ANY FUTURE MEMBERS OF THE OBLIGATED GROUP ARE OBLIGATED UNDER THE SERIES 2010 OBLIGATION, THE LOAN AGREEMENT AND WITH RESPECT TO THE SERIES 2010 BONDS. ONLY THE FOUNDATION IS OBLIGATED PURSUANT TO THE GUARANTY. NO OTHER AFFILIATES OF ABHOW ARE OBLIGATED UNDER THE HEREINAFTER DESCRIBED SERIES 2010 OBLIGATION, THE LOAN AGREEMENT OR WITH RESPECT TO THE SERIES 2010 BONDS.

Security for the Series 2010 Bonds. The Series 2010 Bonds will be payable from payments made by ABHOW under the Loan Agreement, from payments made by the Obligated Group on the Series 2010 Obligation (described below) and from certain funds held under the Bond Indenture.

The Series 2010 Bonds will be limited obligations of the Authority and will be secured by ABHOW's Direct Note Obligation No. 3 (the "Series 2010 Obligation") issued by ABHOW under the Master Trust Indenture, dated as of February 1, 2010 (the "Master Indenture") between ABHOW, any future Member of the Obligated Group (the "Obligated Group") and U.S. Bank National Association, as master trustee (the "Master Trustee"). Pursuant to the Series 2010 Obligation, the Obligated Group agrees to make payments on the Series 2010 Obligation in an amount sufficient to pay, when due, the amounts required to be paid by ABHOW and, thus, the principal of, any premium, if any, and interest on the Series 2010 Bonds.

The Authority will pledge and assign the Series 2010 Obligation and certain of its rights under the Loan Agreement (other than Unassigned Rights) to the Bond Trustee as security for the Series 2010 Bonds. The Series 2010 Obligation will entitle the Bond Trustee, as the holder thereof, to the protection of the covenants, restrictions and other obligations imposed by the Master Indenture upon ABHOW and any other Person which may become a Member of the Obligated Group in the future.

In September 2006, the Authority issued \$50,000,000 of its California Statewide Communities Development Authority Variable Rate Demand Revenue Bonds, Series 2006 (American Baptist Homes of the West) (the "Series 2006 Bonds"). When issued, the Series 2006 Bonds were secured on parity with the COPs. Upon the issuance of the Series 2010 Bonds, the trustee for the Series 2006 Bonds (the "2006 Bond Trustee") will release the security currently securing those bonds and accept from ABHOW the Direct Note Obligation No. 1 in the amount of \$48,905,000 (the "Series 2006 Obligation"). At the same time, the bank issuing the letter of credit securing the Series 2006 Bonds (the "2006 LOC Bank") will receive the Direct Note Obligation No. 2 (the "Bank Obligation" and together with the Series 2006 Obligation, the "Series 2006 Obligations"). The Series 2006 Obligations will be issued under the Master Indenture and secured on a pari passu basis with the Series 2010 Obligation.

When issued, the Series 2010 Obligation, the Series 2006 Obligations and all other Obligations subsequently issued under the Master Indenture will be secured by (i) a security interest in the Gross Revenues of the Obligated Group and (ii) a mortgage and security interest in the real and personal property of each of ABHOW's Facilities, as described in eight Deeds of Trust, Security Agreement and Fixture Filing with Assignment of Rents and Leases, each dated as of October 1, 1997, as amended and supplemented (individually, a "Deed of Trust" and collectively, the "Deeds of Trust"), from ABHOW, as trustor, to Chicago Title Insurance Company, as deed trustee, for the benefit of the Master Trustee. See **"SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010 BONDS – Security Interest in Gross Revenue and the Deeds of Trust"** and **APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Particular Covenants of the Obligated Group Representative and Each Member – Pledge of Gross Revenues."**

The obligations of ABHOW and any other future Members of the Obligated Group to make payments on the Series 2010 Obligation are full and unlimited, joint and several obligations of ABHOW and such other Members of the Obligated Group. The Gross Revenues of the Members of the Obligated Group are pledged under the Master Indenture to secure all the Obligations issued thereunder. See **APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Particular Covenants of the Obligated Group Representative and Each Member – Pledge of Gross Revenues."** Notwithstanding such security interest in the Obligated Group's Gross Revenues and the Deeds of Trust, the Members of the Obligated Group may sell or otherwise transfer Gross Revenues and create Permitted Encumbrances thereon, in accordance with the provisions of the Master Indenture. See **"RISK FACTORS – Certain Matters Relating to Enforceability"** and **"– Certain Risks Associated with the Deeds of Trust"** herein and

“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances” in APPENDIX C.

Payment of the principal of, and interest on, the Series 2010 Bonds will be additionally secured by moneys deposited to the credit of a Debt Service Reserve Fund established under the Bond Indenture.

The Foundation will enter into a Guaranty and Liquidity Support Agreement dated as of February 1, 2010 (the “Guaranty”) in favor of ABHOW, the Bond Trustee and the Master Trustee, pursuant to which the Foundation will guaranty and promise to pay, or cause to be paid to the Bond Trustee, ABHOW’s obligations under the Loan Agreement and fund payments to assist ABHOW in satisfying its obligations under certain financial covenants of the Master Indenture. See **“THE GUARANTY”** herein. For further information concerning the security for the Series 2010 Bonds, see the information under the caption **“SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010 BONDS”** below.

Certain Covenants under the Master Indenture. Rate Covenant. The Obligated Group covenants in the Master Indenture that the Obligated Group Representative shall compute Income Available for Debt Service and Annual Debt Service and promptly furnish to the Master Trustee an Officer’s Certificate setting forth the results of such computation. If the Debt Service Coverage Ratio of the Obligated Group is less than 1.20:1, the Master Trustee shall require the Obligated Group to retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group’s methods of operation and other factors affecting its financial condition in order to increase such Debt Service Coverage Ratio to at least 1.20:1 for the following Fiscal Year.

See **“CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE – Rate Covenant”** herein and **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Rate Covenant”** hereto for more detail (including the requirement to retain a Consultant if the Obligated Group fails to meet this test).

Liquidity Covenant. The Obligated Group covenants in the Master Indenture that it will calculate the Days Cash on Hand of the Obligated Group and Foundation as of March 31 and September 30 of each Fiscal Year (each such date being a “Testing Date”). The Obligated Group shall deliver an Officer’s Certificate setting forth such calculation as of March 31 to the Master Trustee not later than May 15 of each year, and setting forth such calculation as of September 30 to the Master Trustee not later than November 29 of each year.

The Master Indenture requires that each Obligated Group Member and the Foundation conduct their business so that on each Testing Date the Obligated Group, as a whole in aggregate with the Foundation, shall maintain no less than 150 Days Cash on Hand (the “Liquidity Requirement”). If the amount of Days Cash on Hand as of any Testing Date is less than the Liquidity Requirement, the Obligated Group Representative shall, within 30 days after receipt of the Officer’s Certificate disclosing such deficiency, deliver an Officer’s Certificate approved by a resolution of the Governing Body of the Obligated Group Representative to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the required level of Days Cash on Hand for future periods.

See **“CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE – Liquidity Covenant”** herein and **APPENDIX C – “SUMMARY OF**

PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Liquidity Covenant” hereto (including the requirement to deliver an Officer’s Certificate or to retain a Consultant if the Obligated Group fails to satisfy the Liquidity Requirement).

Approval of Consultants. Pursuant to the Master Indenture, the owners of outstanding Obligations have certain approval rights as to Independent Consultants selected by the Obligated Group Representative. See **“CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE – Approval of Consultants,”** and **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Approval of Consultants.”**

Other Covenants. See **APPENDIX C** for a description of the terms of the Master Indenture, including certain restrictions imposed on the Obligated Group’s actions for the benefit of all Bondholders of Obligations issued under the Master Indenture. Such terms include, among others, restrictions on Liens on Property (see **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances”** in **APPENDIX C**) and provisions governing the transfer of Property (see **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Sale, Lease or Other Disposition of Property”** in **APPENDIX C**), which is defined not to include Excluded Property, which Excluded Property ABHOW has advised consists of miscellaneous real property expected to be used for future expansion, which ABHOW estimates has a combined net book value as of the date hereof of less than approximately \$7 million.

Continuing Disclosure. ABHOW and the Foundation will each enter into an undertaking for the benefit of the Bondholders of the Series 2010 Bonds to provide certain information and to provide notice of certain events to the Municipal Securities Rulemaking Board on its Electronic Municipal Market Access system. For further information, see **“CONTINUING DISCLOSURE”** herein. The Authority has not made and will not make any provision to provide any annual financial statements or other credit information of the Authority or ABHOW to investors on a periodic basis.

Existing and Additional Indebtedness. The COPs are currently outstanding in the aggregate principal amount of \$82,400,000, and will be refunded with the proceeds of the Series 2010 Bonds. The Series 2006 Bonds will remain outstanding after the issuance of the Series 2010 Bonds. With the issuance of the Series 2010 Bonds and the execution and delivery of the Master Indenture, Obligations will be issued under the Master Indenture to secure the bond trustee and the 2006 LOC Bank for the Series 2006 Bonds. In certain circumstances, ABHOW and other Members of the Obligated Group may incur Additional Indebtedness (including Guaranties) which may, but need not, be evidenced or secured by Additional Obligations issued under the Master Indenture. See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE –Limitations on Additional Indebtedness”** in **APPENDIX C**. Additional Obligations issued under the Master Indenture may be issued to the Authority or to other Persons. Additional Obligations will not be pledged under the Bond Indenture but will be equally and ratably secured (except as described herein) under the Master Indenture with each Obligation, including the Series 2006 Obligations and the Series 2010 Obligation, issued and from time to time outstanding under the Master Indenture. Additional Indebtedness may be entitled to the benefit of security, including Liens on Property (including health care Facilities) of ABHOW and other Members of the Obligated Group, letters or lines of credit or insurance. Such security need not be extended to any other Indebtedness (including the Series 2010 Obligation). See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances”** in **APPENDIX C**. The Master Indenture provides that Supplemental Master Indentures pursuant to which one or more series of Obligations entitled to additional security are issued may provide for such amendments to

provisions of the Master Indenture, including the provisions thereof relating to the exercise of remedies upon the occurrence of an event of default, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

Risk Factors. There are risks associated with the purchase of the Series 2010 Bonds. See the information under the caption “**RISK FACTORS**” for a discussion of some of these risks.

THE AUTHORITY

The Authority is a joint powers agency organized pursuant to a Joint Powers Agreement among a number of California counties, cities and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to participate in financings for the benefit of certain organizations described under Section 501(c)(3) of the Code.

THE SERIES 2010 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY 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. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2010 BONDS, OR THE REDEMPTION PREMIUM OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE BOND INDENTURE, THE LOAN AGREEMENT AND THE SERIES 2010 OBLIGATION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE REDEMPTION PREMIUM OR INTEREST ON THE SERIES 2010 BONDS. THE ISSUANCE OF THE SERIES 2010 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 OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

THE SERIES 2010 BONDS

General

Certain capitalized terms used herein which are taken from the Bond Indenture have the meanings set forth in **APPENDIX C**.

The Series 2010 Bonds

The Series 2010 Bonds will be issued only in fully registered form in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof; provided however, that denominations may be reduced to \$5,000 at such time that the Series 2010 Bonds obtain a rating of “A-” or better from any rating agency then rating the Series 2010 Bonds. The Series 2010 Bonds will bear interest (based on a 360-day year of twelve 30-day months) at the respective rates per annum and will mature, subject to earlier redemption, in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Series 2010 Bonds will bear interest from their dated date, payable on April 1 and October 1 (the “Interest Payment Dates”) of each year, commencing April 1, 2010. The Series 2010 Bonds, as initially issued, will be dated the date of issuance of the Series 2010 Bonds. Except as

described in the next sentence, subsequently issued Series 2010 Bonds will be dated as of the later of the date of issuance or the most recent preceding Interest Payment Date to which interest has been paid thereon. Series 2010 Bonds issued on a Interest Payment Date to which interest has been paid will be dated as of such date.

When the Series 2010 Bonds are issued, The Depository Trust Company (“DTC”) will act as securities depository. Thereafter, the Series 2010 Bonds will be registered in the book-entry only system (the “Book-Entry System”) maintained by DTC. See “**BOOK-ENTRY SYSTEM**” herein. Payment of principal, premium, if any, and interest on the Series 2010 Bonds will be made to beneficial owners by DTC as described under “**BOOK-ENTRY SYSTEM**” herein. If the Book-Entry System is discontinued, the provisions of the following two paragraphs would be applicable.

The principal of, and premium, if any, on the Series 2010 Bonds will be payable at the designated corporate trust office of the Bond Trustee upon presentation and surrender of such Series 2010 Bonds. Interest payments on Series 2010 Bonds (other than with respect to Defaulted Interest) will be payable on each Interest Payment Date to the registered owner thereof appearing on the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of the Series 2010 Bonds (the “Bond Register”) as of the close of business of the Bond Trustee on the Record Date. “Record Date” means the 15th day (whether or not a Business Day) of the calendar month prior to each Interest Payment Date occurs.

Interest on the Series 2010 Bonds shall, except as hereinafter provided, be paid by check or draft of the Bond Trustee mailed on the Interest Payment Date to such registered owner at the address of such owner as it appears on the Bond Register or at such other address furnished in writing by such registered owner to the Bond Trustee, or by wire transfer sent on the Interest Payment Date to the registered owner upon written notice to the Bond Trustee from the registered owner containing the wire transfer address (which shall be in the continental United States) to which the registered owner wishes to have such wire directed which written notice is received not later than the Business Day prior to the Interest Payment Date, it being understood that such notice may refer to multiple interest payments.

In the event of a default in the payment of interest due on a Interest Payment Date, such defaulted interest shall be payable to the person in whose name such Series 2010 Bond is registered at the close of business on a special record date for the payment of such defaulted interest, which date shall be established by the Bond Trustee not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after receipt of the Bond Trustee of the notice of the proposed payment from ABHOW.

Limitations on Investors and Restrictions on Transfer

Although the Series 2010 Bonds are not being issued under, and shall not be deemed to be issued under, Rule 144A of the Securities Act of 1933, as amended, the Authority requires that the initial investors in the Series 2010 Bonds, and any subsequent purchasers, be “Qualified Institutional Buyers” within the meaning of Rule 144A. Each registered owner or Beneficial Owner of a Series 2010 Bond agrees by purchase of the Series 2010 Bond to abide by this limitation. The Authority may remove such limitation without prior notice to or consent of any owner of a Series 2010 Bond. The Authority’s requirement that purchasers of the Series 2010 Bonds be Qualified Institutional Buyers will cease to be in effect at such time as ABHOW provides to the Authority and the Bond Trustee written evidence to the effect that any national rating agency has rated the Series 2010 Bonds, without regard to any credit enhancement, in a Rating Category of “A-” or equivalent, or higher, notwithstanding whether at a future time the Series 2010 Bonds are no longer rated in such Rating Category.

Redemption Provisions

Optional Redemption of the Series 2010 Bonds. The Series 2010 Bonds are callable for redemption prior to maturity in whole or in part at any time on or after October 1, 2019, by the Authority upon the direction of ABHOW, out of amounts prepaid on the Series 2010 Obligation and deposited in the Optional Redemption Fund, in whole or in part at any time, and if in part by maturities or portions thereof designated by ABHOW (and if less than all of a single maturity is being redeemed, in such random manner as the Bond Trustee shall deem appropriate). The redemption price for any such redemption shall be equal to the principal amount of the Series 2010 Bonds to be redeemed on the redemption date, plus accrued interest to the redemption date without premium.

Mandatory Sinking Fund Redemption of Series 2010 Bonds. The Authority shall pay or redeem Series 2010 Bonds from moneys on deposit in the Bond Sinking Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, in the amounts and at the times, as follows:

Series 2010 Bonds Maturing October 1, 2015

Redemption Date (October 1)	Principal Amount
2011	690,000
2012	720,000
2013	755,000
2014	780,000
2015 [†]	815,000

[†] Scheduled Maturity

Series 2010 Bonds Maturing October 1, 2020

Redemption Date (October 1)	Principal Amount
2016	850,000
2017	895,000
2018	945,000
2019	995,000
2020 [†]	1,045,000

[†] Scheduled Maturity

Series 2010 Bonds Maturing October 1, 2025

Redemption Date (October 1)	Principal Amount
2021	1,100,000
2022	1,165,000
2023	1,230,000
2024	1,300,000
2025 [†]	1,380,000

[†] Scheduled Maturity

Series 2010 Bonds Maturing October 1, 2029

Redemption Date (October 1)	Principal Amount
2026	1,450,000
2027	1,540,000
2028	1,630,000
2029 [†]	5,755,000

[†] Scheduled Maturity

Series 2010 Bonds Maturing October 1, 2039

Redemption Date (October 1)	Principal Amount
2030	6,105,000
2031	6,490,000
2032	6,895,000
2033	7,330,000
2034	7,790,000
2035	8,280,000
2036	8,800,000
2037	9,350,000
2038	9,940,000
2039 [†]	10,560,000

[†] Scheduled Maturity

These shall be reduced (a) by the amount of Series 2010 Bonds acquired and delivered in accordance with the Bond Indenture in satisfaction of such Bond Sinking Fund requirements, and (b) in connection with a partial redemption of the Series 2010 Bonds if ABHOW elects to reduce mandatory Bond Sinking Fund redemptions in the manner provided in the Bond Indenture.

In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee may, at the request of ABHOW, purchase an equal principal amount of Bonds in the open market at prices not exceeding the principal amount of the Series 2010 Bonds being purchased plus accrued interest. In addition, the amount of Bonds to be redeemed on any date pursuant to the mandatory Bond Sinking Fund redemption schedule shall be reduced by the principal amount of Bonds assigned to such mandatory Bond Sinking Fund redemption date or to the period during which such Bond Sinking Fund redemption date occurs which are acquired by ABHOW and delivered to the Bond Trustee for cancellation.

Extraordinary Optional Redemption. The Series 2010 Bonds are callable for redemption prior to Maturity in the event of damage to or destruction of the Facilities of ABHOW or any part thereof or condemnation or sale under threat of condemnation of such Facilities or any part thereof, to the extent of the proceeds of insurance or condemnation received in connection therewith exceed \$1,000,000 and are applied to make prepayments on the Series 2010 Obligation pursuant to the Bond Indenture. If called for redemption, as provided in this paragraph, Series 2010 Bonds will be subject to redemption by the Authority at any time, in whole or in part, and, if in part by random method as selected by the Bond Trustee, at the principal amount thereof plus accrued interest to the redemption date and without premium.

General Redemption Provisions. No redemption of less than all of the Series 2010 Bonds at the time outstanding will be made unless the aggregate principal amount of such Series 2010 Bonds to be redeemed is equal to an Authorized Denomination of \$100,000 or more, and the aggregate principal amount of Series 2010 Bonds outstanding after the redemption is an Authorized Denomination.

In lieu of redeeming Series 2010 Bonds, the Bond Trustee may, at the request of ABHOW, use such funds otherwise available for redemption to purchase Series 2010 Bonds in the open market at a price not exceeding the redemption price then applicable under the Bond Indenture, such Series 2010 Bonds to be delivered to the Bond Trustee for the purpose of cancellation. It is understood that in the case of any such redemption or purchase of Series 2010 Bonds, the Authority shall receive credit against its required Bond Sinking Fund deposits in the same manner as would be applicable if such Series 2010 Bonds were optionally redeemed.

Notice of Redemption. Except as provided below, a copy of the notice of the call for any such redemption identifying the Series 2010 Bonds to be redeemed shall be given by electronic means and by first class mail, postage prepaid, to the registered owners of the Series 2010 Bonds to be redeemed at their addresses as shown on the Bond Register not less than 30 days nor more than 60 days prior to the redemption date. Such notice shall specify the redemption date, the redemption price, the place and manner of payment and that from the redemption date interest will cease to accrue on the Series 2010 Bonds which are the subject of such notice and shall include such other information as the Bond Trustee shall deem appropriate or necessary at the time such notice is given to comply with any applicable law, regulation or industry standard.

If any Series 2010 Bonds are to be redeemed pursuant to an extraordinary or optional redemption described above, the notice of redemption may specify that the redemption is contingent on the deposit of moneys with the Bond Trustee in an amount sufficient to pay the redemption price of the Series 2010 Bonds being redeemed on that date.

Failure to give notice in the manner prescribed with respect to any Series 2010 Bond, or any defect in such notice, shall not affect the validity of the proceedings for redemption for any Series 2010 Bond with respect to which notice was properly given. Upon the happening of the conditions described above, the Series 2010 Bonds thus called will not, after the applicable redemption date, bear interest, be protected by the Bond Indenture or be deemed to be outstanding under the provisions of the Bond Indenture.

If any Series 2010 Bond is transferred or exchanged on the Bond Register by the Bond Registrar after notice has been given of an optional or mandatory redemption of such Series 2010 Bond, the Bond Registrar will attach a copy of such notice to the Series 2010 Bond issued in connection with such transfer.

BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. The ownership of one fully-registered Series 2010 Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co.

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

Purchases of the Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2010 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from

the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to bond documents. For example, Beneficial Owners of Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the Series 2010 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Authority as soon as possible after the Record Date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010 Bonds are credited on the Record Date (identified in a listing attached to the "Omnibus Proxy").

Principal and interest payments on the Series 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or the Authority, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee or the Authority. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee. Under such

circumstances, in the event that a successor securities depository is not obtained, Series 2010 Bond certificates are required to be printed and delivered.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, ABHOW, THE FOUNDATION OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Series 2010 Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2010 Bonds for all purposes, including payments, notices and voting.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee will satisfy the Authority's obligations under the Bond Indenture and ABHOW's obligations under the Loan Agreement and on the Series 2010 Obligation, to the extent of the payments so made.

None of the Authority, the Underwriter, ABHOW, the Foundation nor the Bond Trustee will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Series 2010 Bond, (ii) the delivery to any Direct Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Series 2010 Bond including, without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Series 2010 Bond, (iii) the payment of any Direct Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Series 2010 Bond or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system described above, the Authority and the Bond Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Series 2010 Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Series 2010 Bonds, (ii) giving notices of redemption and other matters with respect to the Series 2010 Bonds, (iii) registering transfers with respect to the Series 2010 Bonds and (iv) the selection of Series 2010 Bonds for redemption.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010 BONDS

General

The Series 2010 Bonds are limited obligations of the Authority, payable solely from (a) payments or prepayments on the Series 2010 Obligation, (b) payments or prepayments made under the Loan Agreement (other than Unassigned Rights), (c) moneys and investments held by the Bond Trustee under, and to the extent provided in, the Bond Indenture and (d) in certain circumstances, proceeds from insurance, condemnation awards and proceeds from sales made under threat of condemnation. In the Loan Agreement, ABHOW agrees to make payments to the Bond Trustee which, in the aggregate, are required to be in an amount sufficient for the payment in full of all amounts payable on the Series 2010 Bonds whether due at maturity, upon redemption, by declaration of acceleration or otherwise, and certain fees and expenses (consisting generally of fees and charges of the Bond Trustee, taxes, accountants' fees and any fees and expenses of the Authority and the Bond Trustee associated with the Series 2010 Bonds) (the "Additional Payments").

Certain investment earnings on monies held by the Bond Trustee may be transferred to a Rebate Fund established pursuant to a Tax Exemption Agreement. Amounts held in such Rebate Fund will not be part of the “trust estate” pledged to secure the Series 2010 Bonds and consequently will not be available to make payments on the Series 2010 Bonds.

The Authority will assign its right, title and interest in the Loan Agreement and the Series 2010 Obligation to the Bond Trustee (except for (i) the right to receive any Additional Payments to the extent payable to the Authority, (ii) the right of the Authority to any indemnification and (iii) the right to receive any deposits to the Rebate Fund).

All or any portion of the Series 2010 Bonds may be advance refunded through the deposit in escrow of Government Obligations for the benefit of the owners of such refunded Series 2010 Bonds. See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Defeasance**” in APPENDIX C.

The Bond Indenture permits certain amendments to be made to the Bond Indenture and the Loan Agreement, upon the consent of the holders of a majority in aggregate principal amount of the Series 2010 Bonds. See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Supplemental Bond Indentures**” and “**–SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT– Supplements and Amendments to the Loan Agreement**” in APPENDIX C.

The Series 2010 Bonds and the interest thereon do not constitute an indebtedness or an obligation, general or moral, or a pledge of the faith or loan of credit of the Authority, the State of California or any public subdivision thereof, within the purview of any constitutional limitation or provision. The Authority shall not be obligated to pay the principal (or redemption price) of, premium, if any, or interest on the Series 2010 Bonds, except from revenues and other moneys and assets received by the Bond Trustee pursuant to the Loan Agreement. Neither the faith and credit nor the taxing powers, if any, of the Authority or the State of California or any political subdivision thereof is pledged to the payment of the principal (or redemption) of, premium, if any, or interest on the Series 2010 Bonds or other costs incidental thereto. No owner of any Series 2010 Bond shall have the right to compel the taxing power, if any, of the Authority, the State of California or any political subdivision thereof to pay the principal of, premium, if any, or interest on the Series 2010 Bonds. The Authority does not have the power to levy taxes for any purpose whatsoever.

The Series 2010 Obligation

The Master Indenture provides that payments on any Obligations issued and outstanding thereunder, including the Series 2010 Obligation and the Series 2006 Obligations, are the joint and several obligations of each Member of the Obligated Group (subject to the right of each Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture). Notwithstanding uncertainties with respect to the enforceability of the covenants in the Master Indenture of each Member of the Obligated Group to be jointly and severally liable for each Obligation, as described herein under the caption, “**RISK FACTORS – Certain Matters Relating to Enforceability,**” the accounts of the Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether the covenants and tests contained in the Master Indenture are met.

The Bond Indenture designates the Bond Trustee as the holder of the Series 2010 Obligation. (See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE**” in APPENDIX C.)

Certain amendments to the Master Indenture may be made with the consent of the holders of not less than 51% in aggregate principal amount of the Obligations then outstanding, including the Series 2010 Obligation. Such percentage may be composed wholly or partially of the Bondholders of Obligations other than the holders of the Series 2010 Obligation.

The Series 2006 Obligations

Concurrently with the issuance of the Series 2010 Obligation, ABHOW will issue the Obligations, one to the 2006 Bond Trustee in the amount of \$48,905,000 and one to the 2006 LOC Bank. The Series 2010 Obligation will be equally and ratably secured on a parity with the Series 2006 Obligations.

Additional Indebtedness; Additional Obligations

Subject to compliance with the provisions of the Master Indenture, the Members of the Obligated Group may in the future incur Indebtedness (including Guaranties) which may, but need not, be evidenced or secured by an Additional Obligation issued under the Master Indenture. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Additional Indebtedness.”** Any such Additional Obligation shall, except as described herein, be equally and ratably secured on a parity with the Obligations then outstanding under the Master Indenture, including the Series 2010 Obligation. Subject to certain conditions set forth in the Master Indenture, such Additional Obligations and other Additional Indebtedness may be secured by security in addition to that provided for the Series 2010 Obligation, including Liens on the Property (including health care Facilities) of the Obligated Group, which additional security or Liens need not be extended to any other Indebtedness (including, without limitation, the Series 2010 Obligation). See the information set forth under the captions **“DEFINITIONS OF CERTAIN TERMS – Permitted Limitations on Encumbrances”** and **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances,” “– Sale, Lease or Other Disposition of Property”** in **APPENDIX C**. The restrictions on the creation of Liens on Property and the transfer of Property imposed on the Obligated Group under the Master Indenture are not applicable to Excluded Property. See **“DEFINITIONS OF CERTAIN TERMS – Excluded Property”** in **APPENDIX C**.

Debt Service Reserve Fund

Pursuant to the Bond Indenture, a Debt Service Reserve Fund will be established and held by the Bond Trustee for the benefit of the Series 2010 Bonds (the “Debt Service Reserve Fund”). At the time of issuance of the Series 2010 Bonds, approximately \$9,221,250 will be deposited into such Debt Service Reserve Fund. Monies in the Debt Service Reserve Fund will be maintained in an amount equal to the Debt Service Reserve Fund Requirement which is expected to be approximately \$9,221,250 until October 1, 2028. Thereafter “Debt Service Reserve Fund Requirement” shall mean the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on Series 2010 Bonds then outstanding, (ii) an amount equal to 10% of the original principal amount of the Series 2010 Bonds or (iii) an amount equal to 125% of the average annual debt service with respect to the Series 2010 Bonds (calculated as of the date of the issuance of the Series 2010 Bonds). Monies on deposit in the Debt Service Reserve Fund will be used by the Bond Trustee whenever, and to the extent that, monies on deposit in the Interest Fund and the Bond Sinking Fund (in the order listed) are insufficient for the purpose of paying interest on or principal of the Series 2010 Bonds as the same becomes due (either on Interest Payment Dates or on mandatory sinking fund redemption dates). Money on deposit in the Debt Service Reserve Fund shall be invested in Qualified Investments. Qualified Investments deposited in the Debt Service Reserve Fund shall be valued on the first Business Day of each

Fiscal Year on the basis of fair market value (which valuation shall take into account any accrued and unpaid interest).

If, at any time, the amount on deposit in the Debt Service Reserve Fund is less than 100% of the Debt Service Reserve Fund Requirement as a result of the Debt Service Reserve Fund account having been drawn upon as provided in the Bond Indenture, the Loan Agreement requires ABHOW to restore the amount on deposit in the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Fund Requirement in not more than 12 substantially equal monthly installments beginning with the first day of the seventh month after the month in which such draw occurred. If, on any Valuation Date, the amount on deposit in the Debt Service Reserve Fund is less than 90% of the Debt Service Reserve Fund Requirement as a result of a decline in the market value of the investments in the Debt Service Reserve Fund, the Loan Agreement requires ABHOW to deposit in the Debt Service Reserve Fund the amount necessary to restore the amount on deposit in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement within 120 days following the date ABHOW receives notice of such deficiency. For more information concerning the Debt Service Reserve Fund, see **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Funds – (c) Debt Service Reserve Fund”** in APPENDIX C.

Security Interest in Gross Revenues and the Deeds of Trust

The Series 2010 Obligation will be secured by (i) a security interest in the Gross Revenues of the Obligated Group granted pursuant to the Master Indenture and (ii) a lien and security interest in the Property and Collateral pursuant to the Deeds of Trust. The “Property and Collateral” consists of the eight CCRCs owned by ABHOW and certain related property and real estate on which they are located. The total book value of the property subject to the Deeds of Trust constitutes approximately 99% of the book value of all property, plant and equipment of ABHOW as of September 30, 2009. There can be no assurance that the book value of the Property and Collateral would be realized upon its disposition or at foreclosure. In the future, the value of the Property and Collateral could be substantially less than the principal amount of Obligations outstanding under the Master Indenture. Upon the issuance of the Series 2010 Bonds, the Obligated Group will deliver title insurance policies with respect to the Property and Collateral and Collateral for the benefit of the Master Trustee. See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Particular Covenants of the Obligated Group Representative and Each Member – Pledge of Gross Revenues,”** and **“– SUMMARY OF CERTAIN PROVISIONS OF THE DEEDS OF TRUST”** in APPENDIX C and **“BONDHOLDERS’ RISKS – Certain Risks Associated with the Deeds of Trust,”** **“– Certain Matters Relating to Enforceability”** herein.

The Series 2010 Obligation will be issued pursuant to the Master Indenture and will be a general obligation of ABHOW and each Obligated Group Member under the Master Indenture and secured by a security interest in the Gross Revenues of the Obligated Group pursuant to the Master Indenture.

“Gross Revenues” are defined as all receipts, revenues, income and other money received by or on behalf of any Member of the Obligated Group from any source whatsoever, including, but not limited to, (a) revenues derived from the operation and possession of each Member’s facilities, including accounts receivable, (b) gifts, bequests, grants, donations and contributions, exclusive of any gifts, bequests, grants, donations or contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or for the payment of operating expenses, and (c) revenues derived from (1) condemnation proceeds, (2) inventory and other tangible and intangible property, (3) private and governmental health care reimbursement programs and agreements,

(4) insurance proceeds, and (5) contract rights and other rights now or hereafter owned by each Member. As of the date hereof ABHOW is the only Member of the Obligated Group.

The pledge of Gross Revenues will be perfected to the extent and only to the extent that such security interest may be perfected by control as provided in the Uniform Commercial Code of the State of California. 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, Medicare and Medicaid payments) prior to actual receipt by ABHOW for deposit into the Gross Revenue Fund.

Notwithstanding such security interest in the Obligated Group's Gross Revenues, the Members of the Obligated Group may sell or otherwise transfer Gross Revenues and create Permitted Encumbrances thereon, in accordance with the provisions of the Master Indenture. See **APPENDIX C – "DEFINITIONS OF CERTAIN TERMS – Permitted Encumbrances."** Also see **"BONDHOLDERS' RISKS – Certain Matters Relating to Enforceability."**

THE GUARANTY

Guaranty of Obligations. The Foundation pursuant to the Guaranty unconditionally guarantees and promises to pay and perform on demand, or cause to be paid and performed on demand to the Bond Trustee, all of ABHOW's obligations under the Loan Agreement (the "Guaranteed Obligations"), and fund payments to assist ABHOW in satisfying its obligations under certain financial covenants of the Master Indenture. As used therein, Guaranteed Obligations means all payment and performance obligations of ABHOW to the Bond Trustee pursuant to the Loan Agreement.

Limited Recourse. The unconditional obligations of the Foundation pursuant to the Guaranty constitute the recourse obligations of the Foundation enforceable against it to the extent of its income; provided that, notwithstanding the foregoing or anything contained in the Guaranty or any financing document to the contrary, the obligations of the Foundation under the Guaranty and under each other financing document shall be payable only from the unrestricted net assets of the Foundation. The liability of the Foundation under the Guaranty pursuant to its terms is independent of ABHOW's obligations with respect to the Series 2010 Obligation.

Covenants of the Foundation. Pursuant to the Guaranty, the Foundation makes certain representations and warranties for the benefit of ABHOW, the Bond Trustee and Master Trustee, which covenants include a requirement to make certain reporting requirements, and include certain negative covenants of the Foundation. The Obligated Group will covenant in the Master Indenture to maintain a Debt Service Coverage Ratio of not less than 1.20:1. The Debt Service Coverage Ratio will be calculated annually based on the audited financial statements of ABHOW applicable to the fiscal year (the "Annual Calculation"). If the Debt Service Coverage Ratio as shown in any Annual Calculation is less than 1.20:1, the Foundation covenants to transfer such moneys which would, if counted as revenue received in the year to which such Annual Calculation applies, increase the Obligated Group's Debt Service Coverage Ratio to at least 1.20:1. The Foundation, on a consolidated basis with the Obligated Group, agrees to maintain at March 31 and September 30 of each year Unrestricted Cash and Investments in an amount equal to at least 150 Days Cash on Hand and at least 30 of such 150 Days Cash on Hand shall be held by the Obligated Group. If on any testing date, the Obligated Group's Days Cash on Hand falls below 30, the Foundation agrees to transfer to ABHOW sufficient cash and investments to increase the Obligated Group's Days Cash on Hand to at least 30 within 30 days of such testing date.

Pledge of Gross Revenues; Blocked Account Agreement. In the Guaranty, the Foundation pledges its Foundation Gross Revenues to secure its obligations under the Guaranty.

Concurrently with its execution and delivery of the Guaranty, the Foundation will enter into a blocked account control agreement with respect to one or more accounts in which it agrees to maintain at least 1.125% of the average balance of the Foundation's Unrestricted Net Assets over the preceding 12 fiscal quarters.

"Foundation Gross Revenues" means all revenues, interest, earnings and income of whatever sort (including without limitation all realized capital gains), now or hereafter received or receivable by the Foundation from or in respect of the Unrestricted Net Assets of the Foundation, whether in the form of cash, investment property or otherwise, and all proceeds of any of the foregoing. "Unrestricted Net Assets" means the unrestricted net assets of the Foundation, and shall have the meaning generally assigned to such terms under generally accepted accounting principles and as used in the audited financial statements of the Foundation for the fiscal year ended September 30, 2009, and shall include all assets of the Foundation except those that are subject to a permanent, or then-in-effect temporary, donor restriction making them unavailable for application to payment of operating expenses of, or principal and interest on indebtedness of, ABHOW.

The pledge of Foundation Gross Revenues will be perfected to the extent that such security interest may be perfected by control as provided in the Uniform Commercial Code of the State of California. It may not be possible to perfect a security interest in any manner whatsoever in certain types of Foundation Gross Revenues (e.g., gifts, donations, certain insurance proceeds) prior to actual receipt by the Foundation for deposit into the Foundation Gross Revenue Fund (described in the Guaranty). Notwithstanding such security interest in the Foundation Gross Revenues, the Foundation may sell or otherwise transfer Gross Revenues and create Permitted Liens (as defined in the Guaranty) thereon, in accordance with the provisions of the Guaranty. Also see **"RISK FACTORS – Certain Matters Relating to Enforceability."**

Concurrently with the issuance of the Series 2006 Bonds, the Foundation entered into a guaranty agreement (as amended and supplemented from time to time, the "Series 2006 Guaranty") with the 2006 Bond Trustee and the 2006 LOC Bank. Pursuant to the Series 2006 Guaranty, the Foundation has also pledged its Foundation Gross Revenues to secure its obligations under the Series 2006 Guaranty and ABHOW's obligations under the loan agreement for the Series 2006 Bonds and under the reimbursement agreement with the 2006 LOC Bank (the "Series 2006 Guaranteed Obligations").

The Series 2006 Guaranty and the Guaranty are secured by the Foundation Gross Revenues on a *pari passu* basis. The Series 2006 Guaranty contains different covenants than the Guaranty. The Series 2006 Guaranty can be amended without notice or consent of the holders of either the Series 2006 Bonds or the Series 2010 Bonds. The Foundation's pledge of its Foundation Gross Revenues pursuant to the Series 2006 Guaranty is a Permitted Lien under the Guaranty.

PLAN OF FINANCE

The proceeds of the Series 2010 Bonds will be loaned to ABHOW to (i) finance the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of certain facilities owned and operated by ABHOW (the "Project"), (ii) prepay the COPs, currently outstanding in the aggregate principal amount of \$82,400,000, (iii) fund a debt service reserve fund, and (iv) pay certain expenses of issuing the Series 2010 Bonds.

The Project

Approximately \$15,000,000 of the proceeds of the Series 2010 Bonds will be designated for the Valle Verde campus in Santa Barbara. Proceeds will be used to construct and furnish 40 new independent living apartments, construct new administration and maintenance buildings, expand and refurbish resident common areas and provide additional campus amenities. Of these new independent living apartments, 13 will be constructed on a site known as the Rutherford property which is contiguous to the main campus and 27 will be interspersed throughout the main campus.

Approximately \$5,000,000 of the proceeds of the Series 2010 Bonds will be designated for ongoing redevelopment activities on the Pilgrim Haven campus in Los Altos, prior to the commencement of construction thereof. Such proceeds will be used to open a marketing office and commence marketing and presales development as well as to develop architectural and construction drawings for state regulatory approval of the new health center. The health center is expected to have 30 beds and an attached building will house 16 memory support apartments. Initial development will be on property known as the Spagnoli property contiguous to the main Pilgrim Haven campus.

The Refunding

ABAG, ABHOW and the Series 1997 Trustee previously entered into a Trust Agreement, dated as of October 1, 1997 and several supplements, under which ABAG issued the COPs, which are currently outstanding in the aggregate principal amounts of \$82,400,000. Management of ABHOW anticipates that the COPs will be prepaid with proceeds of the Series 2010 Bonds within 60 days of the delivery thereof.

ESTIMATED SOURCES AND USES OF FUNDS

Proceeds to be received from the sale of the Series 2010 Bonds are estimated to be applied as set forth in the following table.

Source of Funds:

Principal Amount of the Series 2010 Bonds	\$ 106,580,000
Net Original Issue Discount	(2,890,605)
ABHOW Equity ⁽¹⁾	3,000,000
Trustee Held Funds	8,897,197
Total Sources of Funds	\$115,586,592

Uses of Funds:

Refunding of COPs	\$84,368,567
Project Fund	20,001,040
Debt Service Reserve Fund ⁽²⁾	9,221,250
Costs of Issuance ⁽³⁾	\$1,995,735
Total Uses of Funds	\$115,586,592

⁽¹⁾ ABHOW equity will be used to pay a portion of the costs of issuance relating to the Series 2010 Bonds and the funding of a portion of the Debt Service Reserve Fund.

⁽²⁾ Debt Service Reserve Funds relating to the refunded COPs will be applied to fund the Debt Service Reserve Fund for the Series 2010 Bonds.

⁽³⁾ Includes Authority fees, legal fees, underwriter's discount, printing costs, accounting fees, rating agency fees and other costs of issuance.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each bond year ending October, the estimated amounts required to be available for the payment of principal of (including Bond Sinking Fund payments) and interest on the Series 2010 Bonds, and the aggregate debt service on all other outstanding long-term debt, including the Series 2006 Bonds. The totals of the columns and rows may not correspond exactly due to rounding.

Year Ending October 1,	The Series 2010 Bonds		Other Long-Term Debt Service ⁽¹⁾	Total Long-Term Debt Service
	Principal	Interest		
2010	-	\$ 3,910,732	\$ 4,015,254	\$ 7,925,985
2011	\$ 690,000	6,487,850	4,015,704	11,193,554
2012	720,000	6,458,525	4,013,703	11,192,228
2013	755,000	6,427,925	4,013,273	11,196,198
2014	780,000	6,395,838	4,017,768	11,193,605
2015	815,000	6,362,688	4,016,126	11,193,814
2016	850,000	6,328,050	4,016,031	11,194,081
2017	895,000	6,282,363	4,017,271	11,194,634
2018	945,000	6,234,256	4,016,694	11,195,950
2019	995,000	6,183,463	4,019,469	11,197,932
2020	1,045,000	6,129,981	4,022,259	11,197,240
2021	1,100,000	6,073,813	4,021,079	11,194,892
2022	1,165,000	6,010,563	4,021,141	11,196,703
2023	1,230,000	5,943,575	4,023,640	11,197,215
2024	1,300,000	5,872,850	4,024,559	11,197,409
2025	1,380,000	5,798,100	4,021,382	11,199,482
2026	1,450,000	5,718,750	4,027,041	11,195,791
2027	1,540,000	5,631,750	4,023,831	11,195,581
2028	1,630,000	5,539,350	4,027,334	11,196,684
2029	5,755,000	5,441,550		11,196,550
2030	6,105,000	5,096,250		11,201,250
2031	6,490,000	4,714,688		11,204,688
2032	6,895,000	4,309,063		11,204,063
2033	7,330,000	3,878,125		11,208,125
2034	7,790,000	3,420,000		11,210,000
2035	8,280,000	2,933,125		11,213,125
2036	8,800,000	2,415,625		11,215,625
2037	9,350,000	1,865,625		11,215,625
2038	9,940,000	1,281,250		11,221,250
2039	10,560,000	660,000		11,220,000
Total	<u>\$ 106,580,000</u>	<u>\$ 149,805,719</u>	<u>\$ 76,373,559</u>	<u>\$ 332,759,279</u>

⁽¹⁾ Annual principal, interest and letter of credit-related fees on Series 2006 Bonds and other long-term debt of ABHOW for any succeeding Fiscal Year.

CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE

Rate Covenant

Each Obligated Group Member covenants in the Master Indenture to operate all of its Principal Property in the aggregate on a revenue-producing basis and to charge such fees and rates for its facilities and services and to exercise such skill and diligence, including obtaining payment for services provided, as to provide income from its facilities together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the Master Indenture.

The Members covenant and agree that the Obligated Group Representative shall compute the Debt Service Coverage Ratio and promptly furnish to the Master Trustee an Officer's Certificate setting forth the results of such computation. If the Debt Service Coverage Ratio of the Obligated Group is less than 1.20:1, the Master Trustee shall require the Obligated Group to retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase such Debt Service Coverage Ratio to at least 1.20:1 for the following Fiscal Year.

For purposes of calculations under the previous paragraph, an unrestricted contribution from the Foundation or any other Affiliate of any Member of the Obligated Group may, at the sole discretion of the Obligated Group Representative, be treated as Income Available for Debt Service being earned during the period of such calculation so long as the unrestricted contribution is made prior to the date the applicable Officer's Certificate is required to be delivered with respect to such calculation. If the unrestricted contribution is counted in a period prior to the date of such transfer in accordance with the previous sentence, it shall not be included in the calculation for the period in which such contribution was actually made.

If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the ratio described in this Section to be met, then such ratio shall be reduced to 1.00:1 for such Fiscal Year.

A copy of the Independent Consultant's report and recommendations, if any, shall be filed with the Required Information Recipients within 60 days of retaining such Independent Consultant. Each Member shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. This provision of the Master Indenture shall not be construed to prohibit any Member from serving indigent patients or residents to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients or residents without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the requirements of the Master Indenture.

Notwithstanding any other provisions of the Master Indenture, an Event of Default arising from the Debt Service Coverage Ratio shall only occur under the Master Indenture if: (i) the Obligated Group fails to achieve a Debt Service Coverage Ratio of at least 1.20:1 and fails to take all necessary action to comply with the procedures set forth above for preparing a report, adopting a plan, and following all recommendations contained in such report or plan to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law; (ii) the Days Cash

on Hand of the Obligated Group and the Foundation is less than 150 at the end of a Fiscal Year in which the Obligated Group fails to achieve a Debt Service Coverage Ratio of at least 1.00:1; or (iii) the Obligated Group fails to achieve a Debt Service Coverage Ratio of at least 1.00:1 for two consecutive Fiscal Years.

See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Rate Covenant**” in APPENDIX C.

Liquidity Covenant

The Obligated Group covenants that it will calculate the Days Cash on Hand of the Obligated Group and of the Foundation as of March 31 and September 30 of each fiscal year (each such date being a “Testing Date”). The Obligated Group and the Foundation shall include such calculations in the Officer’s Certificate delivered pursuant to the Master Indenture.

Each Obligated Member and the Foundation are required to conduct their business so that on each testing date the Obligated Group, as a whole in aggregate with the Foundation, shall have not less than 150 Days Cash on Hand for each Testing Date.

If the amount of Days Cash on Hand as of any Testing Date is less than 150, the Obligated Group Representative shall, within 30 days after receipt of the Officer’s Certificate disclosing such deficiency, deliver an Officer’s Certificate approved by a resolution of the Governing Body of the Obligated Group Representative to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the required level of Days Cash on Hand for future periods.

See “**THE GUARANTY**” for a description about how the Foundation has agreed to transfer to ABHOW sufficient cash and investments to increase ABHOW’s Days Cash on Hand to at least 30 within 30 days of such testing date.

If the Obligated Group and the Foundation have not achieved 150 Days Cash on Hand by the next Testing Date following delivery of the Officer’s Certificate required in the preceding paragraph, the Obligated Group Representative shall, within 30 days after receipt of the Officer’s Certificate disclosing such deficiency, retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group’s methods of operation and other factors affecting its financial condition in order to increase the Days Cash on Hand to the required level for future periods. A copy of the Independent Consultant’s report and recommendations, if any, shall be filed with each of the Required Information Recipients within 60 days of the date such Independent Consultant is retained. Each Member of the Obligated Group shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group and the Foundation to achieve the required liquidity covenant for any fiscal year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Liquidity Covenant**” in APPENDIX C.

Approval of Consultants.

If at any time the Obligated Group Representative is required to engage an Independent Consultant under the Master Indenture (other than with respect to the certain calculations required by the Master Indenture or any determination of the Projected Rate), the Independent Consultant shall be engaged in the manner set forth below in this Section.

Upon selecting an Independent Consultant as required under the Master Indenture, the Obligated Group Representative will notify the Master Trustee of the selection. The Master Trustee shall, as soon as practicable but in no case longer than five Business Days after receipt of notice, notify the owners of the Obligations Outstanding of such selection. Such notice shall (i) include the name and a brief description of the Independent Consultant, (ii) state the reason that the Independent Consultant is being engaged including a description of the covenant(s) of the Master Indenture that require the Independent Consultant to be engaged, and (iii) state that each owner of an Obligation will be deemed to have consented to the selection of the Independent Consultant named in such notice unless such owner submits an objection to the selected Independent Consultant in writing (in a manner acceptable to the Master Trustee) to the Master Trustee within 15 days of the date that the notice is sent to the owners. No later than two Business Days after the end of 15-day objection period, the Master Trustee shall notify the Obligated Group Representative of the number of objections. If two-thirds or more in aggregate principal amount of the owners of the Outstanding Master Notes have been deemed to have consented to the selection of the Independent Consultant, the Obligated Group Representative shall engage the Independent Consultant within five days of receiving notice of that consent. If more than one-third in aggregate principal amount of the owners of the Obligations Outstanding have objected to the Independent Consultant selected, the Obligated Group Representative shall select another Independent Consultant within 14 days after receiving notice of such objection, which Independent Consultant may be engaged upon compliance with the procedures of this Paragraph.

All Independent Consultant reports required under the Master Indenture shall be prepared in accordance with then-effective industry-appropriate standards.

See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Approval of Consultants**” in APPENDIX C.

RISK FACTORS

Set forth below are certain risk factors which should be considered before any investment in the Series 2010 Bonds is made. Certain risks are inherent in the successful operation of ABHOW’s facilities. **This section discusses some of these risks but is not intended to be a comprehensive listing of all risks associated with the operation of ABHOW’s facilities, the Foundation’s pledge of its Foundation Gross Revenues or the payment of the Series 2010 Bonds.**

General

As described herein under the caption, “**INTRODUCTION – Security for the Series 2010 Bonds,**” the principal of, premium, if any, and interest on the Series 2010 Bonds, except to the extent that the Series 2010 Bonds will be payable, under certain circumstances, from proceeds of insurance, sale or condemnation awards or net amounts by recourse to the Deeds of Trust, are payable solely from amounts payable by ABHOW under the Loan Agreement, the Series 2010 Obligation and from certain funds held under the Bond Indenture and the Foundation under the Guaranty. No representation or assurance is given or can be made that revenues will be realized by ABHOW and the Foundation in amounts sufficient to pay debt service on the Series 2010 Bonds when due and other

payments necessary to meet the obligations of ABHOW and the Foundation. The Risk Factors discussed below should be considered in evaluating the ability of the ABHOW and the Foundation to make payments in amounts sufficient to provide for the payment of the principal of, the premium, if any, and interest on the Series 2010 Bonds.

The receipt of future revenues by ABHOW and the Foundation will be subject to, among other factors, federal and state policies affecting the senior housing and health care industries (including changes in reimbursement rates and policies), increased competition from other senior housing and health care providers, the capability of the management of ABHOW and the Foundation and future economic and other conditions that are impossible to predict. The extent of the ability of ABHOW and the Foundation to generate future revenues has a direct effect upon the payment of principal of, premium and purchase price, if any, and interest on the Series 2010 Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of ABHOW or the Foundation.

This discussion of Risk Factors is not, and is not intended to be, exhaustive.

Impact of Disruptions in the Credit Markets and General Economic Factors

The current economic crisis has had and may continue to have serious negative consequences on the global and national economies. To date, the crisis has caused a restriction on the availability of credit, extreme volatility in interest rates and the credit and securities markets generally, failures and bankruptcies of businesses and financial institutions and reduced business activity which in turn has reduced personal, corporate and governmental revenues. These consequences may: reduce ABHOW and the Foundation's revenues from operations and investments, ABHOW's ability to make payments under the Loan Agreement and the Series 2010 Obligation, the Foundation's ability to fulfill its obligations under the Guaranty and reduce their ability to obtain liquidity and credit facilities or receive funds thereunder.

There have been significant global governmental actions aimed at counteracting the economic crisis. There can be no assurance that these actions will be effective in correcting the global or national economies.

California State Budget

Many states, including California (the "State"), face severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slower economic growth and higher unemployment, which may continue or worsen over the coming years.

The State may seek to address budget shortfalls by amending the property tax statutes to subject to taxation properties owned by nonprofit organizations such as ABHOW. See "**Property Taxes; State and Local Tax Exemption**" herein. The State anticipates a significant deficit between the expected level of tax revenues and projected expenditures for the current fiscal year and in the projected 2009-2010 fiscal year budget. In late 2008 and early 2009, the California legislature and Governor of California took action to close an estimated \$42 billion shortfall. On May 19, 2009, the voters of California rejected several ballot initiatives which, in the aggregate, were expected to increase State tax revenues by approximately \$6 billion, thereby reducing the projected budget deficit for the 2009-2010 fiscal year to approximately \$15.5 billion. Current estimates of the expected budget deficit for the 2009-2010 fiscal year range from \$23 to \$28 billion. The Governor has announced several proposals to reduce spending in the upcoming fiscal year. At this time, it is uncertain which of the Governor's proposals, if

any, will be implemented and to what extent. As a result, management is unable to assess the exact impact on the ABHOW and the Foundation's operations, but they could be material.

The financial challenges facing the State may negatively affect senior living facilities in a number of ways. Recent discussions have indicated that the Governor may introduce legislation to eliminate the provider tax exemption for CCRCs. It is not anticipated that such legislation will be introduced prior to May, 2010 when budget revisions are proposed. If such a statute is introduced, Aging Services of California, the trade association to which ABHOW and many other nonprofit providers belong, has indicated it intends to fight such a proposal to maintain the exemption for its members such as ABHOW. Management cannot predict what actions will be taken in the current and future years by the State Legislature and the Governor to address the State's financial problems. The State's actions will likely depend on national and State economic conditions and other factors that are uncertain at this time.

Seismic Risk

According to the Seismic Safety Commission of the State of California, the State is mapped into seismic hazard zones 3 and 4. Seismic hazard zones account for geographic variation in the expected levels of earthquake ground shaking and are based on the historical records of earthquakes and the location of known earthquake faults. Several earthquake faults run through Santa Clara, San Joaquin, Santa Barbara and Alameda Counties, the location of certain of ABHOW's CCRCs. Local building codes take into account the likelihood of ground shaking and are intended to provide safety to the building occupants.

There can be no assurance that the occurrence of a significant seismic event in any area in which ABHOW operates would not have a material adverse effect of its facilities, the operations of ABHOW or the ability of ABHOW to pay the principal, premium, if any, and interest on the Series 2010 Bonds. ABHOW does carry earthquake insurance on the CCRCs.

Uncertainty of Revenues

As noted elsewhere, except to the extent that the holders of the Series 2010 Bonds are secured, under certain circumstances, by the proceeds of insurance, sale or condemnation awards, the Series 2010 Bonds will be payable solely from payments or prepayments to be made by ABHOW under the Loan Agreement, the Series 2010 Obligation and from certain funds held under the Bond Indenture and the Foundation under the Guaranty. The ability of ABHOW and the Foundation to make payments under the Loan Agreement, the Series 2010 Obligation and the Guaranty is dependent upon the generation by ABHOW of revenues in the amounts necessary for ABHOW and the Foundation to pay the principal, premium, if any, and interest on the Series 2010 Bonds, as well as other operating and capital expenses. The realization of future revenues and expenses are subject to, among other things, the capabilities of the management of ABHOW, government regulation and future economic and other conditions that are unpredictable and that may affect revenues and payment of principal of and interest on the Series 2010 Bonds. No representation or assurance can be made that revenues will be realized by ABHOW and the Foundation in amounts sufficient to make the required payments with respect to debt service on the Series 2010 Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of ABHOW and the Foundation.

Failure to Achieve and Maintain Occupancy and Turnover

The economic feasibility of ABHOW's operations depends in large part upon the ability of ABHOW to maintain substantial occupancy and turnover of occupancy throughout the term of the

Series 2010 Bonds. This depends to some extent on factors outside management's control, such as the residents' right to terminate their residency agreements. Moreover, if a substantial number of residents live beyond the anticipated life expectancies assumed by ABHOW or if the permanent transfers to the nursing home floors of the communities are substantially less than assumed by ABHOW, or if market changes require a reduction in the amount of the Entrance Fees payable by new residents, the receipt of additional Entrance Fees would be curtailed, with a consequent impairment of the revenues of ABHOW's operations. Such impairment could also result if ABHOW is unable to remarket units as they become available. If ABHOW's operations fail to maintain occupancy levels, resell, in a timely manner, independent living units and assisted living units as they become available, or if there is a reduction in the amount of Entrance Fees received, there may be insufficient funds to pay the debt service on the Series 2010 Bonds.

Sale of Personal Residences

Prospective residents of ABHOW's facilities may be required to sell their current homes to pay the entrance fee prior to occupancy or to meet other financial obligations under their residency agreements. If prospective residents encounter difficulties in selling their current homes due to local or national economic conditions affecting the sale of residential real estate, such prospective residents may not have sufficient funds to pay the entrance fee or to meet other financial obligations under their residency agreements, thereby causing a delay in scheduled occupancy of ABHOW's facilities or the remarketing of vacated units, either of which would have an adverse impact on the revenues of ABHOW.

Nature of the Income of the Elderly

A large percentage of the monthly income of the residents of the ABHOW's facilities will be fixed income derived from pensions and Social Security. In addition, some residents will be liquidating assets in order to pay the monthly and other fees. If, due to inflation or otherwise, substantial increases in fees are required to cover increases in operating costs, wages, benefits and other expenses, many residents may have difficulty paying or may be unable to pay such increased fees. ABHOW's inability to collect from residents the full amount of their payment obligations may jeopardize the ability of ABHOW to pay amounts due under the Loan Agreement, as well as its Obligations.

Utilization Demand

Several factors could, if implemented, affect demand for services of ABHOW's facilities including: (i) efforts by insurers and governmental agencies to reduce utilization of nursing home and long-term care facilities by such means as preventive medicine and home health care programs; (ii) advances in scientific and medical technology; and (iii) increased or more effective competition from nursing home, assisted living facilities and long-term care facilities now or hereafter located in the service areas of ABHOW's CCRCs.

Competition

Competition from other lifecare facilities, continuing care retirement communities, congregate housing, assisted living centers, home healthcare agencies and other long-term care facilities which offer sheltered, assisted living or nursing care now or hereafter located in ABHOW's service areas could adversely affect its revenues. ABHOW may face additional competition in the future from other providers of new, expanded, or renovated retirement living and nursing facilities servicing the housing and health care needs of the elderly.

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Bond Indenture and held by the Foundation otherwise have been estimated and are based on assumed interest rates as indicated. While these assumptions are believed to be reasonable in view of the rates of return presently and previously available on the types of securities in which the Bond Trustee is permitted to invest under the Bond Indenture and in which the Foundation invests, there can be no assurance that similar interest rates will be available on such securities in the future, nor can there be any assurance that the estimated earnings will actually be realized. Guaranteed investment contracts may be entered into with respect to certain of the funds held under the Bond Indenture.

Philanthropy

ABHOW through the Foundation derives substantial income from unrestricted gifts and donations to supplement operating revenues to finance operations and capital needs. See **APPENDIX A – “AMERICAN BAPTIST HOMES OF THE WEST AND AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC.”** Although management of ABHOW expects gifts and donations to remain at least at their current level and to increase at a moderate rate, there can be no assurance that this revenue will not decrease, adversely affecting the financial condition of ABHOW and the Foundation.

Rights of Residents

ABHOW enters into residency agreements with its residents. Although these agreements give to each resident a contractual right to use space and do not grant any ownership rights in ABHOW's facilities, in the event that either the Bond Trustee or the holders of the Series 2010 Bonds or the Series 2006 Bonds seeks to enforce any of the remedies provided by the Bond Indenture upon the occurrence of a default or the Master Trustee seeks to enforce remedies under the Deeds of Trust, management is unable to predict the resolution that a court might make of competing claims between the Master Trustee, the Bond Trustee, the Authority or the holders of the Series 2010 Bonds or the Series 2006 Bonds and a resident of ABHOW's facilities who has fully complied with all the terms and conditions of his or her Residency Agreement.

Construction Risks

Construction of certain portions of the Project is subject to the usual risks associated with construction projects, including, but not limited to, delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of materials, including, without limitation, shortages resulting from repair of damage by recent hurricanes and adverse weather conditions. The foregoing risks could result in delaying occupancy of those portions of the Project and thus the revenue flow therefrom. Management of ABHOW anticipates that the building permits will be obtained in due course. It is anticipated that the proceeds from the sale of the Series 2010 Bonds, together with anticipated investment earnings thereon and certain funds of ABHOW, will be sufficient to complete the construction and equipping of those portions of the Project. However, cost overruns for projects of this magnitude may occur due to change orders and other factors. In addition, the date of substantial completion may be extended by reason of changes authorized by ABHOW, delays due to acts or neglect of ABHOW or by independent contractors employed by ABHOW or by labor disputes, fire, unusual delay in transportation, adverse conditions not reasonably anticipated, unavoidable casualties or any causes beyond the control of the contractors. As a result of natural disasters, including recent hurricanes, costs of construction materials may significantly increase which may affect the cost of those portions of the Project. Cost overruns could also result in ABHOW having insufficient moneys to complete

construction of those portions of the Project, thereby materially affecting the receipt of revenues needed to pay the Series 2010 Bonds and the Series 2006 Bonds.

Present and Prospective Federal and State Regulation

General. Health care providers are subject to federal, state and local laws and regulations, and sanctions imposed under or changes to such laws or regulations could adversely affect the operations or financial results of ABHOW. Further reductions in federal and state funding of health care below levels authorized by present law can be expected.

Nursing care facilities, including those owned by ABHOW, are subject to numerous licensing, certification, accreditation, and other governmental requirements. These include, but are not limited to, requirements relating to state licensing agencies, private payors and accreditation organizations. Sheltered and assisted living facilities, including those owned by ABHOW, are also subject to licensing requirements. Renewal and continuance of certain of these licenses, certifications, approvals and accreditations are based upon inspections, surveys, audits, investigations or other review, some of which may require or include affirmative action or response by ABHOW. An adverse determination could result in a loss, fine or reduction in ABHOW's scope of licensure, certification or accreditation, could affect the ability to undertake certain expenditures or could reduce the payment received or require the repayment of the amounts previously remitted.

The United States Senate and the House of Representatives have each passed their own versions of health care reform legislation. The Senate's version is known as the Patient Protection and Affordable Care Act. The House's version is known as the Affordable Health Care for America Act. The two separate bills will now be subjected to the reconciliation process led by the majority leadership of both houses of Congress. The purpose of the reconciliation process is the development of a single bill that will be acceptable to majorities in both houses, passed and submitted to the President for approval. The reconciliation process, particularly in the context of these two bills, may be contentious and may not necessarily result in legislation that will be passed by both houses of Congress or approved by the President.

The two bills include many provisions that are similar in intent and effect, but with variations in details as well as some dissimilar provisions. The reconciliation process will attempt to resolve those differences. Assuming enactment, some of the provisions will take effect immediately or within a few months of final approval, while others will be phased in over time, ranging from one year to ten years. Because of the complexity of these two bills and, assuming successful reconciliation, the final legislation, additional legislation is likely to be considered over time. Additionally, any finally approved legislation will require the promulgation of substantial regulations with significant effect on the health care industry. Thus, assuming enactment of the current health care reform legislation, the health care industry will be subjected to significant new statutory and regulatory requirements and consequently, to structural and operational changes and challenges for a substantial period of time. Various interested parties have also indicated that they are likely to bring lawsuits to challenge certain provisions should they be included in the final legislation, possibly affecting the timing and/or effectiveness of those provisions.

Management of ABHOW, along with its professional advisors, is analyzing the two bills and, if a final bill is approved, will continue to do so in order to assess the effect of the legislation on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

A significant component of the proposed legislation is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and dependents and, as a consequence, expansion of the base of consumers of healthcare services. One of the primary drivers of health care reform legislation is to provide or make available, or subsidize the premium costs of, health care insurance for the millions of currently uninsured (or underinsured) consumers. The legislation proposes to accomplish that objective through, among other provisions, (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, (iii) establishment of insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for preexisting conditions and elimination of life-time or annual cost caps, (iv) expansion of existing public programs, including MediCal and CHIP, to cover a substantially larger population of individuals and families, (v) authorization of governmentally owned and operated insurance plans (the “public option”) and (vi) expansion of the program of insurance currently available to federal employees. To the extent all or any of those provisions, as ultimately included in the final bill, produce the intended result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced.

Some of the specific provisions of the bills that may affect ABHOW’s operations, financial performance or the financial condition include the following. This listing is not, is not intended to be, nor should be considered by the reader as comprehensive. The two bills are extraordinarily complex and comprehensive, and include a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws.

- With varying effective dates, the annual Medicare market basket updates for many providers, including skilled nursing, would be reduced, and adjustments to payment for expected productivity gains would be implemented.
- Both bills include the Community Living Assistance Services and Supports (CLASS) Act to create a national, voluntary, long-term care insurance program to supplement Medicaid and private long-term care insurance, effective 2011 (House Bill) or 2012 (Senate Bill.)
- With varying effective dates, both bills mandate a reduction of waste, fraud, and abuse in public programs by allowing provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Senate bill requires the development of a database to capture and share healthcare provider data across federal healthcare programs. Both bills provide for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.
- Commencing in 2015 (Senate Bill), an Independent Payment Advisory Board would be established to develop proposals to improve the quality of care and limit cost increases. Those proposals would be automatically implemented if Congress does not act to invalidate them.

Both bills provide for the implementation of various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical

effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations, or combinations of provider organizations, that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Medicare and Medicaid Programs. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled, or qualify for the end stage renal disease program. Medicaid, known as Medi-Cal in California, is a program of financial assistance, funded jointly by the federal government and each of the various states, primarily for medical assistance to certain needy individuals and their dependents. Due to health care reform as well as continuing political and financial pressures, the legal and regulatory environment surrounding the Medicaid and Medicare programs has been changing and is expected to continue to change. Future changes to Medicare and Medicaid may alter: (1) services eligible for payment; (2) rates of payment; (3) eligibility requirements to participate or qualify for different levels of payment/reimbursement; (4) consequences of violations; (5) rates and requirements relating to additional payments unrelated to services offered to patients; (6) guidelines relating to interactions between the participating healthcare providers, third party payors and the federal and state governments; and (7) payment methodologies. In Fiscal Year 2009, approximately 15.7% of ABHOW's net resident service revenues was derived from payment from Medicare and approximately 7.8% of ABHOW's net resident service revenues was attributable to payments from Medicaid. While it is uncertain whether future federal budgets will result in a decrease in such revenue, any reduction thereof would have an adverse impact on the revenues of ABHOW and the ability to pay the debt service of the Series 2010 Bonds.

Medicare and Medicaid Anti-Fraud and Abuse Provisions. The Medicare and Medicaid anti-fraud and abuse provisions of the Social Security Act (the "Anti-Kickback Law") make it a felony, subject to certain exceptions, to engage in illegal remuneration arrangements with physicians and other health care providers for the referral of Medicare beneficiaries or Medicaid recipients. Violation of these provisions constitutes a felony and may result in imprisonment for up to five years and fines of up to \$25,000. In addition, HHS has the authority to impose civil assessments and fines, and may exclude providers engaged in prohibited activities from participation in the Medicare and Medicaid programs, as well as certain other state and federal health care programs. The Secretary of HHS is required to exclude from such programs any providers convicted of a criminal offense relating to the delivery of Medicare or Medicaid services, for not less than five years. Exclusion from these programs would have a material adverse effect on the operations and financial condition of ABHOW. The scope of prohibited payments in the Anti-Kickback Law is broad. HHS has published regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

Management of ABHOW anticipates that ABHOW will have a compliance program to insure material compliance with the Anti-Kickback Law. In light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that ABHOW will not be found to have violated the Anti-Kickback Law, and, if so, whether any sanction imposed would have a material adverse effect on the operations of facilities owned by ABHOW.

Restrictions on Referrals. Current federal law (known as the “Stark” law provisions) prohibits providers of “designated health services” from billing Medicare or Medicaid when the patient is referred by a physician or an immediate family member with a financial relationship with the designated health services provider, with limited exceptions. “Designated health services” include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties and exclusion from the Medicare and Medicaid programs.

Management of ABHOW will have a compliance program to ensure material compliance with the Stark provisions. However, in light of the scarcity of case law interpreting the Stark law provisions, there can be no assurances that ABHOW will not be found to have violated the Stark law provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations or the financial condition of ABHOW.

False Claims Act/Qui Tam Actions. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act may be violated by mere negligence or recklessness in the submission of information to the government even without any specific intent to defraud. New billing systems, new medical procedures and procedures for which there is not clear guidance may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program. On May 20, 2009, Secretary of Health and Human Services (“HHS”) Kathleen Sebelius and Attorney General Eric Holder announced the creation of the Health Care Fraud Prevention and Enforcement Action Team (“HEAT”), an interagency effort focused specifically on combating health care fraud. HEAT includes senior officials from the Department of Justice (“DOJ”) and HHS who are strengthening existing programs, as well as investing in new resources and technologies, to prevent and combat fraud, waste, and abuse. As a key component of its efforts, the HEAT taskforce utilizes and supports the joint HHS-DOJ Medicare Fraud Strike Force team in select locations across the country, including, since 2008, Los Angeles. The Strike Force teams coordinate law enforcement operations with other Federal, State and local law enforcement entities. While management believes that ABHOW’s billing practices will be consistent with Medicare criteria, those criteria are often vague and subject to interpretation and there can be no assurance that aggressive anti-fraud actions will not adversely affect the business of ABHOW.

The False Claims Act provides that an individual may bring a civil action for a violation of the Act. These actions are referred to as Qui Tam actions. In this way, an employee would be able to sue on behalf of the U.S. government if he/she believes that the healthcare entity has committed fraud. If the government proceeds with an action brought by this individual, then he/she could receive as much as 25 percent of any money recovered. The potential exists that a Qui Tam action could be brought against ABHOW.

State Requirements. ABHOW’s facilities are operated as CCRCs consisting of a residential portion licensed as a Residential Care Facility for the Elderly (“RCFE”) by the California Department of Social Services (“DSS”) and, with respect to seven communities, a health facility portion licensed as a skilled nursing facility by the California Department of Health Services (“DHS”). ABHOW

has DSS permits to accept entrance fee deposits from prospective CCRC residents and to enter into CCRC contracts.

Management of ABHOW intends that the Debt Service Reserve Fund will satisfy the debt service reserve requirement under California law applicable to CCRCs that ABHOW maintain a “debt service reserve” portion of its required “liquid reserve” equal to at least the amount of principal, interest and credit enhancement premiums paid by ABHOW during the immediately preceding Fiscal Year. In addition, ABHOW must maintain 75 days of net operating expenses. Pursuant to California law, other than the general security pledge of assets securing the Series 2010 Bonds, the Series 2006 Bonds and any future Obligations, ABHOW may not subject its “liquid reserve” to any liens, charges or creditor claims or otherwise pledge it as collateral or encumber it. If the Debt Service Reserve Fund were drawn upon to pay debt service, ABHOW would be required to use other funds to satisfy this “liquid reserve” requirement. ABHOW must certify to DSS on an annual basis that it is in compliance with this requirement. Failure to comply results in DSS having certain enforcement rights.

Annual licensure and on-site review of an RCFE are required by DSS and of the skilled nursing facility by DHS. DHS and DSS have the ability to deny licensing and the required permits to ABHOW if either of them is not satisfied with ABHOW’s compliance with the requirements a provider must meet to operate as a skilled nursing facility and/or a RCFE, respectively. In addition, DHS and DSS both have broad remedial powers to intervene in the operations of a provider who fails to comply with the applicable regulatory requirements once the provider is licensed and in operation. Failure to maintain required reserves or to comply with regulatory requirements may result in the suspension or revocation of a CCRC’s certificate of authority. In the event that a CCRC becomes insolvent or is unable to perform its contractual obligations, DSS is authorized to petition for the appointment of a court-appointed administrator and may record liens on behalf of residents. Any such lien would have the force and effect of a judgment lien with priority established as of the date of its recordation. In the event a permanent relocation of residents from one or more of ABHOW’s CCRCs is required due to termination or forfeiture of ABHOW’s certificate of authority or license, except in the case of a natural disaster or other event out of ABHOW’s control, certain procedures are required to be followed. These procedures include establishment of a reserve, trust fund or performance bond in an amount sufficient to cover the cost and ensure the fulfillment of ABHOW’s statutory obligations, which include the cost of moving residents to other facilities and may include additional monetary compensation to the affected residences in certain circumstances.

If ABHOW fails to meet the above-described requirements, it could become unable to operate as described herein and, consequently, be unable to meet debt service requirements on the Series 2010 Bonds.

States, including California, also have anti-kickback statutes and physician self-referral prohibitions similar to the federal laws described above. Violations of these laws may result in civil and criminal penalties. In light of the broad language and interpretations of these laws, however, there can be no assurances that ABHOW will not be found to have violated these state laws, and, if so, that any sanction imposed would not have a material adverse effect on the operations of the Project or the financial condition of ABHOW.

Health Information. Specific state and federal laws govern the use and disclosure of confidential patient health information, as well as patients’ rights to access and amend their own health information. The Administrative Simplification Requirements of the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) established national standards to facilitate the electronic exchange of Protected Health Information (“PHI”) and to maintain the privacy and security of the PHI. These standards have a major effect on health care providers which transmit PHI in electronic form in

connection with HIPAA standard transactions (e.g., health care claims). In particular, HIPAA established standards governing: (1) Electronic Transactions and Code Sets; (2) Privacy; (3) Security; and (4) National Identifiers. ABHOW has developed policies, procedures and practices that it believes comply with the HIPAA standards and requirements, but if it was determined that ABHOW was not in compliance there could be criminal and civil penalties imposed.

Title XIII of the American Recovery and Reinvestment Act of 2009, otherwise known as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), provides for an investment of almost \$20 billion in public monies for the development of a nationwide health information technology infrastructure ("HITI"). The HITI is intended to improve health care quality, reduce costs and facilitate access to certain information. Among other things, the HITECH Act provides financial incentives, through the Medicaid and Medicare (Medi-Cal) programs, in the form of loans and grants to encourage practitioners and providers to adopt and use qualified electronic health records. Over time, Medicare payments will be reduced for providers and practitioners who do not use electronic health records. The HITECH Act also expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (ii) expanding the scope of a provider's electronic health record disclosure tracking obligations, (iii) substantially limiting the ability of health care providers to sell protected health information without patient authorization, (iv) increasing penalties for violations, and (v) providing for enforcement of violations by State attorneys general. While the effects of the HITECH Act cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of ABHOW. There is no assurance that the financial incentives for adopting qualified electronic health records system will be sufficient to offset the costs for development and implementation of such a system.

Licensure. ABHOW and its operations are subject to regulation and certification by various federal, state and local government agencies. No assurance can be given as to the effect on future operations of ABHOW of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Increases in Medical Costs

Because ABHOW is obligated to provide its continuing care contract residents with the right to move to a higher level of care, a deviation from the anticipated mortality rate or medical care requirements of the resident population or substantial unanticipated increases in the cost of such care could have a negative impact on the operations of ABHOW's Facilities. The undertaking to provide such care is a contractual obligation of ABHOW, and no assurance can be given that ABHOW will have sufficient funds to meet its anticipated obligations. Residents are required to obtain Medicare Part A, Medicare Part B and supplemental insurance satisfactory to ABHOW; however, Medicare does not cover the cost of nursing home care except under certain limited circumstances (including up to 100 days of skilled nursing care following a 3-day qualifying hospital stay). In addition, the cost of providing healthcare services may increase due to increases in salaries paid to nurses and other healthcare personnel and due to shortages in such personnel which may require use of employment agencies.

Malpractice Claims

The operations of ABHOW's facilities may also be affected by increases in the incidence of litigation against ABHOW or against healthcare providers in general, which would increase insurance premiums and difficulty in obtaining malpractice insurance. It is not possible at this time to determine either the extent to which malpractice coverage will continue to be available to ABHOW or the premiums at which such coverage can be obtained.

Nursing Shortage

Recently the healthcare industry has experienced a shortage of nursing and other technical staff, which has resulted in increased costs and lost revenues due to the need to hire agency nursing personnel at higher rates, increased compensation levels, and the inability to use otherwise available beds as a result of staffing shortages. If the shortage continues, it could adversely affect the operations or financial condition of ABHOW.

Risks Related to Tax Exempt-Status

Below-Market Interest Loans. Section 7872 of the Code (Treatment of Loans with Below-Market Interest Rates), provides for, in certain circumstances, the imputation of interest income to a lender when the rate of interest charged by the lender is below prevailing market rates (as determined under a formula) or, even if the below market interest rate loan would otherwise be exempt from the provisions of Section 7872, when one of the principal purposes for such below-market rate loan is the avoidance of federal income taxation.

A refundable entrance fee payment made by a resident to certain continuing care facilities has been determined under Section 7872 to constitute a below market interest rate loan by the resident to the facility to the extent that the resident is not receiving a market rate of interest on the refundable portion of the entrance fee. Section 7872(g) provides a “safe harbor” exemption for certain types of refundable entrance fees. The statutory language of Section 7872 does not permit a conclusive determination as to whether residency agreements come within the scope of the continuing care facility safe harbor or within the statute itself. Section 7872 is applicable only to “loans” in excess of \$90,000, as annually increased by inflation. In 2006, the threshold amount was \$163,100. Current Entrance Fees for the independent living units in the ABHOW’s CCRCs are in excess of the applicable threshold of Section 7872. Any determination of applicability of Section 7872 could have the effect of discouraging potential residents from becoming or remaining residents of the Project.

Intermediate Sanctions. On July 31, 1996, the Taxpayers Bill of Rights 2 (the “Taxpayers Act”) was signed into law. The Taxpayers Act provides the IRS with an “intermediate” tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to the “intermediate sanctions law,” the IRS could punish such violations only through revocation of an entity’s tax-exempt status.

Intermediate sanctions may be imposed where there is an “excess benefit transaction,” defined to include a disqualified person (i.e., an insider) (1) engaging in a non-fair market value transaction with the tax-exempt organization; (2) receiving unreasonable compensation from the tax-exempt organization; or (3) receiving payment in an arrangement that violates the private inurement proscription.

A disqualified person who benefits from an excess benefit transaction will be subject to a “first tier” penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in an excess benefit transaction knowing it to be improper are subject to a first-tier penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A “second tier” penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period.

The IRS has issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under

Section 501(c)(3) of the Code. Revenue Rulings 61-72 and 72-124 state that, if otherwise qualified, a facility providing residential services to the elderly is exempt under Section 501(c)(3) if the organization (1) is dedicated to providing, and in fact provides or otherwise makes available services for, care and housing to aged individuals who otherwise would be unable to provide for themselves without hardship, (2) to the extent of its financial ability, renders services to all or a reasonable proportion of its residents at substantially below actual cost, (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 states that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons. The Revenue Ruling also states that the organization must be committed, by established policy, to maintaining persons as residents, even if they become unable to pay the monthly charges after being admitted to the facility.

Tax-Exempt Status. The possible modification or repeal of certain existing federal income or state tax laws or other loss by ABHOW and the Foundation of the present advantages of certain provisions of the federal income or state tax laws could materially and adversely affect the status of ABHOW and the Foundation thereby the revenues of ABHOW and the Foundation. Failure of ABHOW and the Foundation or the Authority to comply with certain requirements of the Code, or adoption of amendments to the Code to restrict the use of tax-exempt bonds for facilities such as those being financed with bond proceeds, could cause interest on the Series 2010 Bonds to be included in the gross income of Bondholders or former Bondholders of such Series 2010 Bonds for federal income tax purposes. In such event, the Bond Indenture does not contain any specific provision for acceleration of the Series 2010 Bonds nor provides that any additional interest will be paid to the owners of the Series 2010 Bonds. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Events of Default; Acceleration.”**

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments, or the interpretation of existing or future laws and regulations will not materially and adversely affect the operations and revenues of ABHOW by requiring them to pay income or real estate taxes.

Taxpayer Relief Act of 1997 and Unrelated Business Taxation

The Taxpayer Relief Act of 1997 that includes the following provision which could have an impact on ABHOW.

Passive Income Received from Health System Subsidiary. This tax law tightens the ownership rules for determining whether certain types of income received from subsidiaries are subject to the unrelated business income tax (“UBIT”). Under prior law, tax-exempt organizations were required to pay tax on rents, royalties, annuities, and interest income only if such income was received from a taxable or tax-exempt subsidiary that was at least 80 percent controlled by the tax-exempt organization. Nevertheless, UBIT did not apply if the income came from a “second-tier” subsidiary (i.e., a subsidiary owned by a subsidiary).

Under this tax law, such income is subject to UBIT if the parent organization owns more than 50 percent of the subsidiary, based on voting power or value. In addition, a parent exempt organization will be deemed to control any subsidiary which it controls either directly or indirectly (e.g., as a second-tier subsidiary). The new 50 percent control test is effective for taxable years beginning after December 31, 1998. This provision may force some multi-member health care systems to chose between

maintaining control and incurring UBIT liability where business considerations dictate the use of intra-system loans, leases, and licensing arrangements.

Changes in tax laws regarding not for profit organizations could adversely affect certain of ABHOW's revenues. Recently Congress and the Internal Revenue Service have focused more closely on issues of tax-exemption, such as the scope of activities constituting unrelated business income. Management of ABHOW believes the effect on ABHOW is likely to be de minimis because the management believes its activities that may give rise to such income are insignificant.

Property Taxes; State and Local Tax Exemption

The CCRCs owned by ABHOW are exempt from property taxation except for minor assessments. In addition, budgetary pressures on local government may lead to increasing pressures for state legislation to amend the property tax statutes to subject to taxation various properties owned by nonprofit organizations or to condition exemption from taxation upon the performance of specific types or level of charitable activity.

Until recently, California has not been as active as the IRS in scrutinizing the income tax exemption of exempt organizations. It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health care providers. It is likely that the loss by ABHOW of federal tax exemption also would trigger a challenge to the state tax exemption of ABHOW. 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 organizations with respect to their property tax exemption for both real and personal property. ABHOW expects the majority of its real and personal property to be exempt from property taxes. Investigations or audits could lead to challenges of the property tax exemption with respect to facilities of ABHOW that, if successful, could adversely and materially affect the property tax exemption with respect to certain of the facilities or property of ABHOW.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially or adversely affect the operations and financial condition of ABHOW by requiring it to pay income or local property taxes.

Amendments to the Documents

Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the owners of a majority of the principal amount of the outstanding Series 2010 Bonds Outstanding under the Bond Indenture. Certain amendments to Deeds of Trust may be made with the consent of the Master Trustee and ABHOW. Such amendments may adversely affect the security of the Bondholders and, with respect to the Deeds of Trust, such percentage may be composed wholly or partially of the holders of additional Parity Debt. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Supplemental Bond Indentures”** and **“SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Supplements and Amendments to the Loan Agreement.”**

Additional Indebtedness

The Master Indenture permits ABHOW to incur Additional Indebtedness which may be equally and ratably secured with the Series 2010 Obligation and the Series 2006 Obligations. Any such additional parity debt would be entitled to share ratably with the owners of the Series 2010 Bonds and the Series 2006 Bonds in any moneys realized from the exercise of remedies in the event of a default. There is no assurance that, despite compliance with the conditions upon which Additional Indebtedness may be incurred at the time such debt is created, the ability of ABHOW to make the necessary payments to repay the Series 2010 Bonds may be materially, adversely affected upon the incurrence of Additional Indebtedness. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Permitted Additional Indebtedness,” “– Limitations on Encumbrances” and “– Limitations of Additional Indebtedness.”**

Bankruptcy

If ABHOW or the Foundation were to file a petition for relief under Chapter 11 of the Federal Bankruptcy Code, its revenues and certain of its accounts receivable and other property acquired after the filing (and under certain conditions some or all thereof acquired within 120 days prior to the filing) would not be subject to the security interests created under the Master Indenture. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against ABHOW or the Foundation and its property and as an automatic stay of any act or proceeding to enforce a lien upon their property. If the bankruptcy court so ordered, such property, including accounts receivable and proceeds thereof, could be used for the benefit of ABHOW or the Foundation despite the security interest of the Master Trustee and the Bond Trustee therein, provided that “adequate protection” is given to the lienholder.

In a bankruptcy proceeding, the petitioner could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or any class of creditors, secured or unsecured. The plan, when confirmed by the 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, among other conditions, 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 allowed claims of the class that are voted with respect to the plan are cast 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 in favor of junior creditors.

Certain Matters Relating to Enforceability

The effectiveness of the security interests in ABHOW’s Gross Revenues granted in the Master Indenture and the Foundation Gross Revenues granted in the Guaranty may be limited by a number of factors, including: (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicare and Medicaid programs to persons other than such providers; (ii) the absence of an express provision permitting assignment of receivables owed to ABHOW under its contracts, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions which cast doubt upon the right of the Bond Trustee and the Master Trustee, in the event of the bankruptcy of the Foundation or ABHOW, to collect and retain accounts receivable from Medicare, Medicaid and other governmental programs; (iv) commingling of the proceeds of Gross Revenues or Foundation Gross Revenues with other moneys not subject to the security interest in the Gross Revenues or Foundation Gross Revenues, as applicable; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts, equitable or other

rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws or state insolvency laws which may affect the enforceability of the Deeds of Trust or the security interest in the Gross Revenues of ABHOW which are earned by ABHOW within 90 days, or the security interest in the Foundation Gross Revenues that are earned within one year, preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against ABHOW or the Foundation, as applicable; (ix) rights of third parties in Gross Revenues converted to cash and not in the possession of the Bond Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed or other documents are not executed in accordance with the California Uniform Commercial Code as from time to time in effect. Under the Uniform Commercial Code, such security interest ceases to attach to proceeds of Gross Revenues, e.g., collections of accounts receivable which cannot be traced to a specific account of ABHOW other than the Gross Revenue Fund created under the Master Indenture or otherwise have ceased to be “identifiable cash proceeds.”

There exists, in addition to the foregoing, common law authority and authority under California statutes pursuant to which the California courts may terminate the existence of a not for profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion pursuant to a petition of the California Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Lockboxes

ABHOW. Pursuant to the Master Indenture, ABHOW has agreed, for so long as the Series 2010 Obligations are outstanding, that if an event of default involving a failure to pay any installment of interest or principal, or any premium on any Obligation should occur and be continuing, ABHOW will deposit daily the proceeds of its Gross Revenues with the Master Trustee. Such deposits will continue daily until such default is cured or such withdrawn amount is fully replenished. See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Particular Covenants of the Obligated Group Representative and Each Member – Pledge of Gross Revenues.**”

It is unclear whether the covenants to deposit the proceeds of the Gross Revenues with the Master Trustee is enforceable. In light of the foregoing and of questions as to limitations on the effectiveness of the security interest granted in such Gross Revenues as described above, no opinion will be expressed by counsel to ABHOW as to the enforceability of such covenant with respect to the required deposits.

Foundation. Pursuant to the Guaranty, the Foundation has agreed, for so long as the Series 2010 Obligation is outstanding, that if an event of default involving a failure to pay any installment of interest or principal, or any premium on any Obligation should occur and be continuing, the Foundation will deposit daily the proceeds of its Foundation Gross Revenues with the Bond Trustee, for the benefit of the Bond Trustee the 2006 Bond Trustee, and the 2006 LOC Bank on a *pari passu* basis. Such deposits will continue daily until such default is cured or such withdrawn amount is fully replenished.

It is unclear whether the covenants to deposit the proceeds of the Foundation Gross Revenues in one or more accounts subject to a blocked account control agreement for the benefit of the Bond Trustee, the 2006 Bond Trustee, and the 2006 LOC Bank is enforceable. In light of the foregoing and of questions as to limitations on the effectiveness of the security interest granted in such Foundation

Gross Revenues as described above, no opinion will be expressed by counsel to the Foundation as to the enforceability of such covenant with respect to the required deposits.

Certain Risks Associated with the Deeds of Trust

ABHOW has executed the Deeds of Trust to secure its obligations pursuant to the Master Indenture and with respect to all Obligations including the Series 2010 Obligation and the Series 2006 Obligations, and with respect to its obligations under the Master Indenture. In the event that there is a default under the Master Indenture, the Bond Indenture, the Loan Agreement, or any other financing document to which ABHOW is a party, the Master Trustee has the right to foreclose on the Property and Collateral under certain circumstances. All amounts collected upon foreclosure of the Property and Collateral pursuant to the Deeds of Trust will be used to pay certain costs and expenses incurred by, or otherwise related to, the foreclosure, the performance of the Master Trustee and/or the beneficiary under the Deeds of Trust, and then to pay amounts owing under the Master Indenture with respect to the Series 2010 Obligation, the Series 2006 Obligations and any future Obligations.

Any valuation of the Property and Collateral is based on future projections of income, expenses, capitalization rates and the availability of the partial or total property tax exemption. Additionally, the value of the Property and Collateral will at all times be dependent upon many factors beyond the control of ABHOW, such as changes in general and local economic conditions, changes in the supply of or demand for competing properties in the same locality, and changes in real estate and zoning laws or other regulatory restrictions. A material change in any of these factors could materially change the value in use of the Property and Collateral. Any weakened market condition may also depress the value of the Property and Collateral. Any reduction in the market value of the Property and Collateral could adversely affect the security available to the owners of the Series 2010 Bonds. There is no assurance that the amount available upon foreclosure of the Property and Collateral after the payment of foreclosure costs will be sufficient to pay the amounts owing by ABHOW with respect to the Series 2010 Obligation, the Series 2006 Obligations and any future Obligations.

In the event of foreclosure, a prospective purchaser of some or all of the Property and Collateral may assign less value to that Property and Collateral than the value of the facilities while owned by ABHOW since such purchaser may not enjoy the favorable financing rates associated with the Series 2010 Bonds, real estate tax exemption and other benefits. To the extent that buyers whose income is not tax-exempt may be willing to pay less for the Property and Collateral than nonprofit buyers, then the resale of either of the Property and Collateral after foreclosure may require more time to solicit nonprofit buyers interested in assuming the financing now applicable to the Property and Collateral. In addition, there can be no assurance that any of the facilities could be sold at one hundred percent (100%) of its fair market value in the event of foreclosure. Although the Master Trustee will have available the remedy of foreclosure of the Deeds of Trust in the event of a default (after giving effect to any applicable grace periods, and subject to any legal rights which may operate to delay or stay such foreclosure, such as may be applicable in the event of ABHOW's bankruptcy), there are substantial risks that the exercise of such a remedy will not result in recovery of sufficient funds to pay amounts due on the Loan Agreement and with respect to the Series 2010 Obligation, the Series 2006 Obligations, and any Additional Obligations.

The Deeds of Trust will contain power of sale provisions and will be governed by California law. Under California law, the beneficiary of a deed of trust with power of sale may cause the instrument to be foreclosed either judicially (by a court proceeding) or nonjudicially by a trustee's sale.

California has certain statutory prohibitions that limit the remedies of a beneficiary under a deed of trust, such as the Deeds of Trust. For example, under one statute, a deficiency judgment is barred where the foreclosure is accomplished by means of a nonjudicial trustee's sale, except where the

deed of trust is given to secure the payment of bonds authorized or permitted to be issued by the California Commissioner of Corporations. Under the latter (not intended to be applicable in this situation), a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations. Another statute, commonly known as the “one-action” rule, requires the beneficiary to exhaust the security under the Deeds of Trust by foreclosure and prohibits any personal action against the trust or on the promissory note other than a deficiency judgment following a judicial foreclosure. And yet another statutory provision limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale, thereby preventing a beneficiary from obtaining a large deficiency judgment against the debtor as a result of low bids at the judicial sale.

In the event that some or all of the Deeds of Trust are actually foreclosed, then, in addition to the customary costs and expenses of operating the maintaining the Property and Collateral, the party or parties succeeding to the interest of ABHOW in the facilities could be required to bear certain associated costs and expenses, which could include: the cost of complying with federal, state or other laws, ordinances and regulations related to the removal or remediation of certain hazardous or toxic substances; the cost of complying with laws, ordinances and regulations related to health and safety, and the continued use and occupancy of the facilities such as the Americans with Disabilities Act; and costs associated with the potential reconstruction or repair of the facilities in the event of any casualty or condemnation.

In order to realize on its rights under the Deeds of Trust, the Master Trustee will be required to conduct a foreclosure sale of the facilities under the Master Indenture and Deeds of Trust pursuant to Article 9 of the California Commercial Code. Such a foreclosure sale must be held in a “commercially reasonable” manner, and is subject to subsequent claims that the sale was not “commercially reasonable” and therefore was invalid. Because there is no established market for deeds of trust comparable to the Deeds of Trust, little guidance exists for conducting a “commercially reasonable” sale under these circumstances. Therefore, no assurance can be given that a foreclosure sale of the Master Trustee’s interest in the Deeds of Trust will not subsequently be held to be invalid and set aside or that a purchaser could be found for such interests.

IN ORDER TO UNDERSTAND IN FULL THE RISKS AND PROCEDURES INVOLVED IN FORECLOSURE OF THE DEEDS OF TRUST UNDER CALIFORNIA LAW, POTENTIAL OWNERS OF THE SERIES 2010 BONDS ARE ADVISED, AND EXPECTED, TO CONSULT WITH AN EXPERT IN THE FIELD BEFORE PURCHASING ANY SERIES 2010 BONDS.

Environmental Matters

Retirement facilities, such as ABHOW, are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by such facilities. Among the types of regulatory requirements faced by such facilities are: 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 such facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, such facilities may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of such facilities, include to some extent in various combinations, the handling, use, storage,

transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of such facilities are 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 or increase their cost or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that ABHOW will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of ABHOW.

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of ABHOW and the Foundation:

- (1) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in revenues from residents whose incomes will largely be fixed;
- (2) Unionization, employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues;
- (3) Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of ABHOW and the Foundation;
- (4) A decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market areas of ABHOW;
- (5) The cost and availability of energy which could, among other things, affect the cost of utilities of ABHOW's facilities;
- (6) Increased unemployment or other adverse economic conditions in the service areas of ABHOW's facilities which would increase the proportion of patients who are unable to pay fully for the cost of their care;
- (7) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of ABHOW;
- (8) Inflation or other adverse economic conditions;
- (9) Reinstatement or establishment of mandatory governmental wage, rent or price controls;
- (10) Changes in tax, pension, social security or other laws and regulations affecting the provisions of health care, retirement benefits and other services to the elderly;
- (11) Inability to control the diminution of patients' assets or insurance coverage with the result that the patients' charges are reimbursed from government reimbursement programs rather than private payments;

(12) The occurrence of natural disasters, including floods and earthquakes, which may damage the facilities of ABHOW, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities;

(13) Scientific and technological advances that could reduce demand for services offered by ABHOW; or

(14) Cost and availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that organizations such as ABHOW generally carry.

LITIGATION

Authority

To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale, issuance or delivery of the Series 2010 Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale, issuance or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Series 2010 Bonds, the validity or enforceability of the Bond Indenture, the Loan Agreement or any other documents executed by the Authority in connection with the Series 2010 Bonds, the completeness or accuracy of this Official Statement or the existence or powers of the Authority relating to the sale of the Series 2010 Bonds.

ABHOW

There is no litigation or proceeding pending or, to the knowledge of ABHOW, threatened against ABHOW or the Foundation which (i) seeks to restrain or enjoin the issuance or delivery of the Series 2010 Bonds or the execution or the performance by ABHOW of its obligations under the Loan Agreement or the Series 2010 Obligation, (b) in any way contests or affects the issuance or the validity of the Series 2010 Bonds or the enforceability of the Loan Agreement or the Series 2010 Obligation or the Foundation of its obligations pursuant to the Guaranty, or (c) in any way contests the legal existence or powers of ABHOW or the Foundation. There is no litigation or proceeding pending or, to the knowledge of ABHOW, threatened against ABHOW or the Foundation except for (i) litigation being defended by insurance carriers on behalf of ABHOW, the claims in which are entirely within the insurance policy limits of ABHOW and the Foundation, (ii) litigation in which the expected maximum aggregate recovery against ABHOW or the Foundation could be satisfied from the insurance or the reserves maintained by ABHOW and the Foundation or (iii) claims for damages arising in the ordinary course of its operations, none of which is deemed to be material to the operation or condition, financial or otherwise, of ABHOW and the Foundation. There is no litigation pending or, to the knowledge of ABHOW, threatened that might have a material adverse effect upon the operations or financial condition of ABHOW and the Foundation.

LEGAL MATTERS

All legal matters incident to the authorization and validity of the Series 2010 Bonds are subject to the approval of Jones Day, San Francisco, California, Bond Counsel to ABHOW, whose approving opinion will be delivered with the Series 2010 Bonds. Certain legal matters will be passed upon for ABHOW and the Foundation by their financing counsel, Holland & Knight LLP, San Francisco,

California; and for the Underwriter by its counsel, Katten Muchin Rosenman LLP, Los Angeles, California and Chicago, Illinois; for the Authority by its counsel, Orrick, Herrington & Sutcliffe LLP and for the Bond Trustee and the Master Trustee by their counsel, Dorsey & Whitney LLP, Irvine, California.

TAX MATTERS

Federal Income Taxation

The Internal Revenue Code of 1986, as amended (the “Code”), contains several requirements and restrictions that apply to the Series 2010 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the timely and the proper use of bond proceeds and the facilities financed or refinanced therewith and certain other matters. The Authority and ABHOW have covenanted to comply with all requirements of the Code that must be satisfied in order that interest on the Series 2010 Bonds be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 2010 Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2010 Bonds.

Subject to compliance by the Authority and ABHOW with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Series 2010 Bonds will not be includible in the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. Interest on the Series 2010 Bonds will be taken into account, however, in computing the “branch profits tax” imposed on certain foreign corporations and, as described below, will be treated as an adjustment in computing a corporation’s alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on certain corporations. In rendering its opinion, Bond Counsel will rely on certifications of ABHOW with respect to certain material facts solely within the knowledge of ABHOW relating to, among other things, the property financed or refinanced with the proceeds of the Series 2010 Bonds and the application of the proceeds of the Series 2010 Bonds.

The Code includes provisions for an alternative minimum tax (“AMT”) for corporations. The AMT, if any, depends on a corporation’s alternative minimum taxable income (“AMTI”), which is a corporation’s taxable income with certain adjustments. One of the adjustment items used in computing AMTI of a corporation (excluding S corporations, Regulated Investment Companies, Real Estate Investment Trusts and REMICS) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). However, interest on the Series 2010 Bonds will be included in “adjusted current earnings” in computing a corporation’s alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on certain corporations.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the “effectively connected earnings and profits” (ECEP) of certain foreign corporations. ECEP includes tax-exempt interest such as interest on the Series 2010 Bonds.

Ownership of the Series 2010 Bonds may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, certain S corporations, and individual recipients of Social Security or Railroad Retirement benefits.

Code Section 265 denies a deduction for interest on indebtedness incurred or continued to purchase or carry tax exempt bonds. Indebtedness may be allocated to tax exempt bonds for this purpose even though not directly traceable to the purchase of these bonds.

Prospective purchasers of the Series 2010 Bonds should consult their tax advisors regarding the applicability of any such collateral consequences.

The market value and marketability of the Series 2010 Bonds may be adversely affected by future changes in federal or California tax treatment of interest on the Series 2010 Bonds or by future modifications of the Code or the regulations issued thereunder.

California State Taxation

In the opinion of Bond Counsel, under the laws of the State of California as presently enacted and construed, interest on the Series 2010 Bonds is exempt from the Personal Income Tax imposed by the State of California under Sections 17001 through 19802 of the California Revenue and Taxation Code. No opinion will be delivered regarding taxation of interest on the Series 2010 Bonds under any other provisions of California law.

Ownership of the Series 2010 Bonds may result in other California consequences to certain taxpayers, and no opinion will be delivered regarding any such collateral consequences arising with respect to the Series 2010 Bonds. Potential purchasers of the Series 2010 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2010 Bonds.

Original Issue Discount

Series 2010 Bonds may be purchased, whether at original issuance or otherwise, for an amount less than their principal amount payable at maturity (“Discounted Bonds”), as set forth on the cover page of this Official Statement. As a result, such Discounted Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discounted Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price during the initial offering (the “Issue Price”) at which a substantial amount of such maturity is sold to the public), and the principal amount payable at maturity of the Discounted Bonds will be treated as “original issue discount.” With respect to a taxpayer who purchases a Discounted Bond in the initial public offering at the Issue Price and who holds such Discounted Bond to maturity and, subject to the condition that the Authority and ABHOW comply with the covenants referred to in the first paragraph under the caption “**TAX MATTERS**” above, original issue discount will constitute interest which is not includible in the gross income of the owner of such Discounted Bond for federal income tax purposes to the same extent as current interest on the Series 2010 Bonds and such owner will not, under present federal income tax law, realize a taxable capital gain upon payment of such Discounted Bond upon maturity.

In general, the original issue discount on each Discounted Bond is treated as accruing daily over the term of such Discounted Bond on the basis of a constant interest rate compounded on an accrual basis at the end of each accrual period (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discounted Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discounted Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discounted Bonds (including sale, redemption or payment at

maturity). An owner of a Discounted Bond who disposes of such Discounted Bond prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discounted Bond prior to maturity.

As described above regarding tax-exempt interest, a portion of the original issue discount that accrues in each year to an owner of a Discounted Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation's branch profits tax liability with respect to the Series 2010 Bonds and its alternative minimum tax liability. A corporate owner of any Discounted Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or a branch profits tax liability, although the owners of such Discounted Bonds will not receive a corresponding cash payment until a later date.

Owners who purchase Discounted Bonds in the initial public offering but at a price different than the Issue Price should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discounted Bonds. Owners who do not purchase Discounted Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Bonds.

Owners of Discounted Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discounted Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discounted Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

UNDERWRITING

The Underwriter has agreed to purchase the Series 2010 Bonds at an aggregate purchase price of \$102,543,659.95 (representing the aggregate principal amount of the Series 2010 Bonds less an original issue discount of \$2,890,605.05 and less an Underwriter's discount of \$1,145,735.00). Pursuant to the purchase contract, ABHOW has agreed to indemnify the Underwriter and the Authority against certain liabilities. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2010 Bonds to the public. The obligation of the Underwriter to accept delivery of the Series 2010 Bonds is subject to the various conditions of the purchase contract.

In connection with this financing, ABHOW will establish a project fund, debt service reserve fund, or other such account with the Bond Trustee that will hold net bond proceeds. Under the terms of the Bond Indenture and the Master Indenture, ABHOW may direct the Bond Trustee and/or the Master Trustee, respectively, to invest some or all of the funds within the investment parameters established in the Bond Indenture or the Master Indenture, as applicable. It is possible that ABHOW will elect to hire Ziegler Capital Management LLC ("ZCM"), an affiliate of the Underwriter, to direct the investment of these funds. If that occurs, ZCM will receive a fee for managing those assets. At this time, no relationship has been formally established with respect to proceeds of the Series 2010 Bonds. ABHOW has used ZCM for investment advice in the past.

RATINGS

The Series 2010 Bonds have received a long-term rating of “BBB-” and “BBB+” from Standard & Poor’s, a division of The McGraw Hill Companies, Inc (“Standard & Poor’s”) and Fitch Rating Group (“Fitch”), respectively.

The ratings and an explanation of their significance may be obtained from the rating agencies furnishing such ratings. Such ratings reflect only the view of the rating agencies, respectively. ABHOW has furnished the rating agencies with certain information and materials relating to the Series 2010 Bonds and its affiliated organizations that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Except as set forth below under **“FINANCIAL REPORTING,”** none of the Authority, the Underwriter, ABHOW nor the Foundation has undertaken any responsibility to bring to the attention of the holders of the Series 2010 Bonds any proposed revision or withdrawal of the ratings of the Series 2010 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2010 Bonds.

FINANCIAL REPORTING

The Master Indenture requires the Obligated Group Representative provide to the Underwriter, the Master Trustee, the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access System or such other securities information repository identified by the Securities and Exchange Commission (“EMMA”), the Authority and all Bondholders owning \$500,000 or more of the Series 2010 Bonds who request in writing (collectively, the “Required Information Recipients”).

(1) Quarterly unaudited financial statements of the Obligated Group as soon as practicable after they are available but in no event more than 45 days after the completion of such fiscal quarter or 60 days after the completion of the fiscal quarter in the case of a fiscal quarter ending on September 30, including a combined or combining statement of revenues and expenses and statement of cash flows of the Obligated Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, and a calculation of the Days Cash on Hand for the second and last fiscal quarters of each year, a calculation of Debt Service Coverage Ratio for the last fiscal quarter and occupancy levels of all of the facilities operated by the Obligated Group by level of care as of the end of each such quarter, all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Obligated Group Representative, and an Officer’s Certificate of the Obligated Group Representative stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof.

(2) An annual financial report reflected in the combining financial statements to the annual audit of ABHOW and Combined Affiliates prepared by a firm of certified public accountants including, for the Obligated Group, a balance sheet as of the end of such Fiscal Year, a statement of revenues and expenses and changes in fund balances for such Fiscal Year and statement of cash flows for such Fiscal Year within 150 days after the last day of each Fiscal Year, including financial statements of ABHOW for the Fiscal Year immediately preceding the due date of such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Obligated Group’s Debt

Service Coverage Ratio for said Fiscal Year and of the Obligated Group's Days Cash on Hand as of the last day of such Fiscal Year and a statement that such accountants have no knowledge of any default related to certain financial covenants under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof. If such audited financial statements are not available by the deadline for filing the Annual Report, it shall be provided when and if available, and unaudited financial statements shall be included in the annual report.

(3) Summary of the board-approved annual budget and a list of all Guaranties, including the terms of the guaranteed Indebtedness (e.g., principal amount, interest rate, repayment terms, etc.), the identity of the party to whom the Guaranty is granted as well as the obligor on the guaranteed Indebtedness and whether or not any payments have been made in the last Fiscal Year including to whom and the amount.

(4) If the Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 for any Testing Date as provided in the Master Indenture, the Obligated Group will deliver the financial information and the calculations described in paragraph (1) above on a monthly basis, with the Debt Service Coverage Ratio calculated on a year-to-date basis each month, within 45 days of the end of each month until the Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1.

The Obligated Group Representative shall furnish or cause to be furnished to the Master Trustee or any bond trustee, such additional information as the Master Trustee or any bond trustee may reasonably request concerning any Member in order to enable the Master Trustee or such Related Bond Trustee to determine whether the covenants, terms and provisions of the Master Indenture have been complied with by the Members.

The Members also agree that, within 10 days after its receipt thereof, the Obligated Group Representative will file with the Required Information Recipients a copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture.

The Obligated Group Representative shall give prompt written notice of a change of accountants by the Obligated Group to the Master Trustee and each bond trustee. The notice shall state (i) the effective date of such change; (ii) whether there were any unresolved disagreements with the former accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which the accountants claimed would have caused them to refer to the disagreement in a report on the disputed matter, if it was not resolved to their satisfaction; and (iii) such additional information relating thereto as such bond trustee or the Master Trustee may reasonably request.

The Obligated Group Representative may designate a different Fiscal Year for the Members of the Obligated Group by delivering a notice to the Master Trustee designating the first and last day of such new Fiscal Year and whether or not there will be any interim fiscal period (the "Interim Period") of a duration of greater than or less than 12 months preceding such new Fiscal Year. The Members covenant that they will furnish to the Master Trustee and each bond trustee, as soon as practicable after they are available, but in no event more than 150 days after the last day of such Interim Period, a financial report for such Interim Period certified by a firm of independent certified public accountants selected by the Obligated Group Representative covering the operations of the Obligated Group for such Interim Period and containing a combined balance sheet as of the end of such Interim Period and a combined statement of changes in fund balances and changes in financial position for such Interim Period and a combined statement of revenues and expenses for such Interim Period, showing in each case in comparative form the financial figures for the comparable period in the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing a

calculation of the Obligated Group's Debt Service Coverage Ratio for the Interim Period and a statement that such accountants have obtained no knowledge of any default by any Member in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

CONTINUING DISCLOSURE

Offerings of most municipal securities are subject to Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, as amended.

The Obligated Group

ABHOW has covenanted, on behalf of the Obligated Group, for the benefit of the holders and Beneficial Owners of the Series 2010 Bonds pursuant to a Continuing Disclosure Agreement dated as of February 1, 2010 (the "Obligated Group's Continuing Disclosure Agreement") to be executed and delivered by ABHOW, on behalf of the Obligated Group, to provide or cause to be provided each year the financial information and operating data relating to the Obligated Group described below.

(a) Quarterly unaudited financial statements of the Obligated Group as soon as practicable after they are available but in no event more than 45 days after the completion of such fiscal quarter or 60 days after the completion of the fiscal quarter in the case of a fiscal quarter ending on September 30, including a combined or combining statement of revenues and expenses and statement of cash flows of the Obligated Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, and a calculation of the Days Cash on Hand for the second and last fiscal quarters of each year, a calculation of Debt Service Coverage Ratio for the last fiscal quarter and occupancy levels of all of the facilities operated by the Obligated Group by level of care as of the end of each such quarter, all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Obligated Group Representative, and an Officer's Certificate of the Obligated Group Representative stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof.

(b) An annual financial report reflected in the combining financial statements to the annual audit of ABHOW and Combined Affiliates prepared by a firm of certified public accountants including, for the Obligated Group, a balance sheet as of the end of such Fiscal Year, a statement of revenues and expenses and changes in fund balances for such Fiscal Year and statement of cash flows for such Fiscal Year within 150 days after the last day of each Fiscal Year, including financial statements of ABHOW for the Fiscal Year immediately preceding the due date of such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Obligated Group's Debt Service Coverage Ratio for said Fiscal Year and of the Obligated Group's Days Cash on Hand as of the last day of such Fiscal Year and a statement that such accountants have no knowledge of any default related to certain financial covenants under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof. If such audited financial statements are not available by the deadline for filing the Annual Report, it shall be provided when and if available, and unaudited financial statements shall be included in the annual report.

(c) Summary of the board-approved annual budget and a list of all Guaranties, including the terms of the guaranteed Indebtedness (e.g., principal amount, interest rate, repayment terms, etc.), the identity of the party to whom the Guaranty is granted as well as the obligor on the guaranteed Indebtedness and whether or not any payments have been made in the last Fiscal Year including to whom and the amount.

(d) If the Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 for any Testing Date as provided in the Master Indenture, the Obligated Group will deliver the financial information and the calculations described in paragraph (1) above on a monthly basis, with the Debt Service Coverage Ratio calculated on a year-to-date basis each month, within 45 days of the end of each month until the Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1.

(e) A copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture, a copy of which has been provided to any requesting Bondholder.

The reports and materials described above will be filed by or on behalf of the Obligated Group with EMMA, and with each Beneficial Owner of \$500,000 or more in Series 2010 Bonds and who requests such information. In addition, under the Obligated Group's Continuing Disclosure Agreement, ABHOW has covenanted, on behalf of the Obligated Group, to provide, or cause to be provided, notice of the occurrence of any of the following events (the "Material Events") with respect to the Series 2010 Bonds, if material, to EMMA in a timely manner and in accordance with the Rule:

Principal and interest payment delinquencies;

Non-payment related defaults;

Unscheduled draws on debt service reserves reflecting financial difficulties;

Unscheduled draws on credit enhancements reflecting financial difficulties;

Substitution of credit or liquidity providers, or their failure to perform;

Adverse tax opinions or events affecting the tax-exempt status of the Series 2010 Bonds;

Modifications to rights of beneficial owners of the Series 2010 Bonds;

Giving of a notice of optional or unscheduled redemption of any Series 2010 Bonds;

Defeasances of the Series 2010 Bonds or any portion thereof;

Release, substitution or sale of property securing repayment of the Series 2010 Bonds;

and

Rating changes.

Any or all of such items may be included by specific reference to other documents which previously have been provided to the Nationally Recognized Municipal Securities Information Repositories (which were replaced by EMMA on July 1, 2009) (the "NRMSIRs") or filed with the Securities Exchange Commission (the "SEC"). If the document included by reference is a final official

statement, it must be available from the MSRB. The Obligated Group shall clearly identify each such other document as included by reference.

In the event of a failure of the Obligated Group to comply with any provision of the Obligated Group's Continuing Disclosure Agreement, any holder or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Obligated Group to comply with the obligations under the Obligated Group's Continuing Disclosure Agreement. A failure to comply with the Obligated Group's Continuing Disclosure Agreement shall not be deemed an Event of Default under the Master Indenture, the Bond Indenture or the Loan Agreement. The sole remedy under the Obligated Group's Continuing Disclosure Agreement in the event of any failure of the Obligated Group to comply with the Obligated Group's Continuing Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

The Foundation

The Foundation has covenanted for the benefit of the holders and Beneficial Owners of the Series 2010 Bonds pursuant to a Continuing Disclosure Agreement dated as of February 1, 2010 (the "Foundation's Continuing Disclosure Agreement") to be executed and delivered by the Foundation, to provide or cause to be provided each year the financial information and operating data relating to the Foundation described below.

(a) A quarterly unaudited financial statement of the Foundation as soon as practicable after the information is available but in no event more than 45 days after the completion of each fiscal quarter. The quarterly statements shall contain management-prepared financial statements of the Foundation, including a statement of revenues and expenses (including a comparison to budgeted revenues and expenses) and a statement of cash flows during that period, and a balance sheet as of the end of that period.

(b) An annual financial report which can be a portion of combining financial statements with the Obligated Group and its affiliates prepared by a firm of certified public accountants within 150 days after the last day of each fiscal year, including financial statements of the Foundation for the fiscal year immediately preceding the due date of such report. Such financial statements shall be prepared in accordance with generally accepted accounting principles and it shall be audited by an independent certified public accountant, together with a summary of the statement of revenues and expenses for the Foundation prepared in accordance with generally accepted accounting principles; provided, however, that if either of such audited financial statements are not available by the deadline, they shall be provided when and if available, and unaudited financial statements shall be included in the annual report.

The quarterly and annual reports described above will be filed by or on behalf of the Foundation with EMMA, and with each Beneficial Owner of \$500,000 or more in Series 2010 Bonds and who requests such information. In addition, any notice of a Material Event (described above) will be filed with EMMA.

Under the Foundation's Continuing Disclosure Agreement, the Foundation has covenanted to provide, or cause to be provided, notice of the occurrence of any of the Material Events with respect to the Series 2010 Bonds, if material, in a timely manner and in accordance with the Rule.

Any such report may be included by specific reference to other documents which previously have been provided to the NRMSIRs or filed with the SEC. If the document included by

reference is a final official statement, it must be available from the MSRB. The Foundation shall clearly identify each such other document as included by reference.

In the event of a failure of the Foundation to comply with any provision of the Foundation's Continuing Disclosure Agreement, any holder or Beneficial Owner of Series 2010 Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Foundation to comply with the obligations under the Foundation's Continuing Disclosure Agreement. A failure by the Foundation to comply with the Foundation's Continuing Disclosure Agreement shall not be deemed an Event of Default under the Master Indenture, the Bond Indenture, the Guaranty or the Loan Agreement. The sole remedy under the Foundation's Continuing Disclosure Agreement in the event of any failure of the Foundation to comply with the Foundation's Continuing Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

MISCELLANEOUS

The summaries or descriptions of provisions of the Series 2010 Bonds, the Loan Agreement, the Bond Indenture, the Deeds of Trust, the Series 2010 Obligation, the Guaranty and the Master Indenture and all references to other materials not purported 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. Reference is made to the Series 2010 Bonds, the Loan Agreement, the Bond Indenture, the Deeds of Trust, the Series 2010 Obligation, the Guaranty and the Master Indenture, for a full and complete statement of the provisions thereof. Such documents are on file at the offices of the Underwriter and following delivery of the Series 2010 Bonds will be on file at the offices of the Bond Trustee.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2010 Bonds.

It is anticipated that CUSIP identification numbers will be printed on the Series 2010 Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers shall constitute grounds for a failure or refusal by any purchaser thereof to accept delivery of and payment for any Series 2010 Bonds.

The attached **APPENDICES** are integral parts of this Official Statement and must be read together with all of the foregoing statements.

ABHOW and the Foundation have reviewed the information contained herein which relates to it, its affiliates and their respective property and operations, and has approved all such information for use within this Official Statement.

This Official Statement has been duly authorized, executed and delivered by the Authority, ABHOW and the Foundation. The Authority has not, however, prepared nor made any independent investigation of the information contained in this Official Statement except the information under the captions “**THE AUTHORITY**” and “**LITIGATION – Authority.**”

**CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY**

By: /s/ Kelli L. Osborne
Authorized Signatory

Approved by:

AMERICAN BAPTIST HOMES OF THE WEST

By: /s/ David B. Ferguson
President and Chief Executive Officer

**AMERICAN BAPTIST HOMES FOUNDATION OF
THE WEST, INC.**

By: /s/ David B. Ferguson
Chief Executive Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

**AMERICAN BAPTIST HOMES OF THE WEST
AND
AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC.**

The information contained herein as Appendix A
to this Official Statement has been obtained from
American Baptist Homes of the West

TABLE OF CONTENTS

	<u>Page</u>
AMERICAN BAPTIST HOMES OF THE WEST AND RELATED ORGANIZATIONS	A-1
History, Mission and Vision.....	A-1
CORNERSTONE AFFILIATES	A-2
GOVERNANCE AND MANAGEMENT	A-3
ABHOW Board of Directors	A-3
ABHOW Membership.....	A-3
Cornerstone Board of Directors	A-4
ABHOW Management	A-4
AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC.	A-6
Foundation Board of Directors.....	A-6
Executive Management	A-7
ABHOW FACILITIES	A-9
ABHOW Home Office.....	A-9
ABHOW Obligated Group Communities	A-9
Historical Occupancy of Obligated Group Communities	A-12
LEVELS OF CARE	A-14
Residential Living Apartments.....	A-14
Assisted Living Apartments	A-14
Memory Support Suites.....	A-14
Health Center Care	A-14
Payor Mix for Health Center Care	A-15
RESIDENCE AGREEMENTS.....	A-16
Services	A-16
Entrance Fees, Monthly Service Fees and Deposits.....	A-17
Termination of Residence Agreements	A-19
Admission Criteria	A-19
Resident Insurance Coverage; Medical Cost Containment	A-20
MARKETING AND COMPETITION	A-20
Sales and Marketing.....	A-20
Competition.....	A-20
FINANCIAL INFORMATION	A-24
Summary Statement of Operations of the Obligated Group.....	A-25
Summary Balance Sheet of the Obligated Group.....	A-26
Debt Service Coverage Ratios.....	A-27
Liquidity	A-28
MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATIONS	A-28
Results of Operations of the Obligated Group for the Year Ended September 30, 2008 Compared to the Year Ended September 30, 2007	A-28
Results of Operations of the Obligated Group for the Year Ended September 30, 2009 Compared to the Year Ended September 30, 2008	A-29
INSURANCE.....	A-30
LICENSURE AND ACCREDITATION.....	A-30
Licensure	A-30
Memberships	A-30
Accreditation	A-30
DESCRIPTION OF OTHER OPERATIONS	A-31
Other Communities Managed by ABHOW	A-31
ABHOW Owned and Managed Affordable Housing Communities	A-33

AMERICAN BAPTIST HOMES OF THE WEST AND RELATED ORGANIZATIONS

History, Mission and Vision

American Baptist Homes of the West (“ABHOW”) was founded in 1949 as Pilgrim Haven Home Corporation with the establishment of Pilgrim Haven retirement community in Los Altos, California. The original purpose and commitment to provide quality housing and health care for retired American Baptist ministers and missionaries has expanded to include older persons regardless of occupation or religious affiliation.

ABHOW Mission Statement

American Baptist Homes of the West, as an expression of Christian mission, seeks to enhance the independence, well-being and security of older people through the provision of housing, health care and supportive services.

ABHOW Vision Statement

American Baptist Homes of the West will continue to hold the trust of its constituency by keeping its promises with integrity, stability and intentional ethical behavior in the provision of quality care and services for older persons.

Currently ABHOW, consisting of the eight California continuing care retirement communities (“CCRCs”) and the Home Office (as defined below), is the only member of the Obligated Group created under the Master Indenture. The financial and statistical information in this **APPENDIX A** pertains to ABHOW (the Home Office and the CCRCs described in more detail herein) and, in certain instances, the Foundation. The combined audited financial statements as presented in **APPENDIX B** to this Official Statement include financial information of affiliates of ABHOW that are not members of the Obligated Group created under the Master Indenture.

ABHOW directly owns and operates eight CCRCs in California (see “**ABHOW Obligated Group Communities**” below). In addition to these eight CCRCs, ABHOW, through its home office (the “Home Office”), provides management services to its affiliated senior housing corporations and limited partnerships, to an affiliated CCRC as well as two CCRCs affiliated with Cornerstone Affiliates and 13 unrelated low and moderate-income senior rental housing communities. ABHOW and all of its affiliates except Seniority, Inc. and the limited partnerships identified below have received determination letters from the Internal Revenue Service (the “IRS”) that they are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”) as organizations described in Section 501(c)(3) of the Code.

ABHOW is the sole member of eight nonprofit corporations that provide low and moderate-income senior rental housing in California and Washington as well as a California nonprofit corporation which is the general partner of several limited partnerships that provide, or are being developed to provide, low and moderate-income senior rental housing in California.

ABHOW is the sole member of several other corporations that supplement ABHOW’s mission and operations: (i) American Baptist Homes Foundation of the West, Inc., a California nonprofit public benefit corporation which administers charitable endowment funds for the benefit of ABHOW and its affiliates; (ii) American Baptist Homes of Washington, a Washington nonprofit corporation that owns and operates a continuing care retirement community in Des Moines, Washington known as Judson Park; and (iii) American Baptist Properties, Inc., a California nonprofit public benefit corporation created to hold

real property, supporting ABHOW's growth activities. ABHOW also owns a 100% interest in Seniority, Inc. a for-profit California corporation that provides sales, marketing, consulting and management services to ABHOW's eight CCRCs, as well as a number of unrelated corporations. ABHOW is also the sole member of Baptist Senior Adult Ministries ("BSAM"), which maintains a fund of assets to assist in paying the cost of the care of residents of a retirement community formerly owned by BSAM, in Washington, D.C.

See the organization chart set forth under the heading "**ABHOW AND AFFILIATES ORGANIZATION CHART.**"

ABHOW IS THE ONLY MEMBER OF THE OBLIGATED GROUP. AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC. WILL GUARANTEE ABHOW'S OBLIGATIONS UNDER LOAN AGREEMENT WITH RESPECT TO THE SERIES 2010 BONDS AND HAS GUARANTEED ABHOW'S OBLIGATIONS UNDER THE LOAN AGREEMENT WITH RESPECT TO THE SERIES 2006 BONDS. NONE OF THE OTHER CORPORATIONS OR LIMITED PARTNERSHIPS HAVE ANY OBLIGATION WITH RESPECT TO THE MASTER INDENTURE, THE OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE OR THE LOAN AGREEMENTS WITH RESPECT TO THE SERIES 2010 BONDS OR THE SERIES 2006 BONDS.

ABHOW HAS GRANTED A MORTGAGE LIEN ON THE LAND AND FACILITIES OF ITS EIGHT CCRCs TO THE MASTER TRUSTEE. BOTH ABHOW AND THE AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC. HAVE GRANTED A SECURITY INTEREST IN THEIR GROSS REVENUES TO SECURE THE SERIES 2010 BONDS AND THE SERIES 2006 BONDS. NO OTHER CORPORATION AND NONE OF THE LIMITED PARTNERSHIPS HAVE PLEDGED ANY OF THEIR ASSETS WITH RESPECT TO THE MASTER INDENTURE, THE OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE OR THE LOAN AGREEMENTS WITH RESPECT TO THE SERIES 2010 BONDS OR THE SERIES 2006 BONDS.

CORNERSTONE AFFILIATES

Cornerstone Affiliates ("Cornerstone"), a California nonprofit public benefit corporation, was incorporated in 1999. Cornerstone was established to develop and expand retirement housing facilities through affiliated entities beyond those currently owned and operated by ABHOW. Cornerstone is the sole member of American Baptist Estates, Inc. ("ABE") d/b/a The Terraces of Phoenix which owns a CCRC in Phoenix, Arizona and Las Ventanas Retirement Community d/b/a Las Ventanas which owns a CCRC in Las Vegas, Nevada. Both of these CCRCs are managed by ABHOW. For more information, see "**DESCRIPTION OF OTHER OPERATIONS – Other Communities Managed by ABHOW.**" In addition to the Terraces of Phoenix and Las Ventanas communities, another affiliate of Cornerstone, Boise Retirement Community d/b/a The Terraces at Harris Ranch is in the presales process. Cornerstone is also the sole member of Pasadena Retirement Community and The Terraces at San Joaquin Gardens, two nonprofit corporations which were incorporated for potential future developments. Cornerstone is also the sole shareholder of Seniority Properties, Inc., a California for-profit corporation created to acquire assisted living communities to be managed by Seniority. Cornerstone and each of its nonprofit affiliates have all received determination letters from the IRS that they are exempt from federal income taxation under Section 501(a) of the Code as organizations described in Section 501(c)(3) of the Code.

See the organization chart set forth under the heading "**ABHOW AND AFFILIATES ORGANIZATION CHART.**"

Cornerstone, ABE, Las Ventanas Retirement Community, Boise Retirement Community, Pasadena Retirement Community, The Terraces at San Joaquin Gardens and Seniority Properties are not

included in the combined audited financial statements presented of ABHOW and Combined Affiliates in **APPENDIX B** to this Official Statement.

CORNERSTONE AND ITS AFFILIATED CORPORATIONS DESCRIBED IN THIS SECTION HAVE NO OBLIGATION WITH RESPECT TO THE MASTER INDENTURE, THE OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE OR THE LOAN AGREEMENTS WITH RESPECT TO THE SERIES 2010 BONDS OR THE SERIES 2006 BONDS.

GOVERNANCE AND MANAGEMENT

ABHOW Board of Directors

ABHOW has a 15 member Board of Directors, of which eight, or a majority, are appointed by Cornerstone and the remaining seven are elected by the Regular Membership of ABHOW. For more information about Cornerstone Affiliates, see “**CORNERSTONE AFFILIATES**” herein. The following are the current members of the ABHOW Board of Directors:

Board Members	Term Expires	Occupation
Randall L. Stamper, Chair	2010	Attorney, Stamper Rubens, Law Firm, P.S.
Dr. Samuel S. Chetti	2012	Executive Minister, American Baptist Churches of Los Angeles
Arthur Christman	2010	Retired Scientist, Federal Government
Stephen Elliott	2011	Retired Partner, Accenture
Leon Gean, Secretary	2011	Retired V.P./Controller, Honeywell
Hector Gonzalez	2012	Retired Engineer, Pacific Gas & Electric
Douglas Holmes	2010	Software Developer, IBM
James Ella James	2011	Retired Manager U.S.P.S.
Donald Jones, Treasurer	2010	CPA
Bruce Laycook, Vice-Chair	2011	Software Engineer
Gloria Marshall	2012	Administrator Senior Services
Joel Martin	2012	Diversity Consultant
Julie Michaels	2010	Teacher
Dr. Marcia J. Patton	2011	Executive Minister, Evergreen Baptist Association
Phyllis Stuewig	2012	Retired Nurse

ABHOW Membership

ABHOW is a membership organization, of which there are two classes of members. The “Regular Membership” consists of the chair of the board of directors or advisory board of each ABHOW continuing care retirement communities owned by ABHOW or of which ABHOW is the sole member, the chair of the board of each ABHOW affordable housing community board of which ABHOW is the sole member and at least three persons who are members of an American Baptist Church or congregation in whose area ABHOW operates a retirement community. ABHOW’s Bylaws provide that the majority of Regular Members must be members of an American Baptist Church or an American Baptist Church congregation. There is also an “Honorary Membership” consisting of members or directors aged 70 or over

who have served for a minimum of two terms and retired officers with a record of unusual and distinctive service, elected by the Corporate Members.

In 2006, the ABHOW Board adopted the “Carver” method of governance. This method focuses on the ends that the Board expects ABHOW to accomplish. The ends statement that the Board has adopted is “Living in community, a steadily increasing number of seniors and disabled persons will experience optimal health, safety and well-being appropriate to their life state and circumstances, to an extent that justifies the expenditure of resources.” ABHOW has been positively recognized by American Association of Homes and Services for the Aging (“AAHSA”) for its governance initiatives.

Cornerstone Board of Directors

Cornerstone is governed by a Board of Directors of 15 persons, of whom 7 are elected by ABHOW and 8 are elected by the Cornerstone Board of Directors. Cornerstone’s chief executive officer is David Ferguson, President of ABHOW, and its chief financial officer is Pamela Claassen, Chief Financial Officer of ABHOW. The following are its current board members:

Board Members	Term Expires	Occupation
Randall L. Stamper, Chair	2010	Attorney, Stamper Rubens, Law Firm, P.S.
Dr. Samuel S. Chetti	2011	Executive Minister, American Baptist Churches of Los Angeles
Arthur Christman	2010	Retired Scientist, Federal Government
Walter Clarke	2010	Retired Executive, Los Angeles Housing Department
Stephen Elliott	2011	Retired Partner, Accenture
John Harrison	2010	Attorney
Dr. Richard Ice	2012	Retired ABHOW CEO
Donald Jones, Secretary	2011	CPA
Bruce Laycook, Vice-Chair	2012	Software Engineer
Elizabeth Manera	2010	Professor Emeritus Arizona State University
Michael Manley	2010	Retired ABHOW General Counsel
Gloria Marshall	2012	Administrator Senior Services
Ken Potashner	2011	Independent Investor
Sue Roderick, Ph.D.	2012	Doctor of Gerontology
John Walling	2011	President, Christian Communities Credit Union

ABHOW Management

The following is an overview of ABHOW’s senior management team, along with biographies of the key members of management at the Community.

David B. Ferguson, *President and Chief Executive Officer* (age 61). Mr. Ferguson has been President and Chief Executive Officer of ABHOW since 1995. He has more than twenty-eight years experience in the senior housing industry. From 1992 to 1995 he served as Executive Vice President of ABHOW. Prior to joining ABHOW, Mr. Ferguson was Senior Vice President of Greystone Communities, Inc. for four years. He was responsible for management services to the senior living communities and assisted in the acquisition and development of retirement centers. From 1983 to 1988 he was Executive Vice President and Chief Operations Officer of The Forum Group, with responsibilities for development,

construction, marketing and operations. Before joining The Forum Group, he was the Vice President of Operations for Life Care Services Corporation, where he was responsible for the operation of more than 25 communities.

Pamela S. Claassen, *Senior Vice President and Chief Financial Officer* (age 54). Ms. Claassen joined ABHOW in May, 2000. Prior to ABHOW, Ms. Claassen spent 22 years with KPMG LLP and was a Partner delivering audit, consulting and technology services at different points in her career to public sector, non-profit, real estate and financial services clients. Ms. Claassen served on ABHOW's Board for two years and was active on several committees prior to accepting her position as CFO. Ms. Claassen has responsibility for communicating complex financial information with various financial stakeholders including rating agencies, regulatory agencies, bond holders and credit providers, donors, staff and residents. Ms. Claassen oversees a staff of 20 in Finance and 10 in Information Technology at the ABHOW Home Office in Pleasanton, California where many of the accounting and technology functions are centralized for ABHOW's owned and managed entities.

David A. Grant, *Senior Vice President and General Counsel* (age 64). Mr. Grant has been involved in health care for 35 years – in private practice in Minneapolis, Minnesota, in acquisitions for Beverly Enterprises, as General Counsel for Regency Health Services, a publicly traded post-acute care company and for the last eleven years as Senior Vice President and General Counsel for ABHOW. At ABHOW, Mr. Grant's responsibilities include acquisitions, mergers and alliances, risk management, corporate compliance, social accountability and all aspects of legal matters affecting ABHOW including litigation management, contract review, preservation of exempt status and internal legal advice. He has spoken at national association meetings on numerous topics including social accountability, development of retirement communities, risk management concerns and employment issues for long term care.

Kay Kallander, *Senior Vice President Strategic Planning* (age 60). Ms. Kallander began her career as a national and international registered nurse. Her career in long term care began as a Director of Nursing at Plymouth Village, one of ABHOW's CCRCs located in Redlands, Calif. Advancing to Assistant Administrator and then Executive Director prepared her for work in the corporate office. Five years as Chief Operations Manager for CCRCs were followed by her current role as Senior Vice President with a focus on strategic planning, communications and accreditation. While Ms. Kallander was in her current position, the ABHOW strategic planning process was awarded the 2002 and 2008 Best Practices Award from the Continuing Care Accreditation Commission. When obtaining her masters in business administration, she developed The Grove project to serve residents within CCRCs with mid-stage dementia care. The model is now being replicated throughout the ABHOW CCRCs. Kay has been instrumental in leadership development efforts at the local, state and national level.

Jeff Glaze, *Senior Vice President CCRC Operations* (age 53). Mr. Glaze is responsible for the operations of 11 CCRCs, including the eight which are owned and operated by ABHOW. He brings to this work more than 30 years of leadership in senior living and healthcare financial management and business planning. Mr. Glaze joined ABHOW in 1998 as vice president of financial operations and led a reorganization of ABHOW's finance department, putting the organization on a sound financial footing. Prior to joining ABHOW, Mr. Glaze was controller for Children's Hospital in Oakland. Previously, he led business planning for the Department of Health for the British dependency Guernsey, was associate administrator of finance of Oakland-based Summit Medical Center and associate executive director of finance for two different hospitals run by Humana, Inc.

Ancel Romero, *Senior Vice President, Affordable Housing* (age 48). Mr. Romero oversees the operations of 21 affordable housing communities in California and Washington and has oversight and the over-all responsibility for Affordable Housing development within the organization. Before joining ABHOW, Mr. Romero was the director of property management of G&K Management Co.,

one of the largest for-profit housing providers in the country. Desiring to devote his career in service to seniors and disabled adults, he joined ABHOW in December 1998. He is on the board of directors of the Tenderloin Neighborhood Development Corporation and American Baptist Homes and Caring communities. He is also a finance committee member of Aging Services of California. He is a nationally accredited Affordable Housing Professional (Executive Level), a certified Fair Housing Professional, a Certified Tax Credit Compliance Specialist (LIHTC C3P), and a Certified Property Manager (CPM) as designated by the Institute of Real Estate Management.

Terese Farkas, *Senior Vice President, Human Resources* (age 50). Ms. Farkas has more than 20 years of combined experience in human resource management, organization development, and business management in companies similar to ABHOW in size and structure. Her major HR strengths include staffing, compensation and employee relations. She comes to us with a solid reputation for inspiring and translating vision into practical, powerful and cost-effective programs. Her previous position was with SonicBlue Inc, a \$500 million company, in Santa Clara, CA. During her tenure as Senior Vice President, Human Resources and Administration, some of her accomplishments included rebuilding and managing worldwide human resources during an industry change from graphic chips to consumer electronics; staff alignment to company vision, mission, strategy and operating principles; developing an executive compensation plan, designing a new base pay program and performance management process and launching an employee communication program.

Russell Mauk, *Vice President of Design, Construction and Redevelopment* (age 51). Mr. Mauk is responsible for managing the major design and construction projects within ABHOW. He is also responsible for defining the design and construction standards used throughout the company. Mr. Mauk is a Registered Architect and has been in the project management field for over 24 years. Prior to joining ABHOW, Mr. Mauk worked in the area of commercial project management and in the development of retail, office and industrial properties. He managed the implementation of a number of corporate campuses for Sun Microsystems valued at over \$350 million.

M. Sloan Bentley, *President, Seniority Inc. (age 46)*. Ms. Bentley, as President of ABHOW's for-profit subsidiary, Seniority, Inc., oversees the management, sales and marketing and development consulting business for non-ABHOW clients. In addition, Ms. Bentley serves as Senior Vice President of Sales and Marketing for ABHOW's eight CCRCs as well as Boise Retirement Community d/b/a Terraces at Harris Ranch, Terraces at San Joaquin Gardens in Fresno, California and American Baptist Estates d/b/a Terraces at Phoenix. Ms. Bentley's career spans 22 years in the senior housing business and prior to joining Seniority 12 years ago, Ms. Bentley served both on the corporate staff and as a community executive director at Northern California Presbyterian Homes. She is a highly regarded speaker for state and national organizations in senior housing and health care.

AMERICAN BAPTIST HOMES FOUNDATION OF THE WEST, INC.

American Baptist Homes Foundation of the West, Inc. (the "Foundation") is a California nonprofit public benefit corporation incorporated in 1968 for the sole purpose of providing financial assistance and supportive services to ABHOW. As of fiscal year ending September 30, 2009, it had assets valued at \$39,165,000.

Foundation Board of Directors

ABHOW is the sole member of the Foundation and elects the Foundation's board of directors, consisting of 5-7 members. The current members of the Board of Directors are as follows:

Board Member	Term Expires	Occupation
Frank Jennings, Chair	2012	Retired
Enitan Adesanya	2012	CPA
Stephen Annis	2011	Bank Executive
Louis Binick, Secretary	2010	Retired
Linda Zale	2010	Geriatric Care Manager

Executive Management

The officers of the Foundation are as follows:

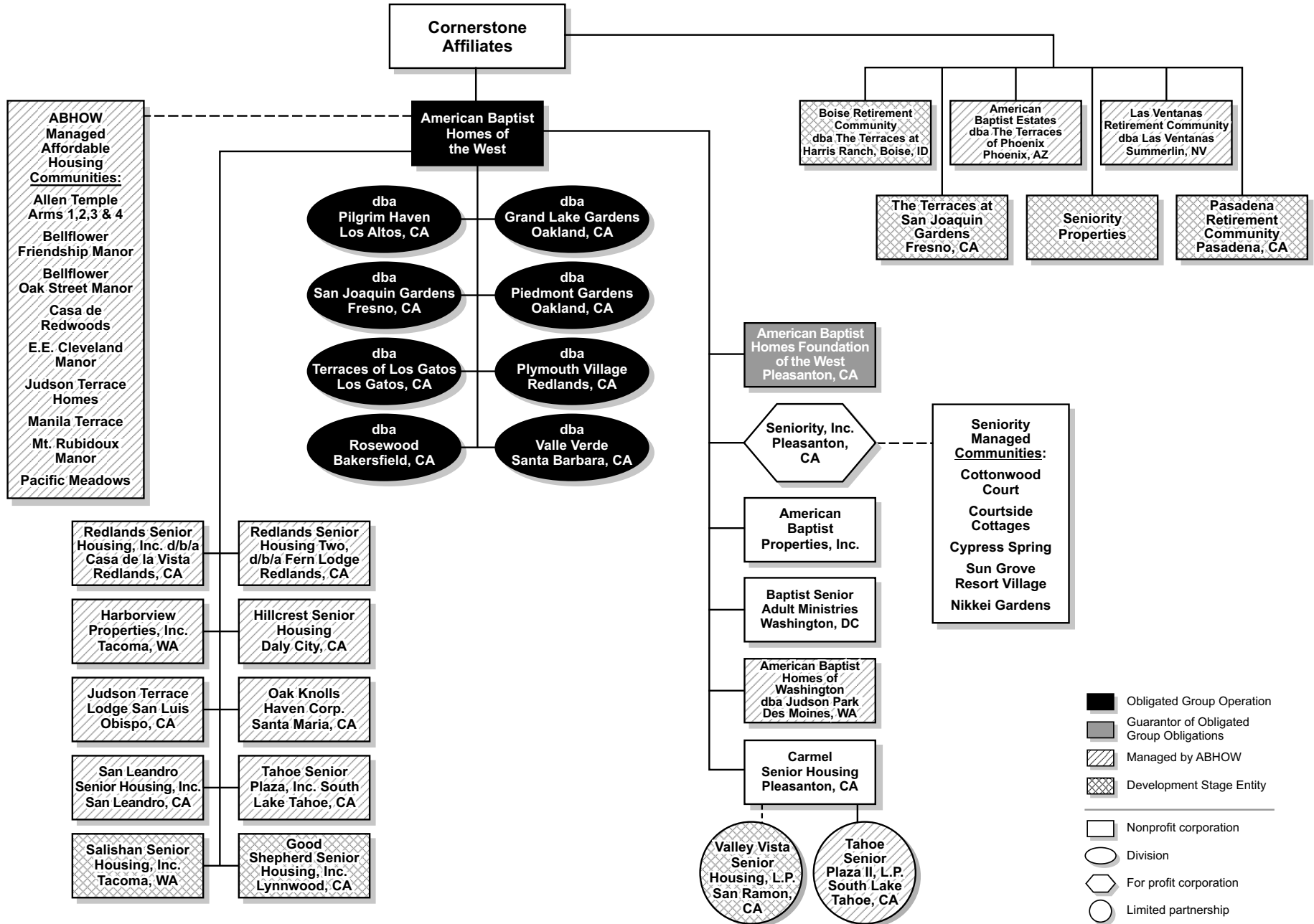
David B. Ferguson, *Chief Executive Officer* (see “**GOVERNANCE AND MANAGEMENT – ABHOW Management,**” above).

Joseph E. Anderson, *President (age 62)*. Mr. Anderson is responsible for the day-to-day operation of the Foundation. Prior to 2005, he served as Senior Vice President of Sales and Marketing for ABHOW and as President of ABHOW’s for-profit subsidiary, Seniority, Inc. Prior to joining ABHOW in 1994, Mr. Anderson spent 21 years in marketing communications business, first as an employee and later as the owner of advertising and communications companies in Texas and Iowa. His firm developed a national business in the marketing of senior living communities. Mr. Anderson has spoken nationally on communications issues relating to seniors.

Pamela S. Claassen, *Senior Vice President and Chief Financial Officer* (see “**GOVERNANCE AND MANAGEMENT – ABHOW Management,**” above)

ABHOW AND AFFILIATES ORGANIZATION CHART

8-A



- Obligated Group Operation
- Guarantor of Obligated Group Obligations
- Managed by ABHOW
- Development Stage Entity
- Nonprofit corporation
- Division
- For profit corporation
- Limited partnership

ABHOW FACILITIES

ABHOW Home Office

ABHOW operates its communities and facilities from leased office space in Pleasanton, California, where it employs approximately 60 personnel. The ABHOW finance department conducts centralized financial reporting, accounts payable and payment posting for all ABHOW communities and facilities. Other corporate office functions include general administration, management, information services, human resources, legal, facilities management and affordable housing administration as well as administration functions of Seniority, Inc. Periodically ABHOW conducts administrative meetings, often in conjunction with quarterly Board meetings, at which time executive directors gather with other corporate executives to review the status of company operations, policies and procedures and to focus on continuous improvement initiatives. Overall, ABHOW and its affiliates as reflected in the combined financial statements had approximately 2,050 employees as of December 31, 2009.

ABHOW Obligated Group Communities

ABHOW owns and operates eight CCRCs in California (the “Obligated Group Communities”), with two CCRCs in each of Santa Clara and Alameda counties, and one CCRC in each of the counties of Fresno, Bakersfield, San Bernadino and Santa Barbara.

The CCRCs consist of residential apartments varying in size from studio to three-bedroom apartments and villas or cottages. The residents of the CCRCs live independently as long as they are able, and receive gradually increasing levels of health care and/or assistance with the tasks of daily living as needed. The CCRCs also include assisted living and memory support suites for residents requiring certain assistance in activities of daily living or specialized care for cognitive impairment. When a higher level of medical care is necessary, residents are transferred to the health center of the CCRC on a temporary or permanent basis. After a resident permanently transfers to the health center and if a second occupant does not retain occupancy of the apartment, the residential apartment becomes available for re-occupancy. See “**LEVELS OF CARE**” herein for more detail of what services are provided at each level of care.

A summary table showing the mix of living accommodations in each of the Obligated Group Communities follows:

Obligated Group Communities

Name of Community	Location	Year Opened	Number of Apartments/Beds				Total Apts/Beds
			RL ⁽¹⁾	AL ⁽²⁾	MS ⁽³⁾	HC ⁽⁴⁾	
Pilgrim Haven	Los Altos, CA	1949	73	14	-	65	152
Grand Lake Gardens	Oakland, CA	1966	89	-	-	-	89
San Joaquin Gardens	Fresno, CA	1966	172	42	22	86	322
Piedmont Gardens	Oakland, CA	1969	181	59	-	94	334
Plymouth Village	Redlands, CA	1961	185	29	9	48	271
Valle Verde	Santa Barbara, CA	1965	216	26	17	76	335
Rosewood	Bakersfield, CA	1974	117	32	-	74	223
Terraces of Los Gatos	Los Altos, CA	1992	175	35	-	59	269
Total			1,208	237	48	502	1,995

⁽¹⁾ Residential Living Apartments.

⁽²⁾ Assisted Living Apartments.

⁽³⁾ Memory Support Suites.

⁽⁴⁾ Health Center Beds.

Source: ABHOW records.

The following is a brief description of the history and facilities of each of ABHOW's eight CCRCs. For a description of the program contracts available at each of the CCRCs, see "RESIDENCE AGREEMENTS" herein.

Pilgrim Haven. Pilgrim Haven, ABHOW's first community, began operations in 1949 with licensure to serve 16 ambulatory aged people. The community is located on approximately 6.3 acres in Los Altos, California. Over the next forty years additions were made increasing the number of residential living apartments to 73 and adding 14 assisted living apartments and a 65-bed health center. The last major construction occurred on the campus in the late 1980's. The acquisition of one acre of property adjacent to the then existing community occurred in the 1990's. That additional land makes the redevelopment of the community possible while remaining on the community's side. Approximately \$5 million of the proceeds of the Series 2010 Bonds will be used to build a new 28-bed health center and 14 memory support suites. Construction entitlements are in place and construction is anticipated to commence after state regulatory approval of final plans in 2012. At September 30, 2009, Pilgrim Haven had 70 non-repayable program contracts and two rebateable program contracts.

Grand Lake Gardens. Built in 1966 as the second community of ABHOW, Grand Lake Gardens is a seven story structure located on approximately 0.9 acres in Oakland, California one block from Lake Merritt in the Lakeshore shopping district of Oakland. Grand Lake Gardens provides only residential living apartments with certain supplemental assistance to apartment residents available for an additional

fee. Higher levels of care are available to contract residents in the nearby Piedmont Gardens community. In 2008 the lobby area was substantially remodeled and administrative offices were moved from the first floor to a higher floor. A theater and other common area improvements were also constructed. With these improvements and refreshed marketing initiatives, Grand Lake Gardens occupancy has improved significantly over the past several years. Through combinations of smaller apartments over the years, the community now has 89 residential living apartments, down from the initial 103 in 1966. At September 30, 2009 Grand Lake Gardens had 49 non-repayable program contracts, 11 rebateable contracts and 24 month-to-month program contracts.

San Joaquin Gardens. Built in 1966 as the third community of ABHOW, San Joaquin Gardens is located on approximately 24.2 acres in Fresno, California. The community currently has a total of 322 apartments/beds, including 172 residential living apartments, 42 assisted living apartments, 22 memory support suites and an 86-bed health center. In August of 2009, Phase I of a campus redevelopment plan opened with a new three story building including 47 new one and two bedroom residential living apartments, a new dining venue, spa, pool and fitness facilities. In addition, during 2009 ABHOW commenced the first phase of a several-phase major renovation of the oldest apartments on campus, combining smaller one bedroom apartments together into larger two bedroom apartments with complete interior and exterior renovations as well as new landscaping. As of September 30, 2009, San Joaquin Gardens had 119 non-repayable program contracts and 11 rebateable program contracts.

Piedmont Gardens. The first ten-story building of what is now a three building complex was opened in 1969 as the fourth community of ABHOW. Piedmont Gardens is located on approximately 2.3 acres in the Piedmont Avenue neighborhood of Oakland, California. In 1975, a second 16-story high-rise was added along with the three-story health center. The community currently has a total of 334 apartments/beds, including 181 residential living apartments, 59 assisted living apartments and a 94-bed health center. In 2006, ABHOW acquired the remaining single family home contiguous to the campus providing space for additional expansion and renovation in the future. As of September 30, 2009, Piedmont Gardens had 148 non-repayable program contracts and five rebateable program contracts.

Plymouth Village. Plymouth Village was originally founded in 1959 as a retirement community for church workers. In December 1980, Plymouth Village merged with ABHOW. Over the years through property acquisition the campus grew to its current 32.3 acre size with over 70 one- and two-story structures. In 1978 construction began on the assisted living building and common areas. In 1984, Plymouth Village purchased the historic Kendall Place heritage home originally constructed in 1902. In 1996, Plymouth Village was the first of the ABHOW communities to open a dedicated memory support building, The Grove. The community currently has a total of 271 apartments/beds, including 185 residential living apartments, 29 assisted living apartments, 9 memory support suites and a 48-bed health center. As of September 30, 2009, Plymouth Village had 158 non-repayable program contracts and five rebateable program contracts.

Valle Verde. Valle Verde is built on the site of the Rutherford family walnut grove on a campus that now spans 59.7 acres in Santa Barbara, California. The community is located just below the prestigious Hope Ranch neighborhood. The First Baptist Church of Santa Barbara initially acquired the property and opened apartments for residents in 1966. In 1970, ABHOW was asked to manage the community and in 1972 it was merged into ABHOW. Further additions to the campus occurred throughout the 1970s and 1980s. The community currently has a total of 335 apartments/beds, including 216 residential living apartments, 26 assisted living apartments, 17 memory support suites and a 76-bed health center. Of the proposed \$20 million in new funding from the 2010 financing, \$15 million is allocated for the completion of a 40 residential living apartment expansion along with improvements to common areas. The total cost estimate for the project including financing costs is approximately \$30 million and the first generation entrance fee pool is estimated to exceed \$25 million. As of September 30, 2009, Valle Verde

had 194 non-repayable program contracts, three rebateable program contracts and one month to month program contract.

Rosewood. Rosewood was initially sponsored by the First Baptist Church of Bakersfield and an 11.5 acre tract was purchased for development in 1961. In 1970, ABHOW was asked to assume ownership of the property and develop a retirement community. Construction of a 9-story building began in 1972 and was first available for occupancy in 1974. In 1978 a health center was added. In 1983 additional residential living garden apartments were added. The community currently has a total of 223 apartments/beds, including 117 residential living apartments, 32 assisted living apartments, and a 74-bed health center. As of September 30, 2009, Rosewood had 55 non-repayable program contracts and 57 month to month program contracts.

Terraces of Los Gatos. The newest retirement community in California constructed by ABHOW is the Terraces of Los Gatos. The 8.9-acre complex has a total of 269 apartments/beds, including 175 residential living apartments, 35 assisted living apartments, and a 59-bed health center. The community was initially advanced by members of the Los Gatos Presbyterian Church that expressed the need for retirement housing in the Los Gatos area. When Northern California Presbyterian Homes was unable to assist with the development due to competing commitments, ABHOW was invited and began partnering in 1985 with the founders and then took over the development in 1987. Many hurdles were addressed prior to a final groundbreaking in 1990 and construction completion in 1992. As of September 30, 2009, Terraces of Los Gatos had 166 non-repayable program contracts and four refundable program contracts.

Historical Occupancy of Obligated Group Communities

The table on the following page shows historical occupancy, by level of care, of the Obligated Group Communities as of September 30, 2007, 2008 and 2009

Historical Occupancy by Level of Care

Community Name	Units/Beds at 9/30/09	Average Occupancy for the Year Ended September 30,		
		2007	2008	2009
Pilgrim Haven				
Residential	73	98%	99%	99%
Assisted Living	14	98	97	98
Nursing Care	65	95	96	92
Grand Lake Gardens				
Residential	89	69%	82%	88%
San Joaquin Gardens				
Residential	172	92%	93%	87%
Assisted Living	42	97	88	94
Dementia Care	22	93	88	91
Nursing Care	86	92	92	92
Piedmont Gardens				
Residential	181	95%	95	88%
Assisted Living	59	78	83	74
Nursing Care	94	85	83	78
Plymouth Village				
Residential	185	97%	94%	91%
Assisted Living	29	97	89	87
Dementia Care	9	91	79	87
Nursing Care	48	80	79	87
Valle Verde				
Residential	216	96%	98%	95%
Assisted Living	26	97	95	93
Dementia Care	17	86	98	97
Nursing Care	76	91	90	91
Rosewood				
Residential	117	94%	95%	94%
Assisted Living	32	97	92	85
Nursing Care	74	93	74	78
Terraces of Los Gatos				
Residential	175	97%	98%	96%
Assisted Living	35	98	99	97
Nursing Care	59	90	97	97
Total Apartments	1,995			

Source: ABHOW Records.

LEVELS OF CARE

Seven of the Obligated Group Communities (Pilgrim Haven, San Joaquin Gardens, Piedmont Gardens, Plymouth Village, Valle Verde, Rosewood and Terraces of Los Gatos) provide a continuum of care from residential living through skilled nursing in the health centers. The remaining community (Grand Lake Gardens) includes on-site residential living with access to higher levels of care for contract residents at nearby Piedmont Gardens. The levels of care in these communities are described below.

Residential Living Apartments

This level is for residents functionally capable of independent apartment living. They require minimal assistance, if any. In most instances, an entrance fee is charged prior to beginning occupancy in a residential living apartment and monthly service fees are charged thereafter. ABHOW's residential living apartments are licensed in the State of California as Residential Care Facilities for the Elderly ("RCFE").

Basic services include the apartment accommodations (containing a kitchen equipped with a stove and refrigerator), utilities, interior and exterior maintenance, regular housekeeping and linen services, generally one meal per day (but access to three meals per day), scheduled activities, clinic services, transportation, security and the use of common areas. Generally, the residents supply their own furniture. In larger apartments, a dishwasher, washer and dryer are also provided.

On a limited basis, Grand Lake Gardens and Rosewood provide for the rental of residential living apartments. The program provides for certain allowances on conversion to the entrance fee agreement. Independent living accommodations and services are not eligible for Medi-Cal or Medicare reimbursement.

Assisted Living Apartments

Assisted living care is for residents no longer capable of living independently. Residents are generally ambulatory and receive assistance with activities of daily living including dressing and meals. Assisted living apartments are licensed in the State of California as Residential Care Facilities for the Elderly ("RCFE"). Three meals are provided daily and 24-hour staffing is included in the basic charge at this level of care. Additional charges for personal supplies and/or services may be assessed. Residents in assisted living generally need only occasional nursing care. Assisted living care is not eligible for Medi-Cal or Medicare reimbursement.

Memory Support Suites

Memory support care is for residents who require the attention of specially-trained staff for the treatment of dementia or cognitive impairment. Dementia care programs provide assistance with daily living, including three meals a day. Staff is trained to meet the needs of residents in the dementia care areas. Staffing is more concentrated in the dementia care portion of the assisted living center than in the non-special needs areas. Memory support care is not eligible for Medi-Cal or Medicare reimbursement.

Health Center Care

This level of care is for residents who require the daily attention of a professional nursing staff – Registered Nurse ("RN") or Licensed Professional Nurse ("LPN") – on duty 24 hours a day. Rehabilitation services are provided for residents as needed. Additional charges for personal supplies

and/or services may be assessed. This level of care is eligible for Medi-Cal or Medicare reimbursement, as applicable.

Payor Mix for Health Center Care

The following table shows the payor mix in the health care centers providing skilled nursing at the Obligated Group Communities as a percentage of the total occupancy from each health care center for the fiscal year ending September 30, 2009. (Note: Grand Lake Gardens does not have a health center.)

Community	Source of Payment	2007	2008	2009
Pilgrim Haven	Medicare	23%	26%	25%
	Medi-Cal	6	6	11
	Private Pay	67	65	61
	Other Managed Care	4	3	3
Grand Lake Gardens	No Health Center	N/A	N/A	N/A
San Joaquin Gardens	Medicare	37%	38%	42%
	Medi-Cal	12	11	15
	Private Pay	43	36	25
	Other Managed Care	8	15	18
Piedmont Gardens	Medicare	33%	29%	32%
	Medi-Cal	20	20	22
	Private Pay	38	43	34
	Other Managed Care	9	8	12
Plymouth Village	Medicare	27%	18%	12%
	Medi-Cal	19	17	21
	Private Pay	46	56	60
	Other Managed Care	8	9	7
Valle Verde	Medicare	23%	30%	36%
	Medi-Cal	15	14	12
	Private Pay	55	49	42
	Other Managed Care	7	7	10
Rosewood	Medicare	23%	28%	40%
	Medi-Cal	33	34	30
	Private Pay	20	17	16
	Other Managed Care	24	21	14
Terraces of Los Gatos	Medicare	30%	34%	34%
	Medi-Cal	11	7	4
	Private Pay	56	56	59
	Other Managed Care	3	3	3

Source: ABHOW records.

RESIDENCE AGREEMENTS

ABHOW offers four types of residence agreements at the Obligated Group Communities. The most popular current contract is a continuing care agreement with an entrance fee that is prorated over 44 months in the case of death or voluntary departure. After 44 months of residency, no portion of the entrance fee is repayable (the “Non-Repayable Program”). A similar contract was offered prior to 2006 that offered a prorated refund over a 67-month amortization period in the event of voluntary departure, but no refund in the event of death. This contract is not longer offered but still constitutes 48% of total contracts.

The second agreement (the “Rebateable Program”), instituted in 2003, is also a continuing care agreement with an entrance fee. However after a minimum period of time, 50% or 80% of the entrance fee is always repayable upon resale of the unit. As of September 30, 2009 the 50% and 80% Rebateable Program is priced generally at a 50% and 100% premium over the Non-Repayable Program. (The premium may be adjusted within an actuarially determined range according to market conditions.) In addition, with the opening of Phase I of San Joaquin Gardens, a limited number of 90%-100% rebateable program contracts were offered to early depositors. The continuing care agreements in use for the CCRCs have been approved by the California Department of Social Services. See **“LICENSURE AND ACCREDITATION.”**

The third agreement is no longer offered and was a refundable program just offered at the Terraces of Los Gatos in the 1990s. Only four contracts remain under this program and they have been listed as part of the rebateable contracts in the tabular data in “Contract Distribution by Community.” For these four contracts only, a refund is due to the resident or the resident’s estate based on death or voluntary departure without reoccupancy of the vacated apartment.

A fourth agreement is the month-to-month rental program (the “Month-to-Month Program”). Under the month-to-month rental program, the resident does not receive preferential access to health care services and the monthly service fee is higher. These contracts have only been offered at Grand Lake Gardens and Rosewood through special arrangement.

New residence agreements entered into by ABHOW contain statutorily required procedures in the event that a permanent relocation of residents from an ABHOW community is required due to the termination or forfeiture of ABHOW’s certificate of authority or license for a specific ABHOW community, except in the event of a natural disaster or other event out of ABHOW’s control.

Services

Upon payment in full of the Entrance Fee and ongoing payment of the Monthly Service Fee, each Resident is provided a Residential Living Apartment or an Assisted Living Apartment and receives certain basic services. Services provided include: (i) one meal credit per Resident for each day of the month; (ii) all utilities, except telephone and cable television services; (iii) periodic and regular housekeeping services of the Apartment Unit; (iv) weekly cleaning and changing of bed linens (for Assisted Living residences only); (v) one designated open or covered parking space; (vi) maintenance of all common areas and equipment;(vii) repair, maintenance or replacement of furnishings provided in the Residential Living Apartment or Assisted Living Apartment; (viii) local transportation; (ix) monitoring of emergency alert systems; (x) a variety of social, recreational, educational, cultural, and health and wellness programs; and (xi) access to all indoor and outdoor recreational spaces, lounges, dining room, and the barber and beauty shop. Services available for an extra fee include, but are not limited to: (i) guest meals; (ii) additional storage space; (iii) additional resident meals; (iv) additional housekeeping services; (v) personal laundry services; and (vi) additional transportation services.

Each Resident will be entitled to receive basic nursing care at their CCRC's Health Center (the "Health Center"), 24 hours per day, upon a physician's written order. Assisted living services or nursing services are charged to residents at the then applicable rates for such services.

The following table presents the contract distribution for the residents of the Obligated Group Communities for all levels of care as of September 30, 2009.

Contract Distribution by Community

Community	Non-Repayable Program		Rebateable Program			Month-to-Month	Total
	44 Month Amort.	67 Month Amort.	50%	80%	90%-100%		
Pilgrim Haven	32	38	0	2	0	0	72
Grand Lake Gardens	27	22	4	5	0	24	82
San Joaquin Gardens	51	68	0	0	11	0	130
Piedmont Gardens	76	72	1	4	0	0	153
Plymouth Village	70	88	1	4	0	0	163
Valle Verde	73	121	0	3	0	1	198
Rosewood	28	27	0	0	0	57	112
Terraces of Los Gatos	77	89	3	1	0	0	170
Total	434	525	9	19	11	82	1,008
Percentage of Total	40%	48%	1%	2%	1%	8%	100%

Entrance Fees, Monthly Service Fees and Deposits

Entrance fees and monthly service fees are based on the size of the residential apartment. The monthly service fees are also based on single or double occupancy. Entrance fees are adjusted at least annually to reflect such factors as the market environment and the anticipated costs of continuing care. Monthly service fees are adjusted annually based on cost of living factors such as projected costs, prior year capital costs and economic indicators. While the adjusted monthly service fees affect all residents under contract, the adjusted entrance fees affect new residents only. The monthly service fees for 2009 in residential living were approximately 4.0% higher than the fees in effect during 2008 and just under a 3.0% increase has been approved for FY 2010.

Due to the stressed housing market in certain geographic areas in California, certain entrance fees were reduced for selected inventory for move-in's accomplished in three month period or less at Piedmont Gardens and San Joaquin Gardens.

The table set forth below indicates the unadjusted (full price) range of 2010 entrance fees and the 2010 monthly service fees for the various apartments/beds in the Obligated Group Communities.

**Entrance Fees and Monthly Service Fees
In Effect at January 1, 2010**

Community Name/Apt Type	Non-Repayable Entrance Fees	Rebateable Entrance Fees	Monthly Service Fees
Pilgrim Haven			
Studio	\$45,100 – \$98,000	\$90,200 – \$196,000	\$2,655 – \$2,682
One Bedroom	\$115,500 – \$262,200	\$167,475 – \$524,400	\$3,628 – \$4,064
Two Bedroom	\$223,000 – \$380,000	\$323,350 – \$760,000	\$4,278 – \$4,714
Second Person			\$463
Assisted Living	\$45,100	\$90,200	\$4,317
Skilled Nursing			\$239 – \$353 per day
Grand Lake Gardens			
Studio	\$40,000 – \$44,000	\$80,000 – \$88,000	\$1,724
One Bedroom	\$66,000	\$132,000	\$2,242
Two Bedroom	\$80,000 – \$128,000	\$160,000 – \$256,000	\$2,612 – 3,178
Second Person			\$760
Assisted Living	N/A	N/A	N/A
Skilled Nursing			N/A
San Joaquin Gardens			
Studio	N/A	N/A	N/A
One Bedroom	\$94,016	\$188,032	\$1,902
Two Bedroom	\$152,992 – \$199,500	\$221,838 – 399,000	\$2,257
Second Person			\$722
Assisted Living	N/A	\$17,700 – \$44,300	\$3,229 – \$6,029
Memory Support	N/A	\$17,700 – \$44,300	\$5,121 – \$6,189
Skilled Nursing			\$230 – \$267 per day
Piedmont Gardens			
Studio	\$35,000 – \$73,500	N/A	\$2,134 – \$2,241
One Bedroom	\$80,000 – \$123,375	N/A	\$2,470
Two Bedroom	\$140,000 – \$266,000	N/A	\$3,614 – \$4,238
Second Person			\$871
Assisted Living	\$38,500 – \$43,500	N/A	\$4,141 – \$7,935
Skilled Nursing			\$255 – \$375 per day
Plymouth Village			
Studio	N/A	N/A	N/A
One Bedroom	\$69,000 – \$86,000	N/A	\$2,122
Two Bedroom	\$89,000 – \$138,000	N/A	\$2,208 – \$2,353
Second Person			\$1,100
Assisted Living	\$30,000	N/A	\$4,357 – \$5,202
Memory Support	\$30,000	N/A	\$5,323 – \$6,030
Skilled Nursing			\$225 per day

Community Name/Apt Type	Non-Repayable Entrance Fees	Rebateable Entrance Fees	Monthly Service Fees
Rosewood			
Studio	\$20,000 – \$25,000	N/A	\$1,609 – \$1,705
One Bedroom	\$48,000 – \$58,000	N/A	\$2,176 – \$2,305
Two Bedroom	\$92,000 – \$98,000	N/A	\$2,597 – \$2,737
Second Person			\$437
Assisted Living	\$15,000 – \$40,000	N/A	\$3,163 – \$5,589
Skilled Nursing			\$236 – \$315 per day
Valle Verde			
Studio	\$50,000	\$100,000	\$2,142
One Bedroom	\$105,000 – \$195,000	\$152,250 – \$390,000	\$2,147 – \$2,708
Two Bedroom	\$275,000 – \$485,000+	\$460,000 – 970,000+	\$3,555 – \$4,187
Second Person			\$800
Assisted Living	\$45,000 – \$75,000	N/A	\$4,245 – \$7,901
Memory Support	\$18,000 – \$45,000	N/A	\$6,673 – \$7,193
Skilled Nursing			\$242 – \$556 per day
Terraces of Los Gatos			
Studio	\$160,226	\$320,452	\$2,791
One Bedroom	\$238,000 – \$248,586	\$345,461 – \$497,172	\$3,232
Two Bedroom	\$348,450 – \$385,214	\$696,900 – \$770,428	\$4,198 – \$4,419
Second Person			\$765
Assisted Living	\$46,000	N/A	\$3,877 – \$5,398
Skilled Nursing			\$268 – \$359 per day

Source: ABHOW records.

Termination of Residence Agreements

Under California law, there is a cancellation period of 90 days after the date the resident signs a CCRC residence agreement, with no penalty to the resident. Any entrance fee paid by the resident during that period is fully refundable. Following the cancellation period, the resident must provide 90 days' notice to cancel. If a resident cancels a Non-Repayable Program residence agreement through death or other circumstances, the entrance fee is subject to refund within the first 44 months based on an amortization of 2.0% of the entrance fee for each month of occupancy (or 67 months for contracts entered into prior to 2006). In the case of double occupancy, no refund is made until both parties terminate the agreement.

Admission Criteria

ABHOW operates the Obligated Group Communities on a nondiscriminatory basis and affords equal treatment and access to services to all persons regardless of race, color, religion, national origin or ancestry. In order to qualify for entrance into a community, the prospective resident (or one of a couple) must be at least 62 years of age. Additionally, the prospective resident must pass a health and financial evaluation process. Applicants who meet the financial criteria are required to provide medical records prior to admission.

Resident Insurance Coverage; Medical Cost Containment

To assist residents in preserving personal assets, each health center resident is required to maintain a minimum level of medical and supplemental insurance. Each resident is required to enroll in Medicare (Part A, B, or C as applicable) and supplemental insurance or to make other arrangements acceptable to ABHOW which ensure their ability to meet major medical expenses.

In order to reduce costs of nursing care and to keep costs of services to all residents to a minimum, health center residents are required, in cooperation with each CCRC, to take every step possible through federal, state, municipal or private plans or programs of medical, supplemental and/or hospitalization insurance to reimburse each CCRC for services to the extent the resident's stated insurance plans or government programs provide.

MARKETING AND COMPETITION

Sales and Marketing

The marketing program for the Obligated Group Communities is managed by Seniority, Inc. ("Seniority"). Each Obligated Group Community has its own sales and marketing department that reports to regional sales managers for Seniority. The local teams are comprised of trained staff members with the resources necessary to maintain optimal occupancy. Detailed sales and marketing plans are prepared yearly for each community and for the Obligated Group Communities as a whole. These plans focus personnel and budget resources on the sales and marketing strategies and tactics necessary to achieve revenue objectives. The sales and marketing staff at the communities utilize a variety of techniques such as direct mail, special events, print media advertising, telephone contact and personal presentations to secure deposits and sales.

Seniority has helped ABHOW to exceed its aggregate net entrance fee collection budget in each of the past twelve years.

Competition

Each Obligated Group Community faces competition from similar communities operating in or near its market area and may face additional competition in the future as a result of the construction of new competitive communities or expansion of existing competitive communities.

A community is considered by management to be competitive with one of the Obligated Group Communities if it is CCRC accredited by the Continuing Care Accrediting Commission or a community offering similar continuing care services, such as residential living accommodations with congregate meal services in combination with assisted living, memory support and/or nursing care services, and is located within that Obligated Group Community's market service area. The market service area is generally defined as a five-to-ten mile radius of an Obligated Group Community.

Some of the key competitive advantages of the Obligated Group Communities, in the opinion of the management of ABHOW, are the following:

- Pilgrim Haven is nestled in a quiet and safe residential neighborhood and is the only CCRC in the town of Los Altos.

- Grand Lake Gardens is located within walking distance of many urban amenities and offers residents access to higher levels of care while maintaining an intimate residential living environment.
- San Joaquin Gardens is the only CCRC in Fresno with all four levels of care and has the largest campus.
- Piedmont Gardens is the closest CCRC community to the more affluent areas of Piedmont and Oakland and is walking distance to a variety of urban amenities and health care.
- Plymouth Village is the only accredited entrance fee CCRC in Redlands and is walking distance to the town center.
- Valle Verde is the only CCRC in Santa Barbara that features a single story campus, nestled in a beautiful garden setting.
- Rosewood is the only accredited CCRC in Bakersfield.
- Terraces of Los Gatos is in close proximity to urban amenities and public transportation.

The following table identifies competitive communities in bold and provides information about those communities relative to their market areas. The entrance fees and monthly fees are for calendar year 2009 except as indicated. In most cases, occupancy information was updated in 2009.

Competitive Market Analysis

Community	1-Bdrm Monthly Fee	1-Bdrm Entrance Fee	Avg 1 Bdrm Sq Ft.	2-Bdrm Monthly Fee	2-Bdrm Entrance Fee	Avg 2 Bdrm Sq Ft.	2nd Person Entrance Fee	2nd Person Monthly Fee
Plymouth Village	\$ 2,062	\$ 69,000- \$ 86,000	665	\$2,146- \$2,287	\$115,000- \$138,000	1045	N/A	\$1,069
<i>Key competitors:</i>								
The Village	\$ 1,965	\$ 106,000	790	\$2,200- \$3,150	\$148,000- \$230,000	995	\$ 10,000	\$ 700
Mission Commons	\$2,775-\$3,450	N/A	736	\$3,875- \$4,050	N/A	1057	N/A	\$ 1,050
<i>Key competitors:</i>								
San Joaquin Gardens	\$ 1,902	\$ 94,016	747	\$ 2,257	\$144,520	946	N/A	\$ 722
<i>Key competitors:</i>								
Carrington Pointe	\$ 2,550	N/A	679	\$ 3,245	N/A	938	N/A	\$ 850
Fairwinds	\$ 3,625	N/A	824	\$ 4,675	N/A	1116	N/A	\$ 900
Fig Gardens	\$ 2,800	N/A	525	\$ 3,525	N/A	887	N/A	\$ 850
Windham	\$ 2,760	N/A	610	\$ 3,190	N/A	815	N/A	\$ 900
Yosemite Gardens	\$ 3,050	N/A	718	\$ 4,062	N/A	966	N/A	\$ 850
<i>Key competitors:</i>								
Pilgrim Haven	\$ 3,738	\$ 180,376	635	\$ 4,270	\$ 325,835	997	N/A	\$ 450
<i>Key competitors:</i>								
The Terraces (Pam)	\$ 3,141	\$ 240,998	785	\$ 4,130	\$ 348,500	1070	N/A	\$ 744
The Forum (Ginger)	\$ 2,162	\$ 575,000	823	\$ 2,862	\$ 887,500	1189	N/A	\$ 1,112
The Sequoias	\$ 5,150	\$ 315,872	665	\$ 6,843	\$ 615,096	979	N/A	N/A
Sunny View (Judy)	\$ 3,965	\$ 175,000	600	\$ 5,180	\$ 293,000	950	\$ 15,000	\$ 800
Classic Res. By Hyatt	\$ 3,598	\$ 683,671	851	\$ 4,741	\$ 1,095,078	1245	\$ 30,000	\$ 1,695
Channing House(Letitia)	\$ 3,658	\$ 359,738	690	\$ 5,087	\$ 547,490	994	N/A	\$ 1,550
<i>Key competitors:</i>								
Valle Verde	\$ 2,380	\$ 160,000	670	\$ 3,838	\$ 390,000	1055	N/A	\$ 755
<i>Key competitors:</i>								
The Samarkand	\$ 2,533	\$ 216,250	610	\$ 4,405	\$ 407,250	1100	add highest: \$ 30,000 or 10%	\$ 705
Vista Del Monte	\$ 4,633	\$ 8,000	607	\$ 6,618	\$ 9,000	1027	\$ 2,000	\$ 1,197
Casa Dorinda	\$ 3,538	\$ 283,996	688	\$ 6,711	\$ 721,142	1400	add 147,000 avg	\$ 2,521
University Village	\$ 2,995	\$ 444,450	910	\$ 3,966	\$ 704,000	1395	N/A	\$ 1,283
Maravilla	\$ 3,400	\$ 23,250	702	\$ 4,813	\$ 45,000	1077	N/A	\$ 850
<i>Key competitors:</i>								
Piedmont Gardens	\$ 2,400	\$ 111,825	550	\$ 3,512	\$ 188,912	750	N/A	\$ 847
<i>Key competitors:</i>								
Lake Park	\$ 3,168	\$ 160,054	875	\$ 3,685	\$ 221,162	1220	N/A	\$ 1,246

Community	1-Bdrm Monthly Fee	1-Bdrm Entrance Fee	Avg 1 Bdrm Sq Ft.	2-Bdrm Monthly Fee	2-Bdrm Entrance Fee	Avg 2 Bdrm Sq Ft.	2nd Person Entrance Fee	2nd Person Monthly Fee
St. Paul's Towers	\$ 2,727	\$ 76,700	690	\$ 3,876	\$ 176,200	976	N/A	\$ 1,500
Salem Lutheran	\$ 3,490	\$ 84,000	515	\$ 4,150	\$ 99,750	750	\$ 37,000	\$ 500
Cardinal Point	\$ 3,050	\$ 382,500	662	\$ 4,650	\$ 549,500	1000	N/A	\$ 800
Community	1-Bdrm Monthly Fee	1-Bdrm Entrance Fee	Avg 1 Bdrm Sq Ft.	2-Bdrm Monthly Fee	2-Bdrm Entrance Fee	Avg 2 Bdrm Sq Ft.	2nd Person Entrance Fee	2nd Person Monthly Fee
Grand Lake Gardens	\$ 2,178	\$ 63,500	522	\$ 2,538	\$ 77,500	643	NA	\$ 735
<i>Key competitors:</i>								
Piedmont Gardens	\$ 2,400	\$ 111,825	550	\$ 3,512	\$ 188,912	750	NA	\$ 847
Lake Park	\$ 3,168	\$ 160,054	875	\$ 3,685	\$ 221,162	1220	NA	\$ 1,246
Salem Lutheran	\$ 3,490	\$ 84,000	515	\$ 4,150	\$ 99,750	750	\$37,000	\$ 500
Monarch Place	\$ 5,865	\$ 2,500	640	NA	N/A	NA	N/A	\$ 750
Community	1-Bdrm Monthly Fee	1-Bdrm Entrance Fee	Avg 1 Bdrm Sq Ft.	2-Bdrm Monthly Fee	2-Bdrm Entrance Fee	Avg 2 Bdrm Sq Ft.	2nd Person Entrance Fee	2nd Person Monthly Fee
Rosewood	\$ 2,115	\$ 48,000	687	\$ 2,524	\$ 90,000	1,158	N/A	\$ 437
<i>Key competitors:</i>								
Glenwood Gardens	\$ 2,960	N/A	700	\$ 3,618	N/A	1,025	N/A	\$ 450
Carriage House	\$ 2,225	N/A	675	\$ 3,150	N/A	1,018	N/A	\$ 600
Community	1-Bdrm Monthly Fee	1-Bdrm Entrance Fee	Avg 1 Bdrm Sq Ft.	2-Bdrm Monthly Fee	2-Bdrm Entrance Fee	Avg 2 Bdrm Sq Ft.	2nd Person Entrance Fee	2nd Person Monthly Fee
Terraces of Los Gatos	\$ 3,141	\$ 240,998	785	\$ 4,130	\$ 348,500	1070	N/A	\$ 744
<i>Key competitors:</i>								
The Forum	\$ 2,162	\$ 575,000	823	\$ 2,862	\$ 887,500	1189	N/A	\$ 1,112
The Meadows	\$ 4,472	N/A	684	\$ 5,830	N/A	1092	N/A	\$ 830
Pilgrim Haven	\$ 3,738	\$ 180,376	635	\$ 4,270	\$ 325,835	997	N/A	\$ 450
Sunnyview Manor	\$ 3,965	\$ 175,000	600	\$ 5,180	\$ 293,000	950	\$15,000	\$ 800
Saratoga Retirement Center	\$ 2,985	\$ 260,212	882	\$ 4,467	\$ 407,500	1372	N/A	\$ 1,061

FINANCIAL INFORMATION

The following unaudited condensed financial information for the Obligated Group for each of the three years ended September 30, 2007, 2008 and 2009, has been prepared by management from the financial records of ABHOW and Combined Affiliates.

The following unaudited information should be read in conjunction with the combined financial statements and related notes that are included in **APPENDIX B** to this Official Statement. In addition to information about the Obligated Group the combined financial statements included in **APPENDIX B** include financial information of affiliates of ABHOW that are not Obligated Group Members. For the year ended September 30, 2009, ABHOW generated 85.5% of the revenues of the Obligated Group and ABHOW's affiliates.

Summary Statement of Operations of the Obligated Group

The following table is an unaudited summary statement of operations of the Obligated Group for the three years ended September 30, 2007, 2008 and 2009.

Statement of Operations of the Obligated Group

	(in thousands)		
	For the years ended September 30,		
	2007	2008	2009
Revenue			
Resident service fees	\$ 93,620	\$ 97,261	\$101,408
Amortization of entrance fees	15,795	15,487	16,482
Management fees	834	1,000	1,042
Other revenue	4,839	5,041	5,334
Total operating revenues	<u>\$115,088</u>	<u>\$118,789</u>	<u>\$124,266</u>
Expenses			
Employee costs	\$ 54,129	\$ 59,458	\$ 63,014
Supplies, purchased & ancillary services	20,188	21,006	22,276
General and admin, marketing, insurance	9,276	9,668	9,724
Leases, rent & other operating expenses	3,858	4,139	4,389
Total operating expenses	<u>\$ 87,451</u>	<u>\$ 94,271</u>	<u>\$ 99,403</u>
Income before other operating income (expenses)	\$ 27,637	\$ 24,518	\$ 24,863
Other Operating Income (Expense)			
Investment income – net	\$ 2,125	\$ 2,020	\$ 1,870
Realized gains (losses) on investments – net	1,600	(814)	(5,497)
Depreciation	(12,088)	(12,813)	(13,247)
Mortgage interest	(4,927)	(4,718)	(4,155)
Change in valuation of interest rate swap	1,152	(1,684)	1,381
Gain (loss) related to sale of real estate and asset writeoff	-	(1,409)	61
Income from operations	<u>15,499</u>	<u>5,100</u>	<u>5,276</u>
Change in unrealized gains and losses on investments	2,532	(8,779)	4,139
Change in unrecognized pension obligation	2,092	(1,532)	(4,832)
Increase (decrease) in unrestricted net assets	<u>\$20,123</u>	<u>(\$5,211)</u>	<u>\$ 4,583</u>

Summary Balance Sheet of the Obligated Group

The following table is an unaudited summary balance sheet of the Obligated Group as of September 30, 2007, 2008 and 2009.

The Obligated Group's Balance Sheet

	(in thousands)		
	Year Ended September 30,		
	2007	2008	2009
Assets			
Cash and cash equivalents	\$ 8,116	\$ 5,538	\$ 4,940
Investments	70,516	67,122	60,025
Restricted cash and investments	46,379	43,037	32,182
Accounts receivable, net allowance for doubtful accounts	6,770	6,559	8,958
Prepaid expenses, deposits and other assets	1,565	1,006	2,509
Intercompany	8,637	8,632	14,418
Notes receivable, net	9,820	4,832	4,315
Other assets	7,912	7,315	6,300
Land, building and equipment, net	116,601	128,205	144,926
Total Assets	\$276,316	\$272,246	\$278,573
Liabilities and Net Deficit			
Liabilities:			
Accounts payable and accrued expenses	\$ 17,552	\$ 17,075	\$ 16,668
Deferred revenue from entrance fees subject to refund	45,343	43,387	38,664
Deferred revenue from entrance fees – nonrefundable	61,368	64,171	72,225
Deferred revenue from investment contract	4,267	4,053	3,840
Notes and bonds payable	145,755	144,451	142,166
Retirement liabilities	4,970	5,234	6,878
Other liabilities	805	2,830	2,504
Total Liabilities	\$280,060	\$281,201	\$282,945
Net Deficit:			
Unrestricted	(\$3,744)	(\$8,955)	(\$4,372)
Total Liabilities and Net Assets	\$276,316	\$272,246	\$278,573

Debt Service Coverage Ratios

The following table presents coverage of historical maximum annual debt service of the Obligated Group for the three years ended September 30, 2009. It also shows coverage of pro forma maximum annual debt service assuming issuance of the Series 2010 Bonds and the refunding of the Series 1997 Certificates of Participation (“COPS”).

Historical Debt Service Coverage Ratio and Pro Forma Maximum Annual Debt Service Coverage Ratio

	(in thousands)		
	Year Ended September 30,		
	2007	2008	2009
Income from operations	\$15,499	\$ 5,100	\$ 5,276
PLUS: Depreciation	12,088	12,813	13,247
PLUS: Mortgage interest	4,927	4,718	4,155
PLUS: Net cash entrance fees received	18,619	17,084	16,725
PLUS: Non-cash write-offs	0	1,409	0
LESS: Amortization of entrance fees	(15,795)	(15,487)	(16,482)
LESS: Decrease in accrual for worker’s compensation and claims accruals	(1,571)	(468)	(760)
PLUS: Change in the Valuation of interest rate swaps	(1,152)	1,684	(1,381)
Total Net Income Available for Debt Service (sum)	\$32,615	\$26,853	\$20,780
Aggregate actual debt service on Series 2006 Bonds and the Series 1997 COPS	7,242	7,153	7,805
Historical Debt Service Coverage Ratio	4.50x	3.75x	2.66x
Debt Service Coverage Ratio based on Maximum Annual Debt Service (“MADS”) of \$10,919,798*	2.99x	2.46x	1.90x
Pro Forma Debt Service Coverage Ratio based on MADS of \$11,221,250**			1.85x
Minimum Required Debt Service Coverage Ratio per Master Indenture	1.20x	1.20x	1.20x

* Includes the Series 1997 COPS and the Series 2006 Bonds. The Series 2006 Bonds have an assumed interest rate of 3.50% plus Letter of Credit related fees.

**Includes the Series 2006 Bonds and the Series 2010 Bonds. The Series 2006 Bonds have an assumed interest rate of 3.50% plus Letter of Credit related fees.

Liquidity

The following table is a summary of the Days Cash on Hand of the Obligated Group and the Foundation as of September 30, 2007, 2008 and 2009.

Days Cash on Hand

	(in thousands)		
	At September 30,		
	2007	2008	2009
Total unrestricted cash of the Obligated Group and the Foundation	\$ 8,161	\$ 5,573	\$ 5,123
PLUS: Market value of unrestricted investments	107,973	97,040	89,519
Total cash and investments – the Obligated Group and the Foundation	116,134	102,613	94,642
LESS: Claims on unrestricted cash & investments	(972)	(1,078)	(921)
LESS: Collateral value for standby letters of credit	(9,961)	(9,997)	(5,787)
LESS: Aged payables	–	(441)	–
Total Unrestricted Cash and Investments	105,201	91,097	87,934
The Obligated Group Operating Expenses & Mortgage Interest	92,378	98,989	103,558
The Obligated Group Daily Cash Expenditures	253	271	284
Days Cash on Hand	416	336	310
Minimum Days Cash on Hand Ratio	140	140	140
Over required Days Cash on Hand	276	196	170

MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATIONS

The information below is an analysis of the results of the operations of the Obligated Group. The Obligated Group is not audited separately from ABHOW and its affiliates, so the information is based upon unaudited information prepared by management. See the supplemental combining schedules included with the audited combined financial statements of ABHOW and Combined Affiliates attached as **APPENDIX B** to this Official Statement.

Results of Operations of the Obligated Group for the Year Ended September 30, 2008 Compared to the Year Ended September 30, 2007

The Obligated Group’s resident service fee revenue for the fiscal year ended September 30, 2008 (“FY 2008”) was \$97,261,000, an increase of 3.9% over revenue of \$93,620,000 for the fiscal year ended September 30, 2007 (“FY 2007”). The increase in revenues in FY 2008 was largely the result of annual resident service fee increases of approximately 4%.

Investment income of \$2,020,000 for FY 2008 was a \$105,000 reduction from the \$2,125,000 generated during FY 2007. Realized losses on investments of \$814,000 for FY 2008 was a \$2,414,000 reduction from the \$1,600,000 gain generated during FY 2007. Furthermore, unrealized losses on investments during FY 2008 amounted to \$8,779,000 compared to unrealized gains for FY 2007 of \$2,532,000. These declines in investment performance were primarily the result of investment markets declining significantly during the last two quarters of FY 2008.

Total operating expenses for FY 2008 were \$94,271,000, an increase of 7.8% over FY 2007 expenses of \$87,451,000. Of this \$6.8 million increase, \$5.3 million was driven by increases in employee expenses. These increases in employee expenses were the result of annual salary increases of approximately 5.5% and employee benefit cost increases of approximately 18.6% because of a lower non-cash reduction to the workers compensation liability than in FY 2007.

Depreciation expenses increased 6.0% to \$12,813,000 in FY 2008 from \$12,088,000 in FY 2007. This increase was a result of new capital spending, including room renovations.

These revenue and expense changes together with a \$1,535,000 reduction in net cash entry fees received led to a decrease in income available for debt service of \$5,762,000, from \$32,615,000 for FY 2007 to \$26,853,000 for FY 2008. The overall effect on the Debt Service Coverage Ratio was a decrease from 4.50x for FY 2007 to 3.75x for FY 2008.

The Obligated Group's net assets decreased \$5,211,000 to (\$8,955,000) at September 30, 2008, compared to (\$3,744,000) at September 30, 2007.

The Obligated Group's unrestricted cash and investments decreased \$5,972,000 from \$78,632,000 at September 30, 2007 to \$72,660,000 at September 30, 2008. The Obligated Group's and the Foundation's Days Cash on Hand decreased approximately 80 days in FY 2008, from 416 days to 336 days.

Results of Operations of the Obligated Group for the Year Ended September 30, 2009 Compared to the Year Ended September 30, 2008

Total resident service fee revenue for the fiscal year ended September 30, 2009 ("FY 2009") was \$101,408,000, an increase of 4.3% over revenue of \$97,261,000 for the fiscal year ended September 30, 2008 ("FY 2008"). The increase in revenues in FY 2009 was largely the result of annual resident service fee increases of approximately 4%.

Investment income net of \$1,870,000 for FY 2009 was a \$150,000 reduction from the \$2,020,000 generated during FY 2008. Realized losses on investment of \$5,497,000 for FY 2009 was a \$4,683,000 reduction from the \$814,000 loss generated during FY 2008. Furthermore, unrealized gains on investments during FY 2009 amounted to \$4,139,000 compared to unrealized losses for FY 2008 of \$8,779,000. The performance of the Obligated Group's investment portfolio was essentially flat during FY 2009.

Total operating expenses for FY 2009 were \$99,403,000, an increase of 5.4% over FY 2008 expenses of \$94,271,000. Of this \$5.1 million increase, \$3.6 million was driven by increases in employee expenses. These increases in employee expenses were the result of annual salary increases of approximately 4.3% and employee benefit cost increases of approximately 10.5%, primarily driven by increases in health benefit premiums.

Depreciation and amortization expenses increased 3.4% to \$13,247,000 in FY 2009 from \$12,813,000 in FY 2008. This increase was a result of new capital spending, including room renovations.

These revenue and expense changes together with a \$359,000 decrease in net cash entry fees received led to a decrease in income available for debt service of \$6,073,000, from \$26,853,000 for FY 2008 to \$20,780,000 for FY 2009. The overall effect on the Debt Service Coverage Ratio was a decrease from 3.75x for FY 2008 to 2.66x for FY 2009.

The Obligated Group's net assets increased \$4,583,000 to (\$4,372,000) at September 30, 2009, compared to (\$8,955,000) at September 30, 2008.

The Obligated Group's unrestricted cash and investments decreased \$7,695,000 from \$72,660,000 at September 30, 2008 to \$64,965,000 at September 30, 2009. The Obligated Group's and the Foundation's Days Cash on Hand decreased approximately 26 days in FY 2009, from 336 days to 310 days.

INSURANCE

The Obligated Group currently carries property (including earthquake), automobile and commercial general liability insurance in such amounts as management thereof believes is customarily carried by similar institutions in the State of California. Workers Compensation insurance coverage is provided by a self-insured pool with commercial insurance for claims in excess of \$200,000. Professional liability insurance is provided through participation in a captive insurance company formed by 24 providers in the retirement living industry, including ABHOW.

LICENSURE AND ACCREDITATION

Licensure

Each Obligated Group Community is licensed by the California Department of Social Services ("DSS"). The basis for licensure is DSS's determination that the Obligated Group Communities have complied with specific requirements of applicable statutes and regulations.

Memberships

ABHOW maintains active memberships in the American Association of Homes and Services for the Aging ("AAHSA") and Aging Services of California ("ASC").

Accreditation

Each CCRC owned ABHOW has been accredited by Continuing Care Accreditation Commission, which was acquired by the Commission on Accreditation of Rehabilitation Facilities in 2003 ("CARF-CCAC"), since 1988 with the most recent reaccreditation occurring in 2008 for a five year period. In order to receive this distinction, each CCRC performed a rigorous self-study evaluation and documentation process, after which it underwent peer review evaluation and action by CARF-CCAC. To receive accreditation, the CCRCs must demonstrate compliance with 14 standards in the areas of governance and administration, resident life, finance, resident health and wellness and risk management. In addition, each Obligated Group Community has to demonstrate compliance with the mission of ABHOW. Management of ABHOW believes that CARF-CCAC accreditation has proven valuable as an occasion for management review and as part of resident communication, strategic planning, marketing and financial enhancement. Several members of ABHOW's management team have been trained and participate on CARF-CCAC accreditation teams reviewing other providers in the industry.

DESCRIPTION OF OTHER OPERATIONS

Other Communities Managed by ABHOW

The following table identifies facilities managed by ABHOW, some of which are controlled by ABHOW. **None of the following corporations or facilities will be obligated to make payments on the Series 2010 Bonds or outstanding 2006 Bonds or under the Master Indenture nor will any of their assets be pledged to secure the Obligations issued under the Master Indenture.**

ABHOW Non-Obligated Group Communities

CCRCs	Location	Apartment/Bed Mix			
		IL	AL	MS	HC
Judson Park	Des Moines, Washington	170	31	–	96
Terraces of Phoenix	Phoenix, Arizona	217	49	25	64
Las Ventanas	Las Vegas, Nevada	186	60	–	60
Total		573	140	25	220

Managed Low- and Moderate-Income Senior Rental Housing Communities

Community	Location	Apartment/Bed Mix
Pacific Meadows	Carmel, CA	200 IL
Judson Terrace	San Luis Obispo, CA	107 IL
Allen Temple Arms I	Oakland, CA	75 IL
Allen Temple Arms II	Oakland, CA	51 IL
Allen Temple Arms III	Oakland, CA	50 IL
Allen Temple Arms IV	Oakland, CA	24 IL
Mt. Rubidoux Manor	Riverside, CA	188 IL
E.E. Cleveland Manor	Oakland, CA	54 IL
Casa De Redwoods	Redwood City, CA	136 IL
Bellflower Oak Street Manor	Bellflower, CA	25 IL
Bellflower Friendship Manor	Bellflower, CA	144 IL
Manila Terrace	Los Angeles, CA	30 IL
Total		1,084 IL

Source: ABHOW Records.

Managed and Owned Senior Rental Housing Communities

Community	Location	Apartment/Bed Mix
Kelly Ridge (Tahoe Senior Plaza II, L.P.)	South Lake Tahoe, CA	33 IL
Hillcrest Gardens (Hillcrest Senior Housing)	Daly City, CA	40 IL
Casa de la Vista (Redlands Senior Housing, Inc.)	Redlands, CA	75 IL
Harbor View Manor (Harborview Properties, Inc.)	Tacoma, WA	169 IL
Oak Knolls Haven (Oak Knolls Haven Corp.)	Santa Maria	40 IL
Tahoe Senior Plaza (Tahoe Senior Plaza, Inc.)	South Lake Tahoe, CA	45 IL
Fern Lodge (Redlands Senior Housing Two)	Redlands, CA	62 IL
Judson Terrace Lodge	San Luis Obispo, CA	31 IL
Broadmoor Plaza (San Leandro Senior Housing, Inc.)	San Leandro, CA	60 IL
Total		555 IL

Source: ABHOW Records.

ABHOW-Managed CCRCs Owned by Affiliates:

- Judson Park, a CCRC located in Des Moines, Washington, is owned by an ABHOW-controlled affiliate, American Baptist Homes of Washington. ABHOW manages Judson Park pursuant to a multi-year management agreement. It consists of 170 residential living apartments, 31 assisted living apartments and a 96-bed health center. A project is currently underway to convert 13 assisted living apartments into 13 memory support suites. This project is expected to be completed in March 2010.
- The Terraces of Phoenix, a CCRC in Phoenix Arizona, is owned by an ABHOW affiliate and is a controlled affiliate of Cornerstone, American Baptist Estates, Inc. (“ABE”). ABHOW manages The Terraces of Phoenix pursuant to a multi-year management agreement. This CCRC was redeveloped in phases from 1999 through 2008. It consists of 217 residential living apartments, 49 assisted living apartments, 25 memory support suites, and a 64-bed health center, consisting of 36 private and 28 semi-private beds.
- Las Ventanas, a CCRC in Las Vegas, Nevada, is owned by an ABHOW affiliate and is a controlled affiliate of Cornerstone, Las Ventanas Retirement Community. ABHOW assumed management of this community from Greystone Communities on October 1, 2009. The community consists of 180 residential living apartments, six residential living villas, 60 assisted living apartments and a 60-bed health center of all private rooms. American Baptist Properties, Inc. owns the land on which Las Ventanas is located and leases this land to Las Ventanas Retirement Community under a long-term ground lease. ABHOW guarantees the principal and interest payments of a \$4,250,000 bank loan made to American Baptist Properties, Inc., the proceeds of which were used to pay a portion of the purchase price of this land.

ABHOW Owned and Managed Affordable Housing Communities

ABHOW provides management services with respect to housing and social services to over 1,600 low- and moderate-income residents in 21 rental housing communities in the states of California and Washington. Twenty of the homes are owned or controlled by nonprofit entities established by local churches or by ABHOW itself, as described above. In addition, Carmel Senior Housing, of whom ABHOW is the sole member, is the managing general partner in a limited partnership that owns and operates Tahoe Senior Plaza II, a senior housing community in South Lake Tahoe. All of the low- and moderate-income facilities are solely residential and have no assisted living or nursing services. An additional two communities are currently under construction with one community in the pre-development phase seeking HUD commitments. Typically, these communities are financed through U.S. Department of Housing and Urban Development (“HUD”) programs. Currently, ABHOW has provided short-term guaranties for two of the projects in the amount of \$24,730,000. In February 2010, Management of ABHOW anticipates that one of these short-term guaranties for \$4,730,000 will be released. In the future ABHOW may provide short term, start up guaranties that may be required under certain HUD financing programs.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF
ABHOW AND COMBINED AFFILIATES**

**AMERICAN BAPTIST HOMES
OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)**

**INDEPENDENT AUDITOR'S REPORT
COMBINED FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2009 AND 2008**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**AMERICAN BAPTIST HOMES
OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)**

**INDEPENDENT AUDITOR'S REPORT
COMBINED FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEARS ENDED**

SEPTEMBER 30, 2009 AND 2008

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008:	
Balance Sheets	2
Statements of Operations and Changes in Net Assets	3 - 4
Statements of Cash Flows	5 - 6
Notes to Combined Financial Statements	7 - 45
SUPPLEMENTAL COMBINING SCHEDULES AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008:	
Independent Auditor's Report on Supplemental Combining Schedules	46
Balance Sheet Information	47 - 52
Statements of Operations and Changes in Net Assets (Deficit) Information	53 - 58
Statements of Operations and Changes in Net Assets (Deficit) by Community Information (ABHOW Obligated Group)	59 - 62

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors of
American Baptist Homes of the West

We have audited the accompanying combined balance sheets of American Baptist Homes of the West ("ABHOW") (a member of Cornerstone Affiliates) and controlled affiliates (collectively referred to as the "Corporation"), all of which are under common control and common management, as of September 30, 2009 and 2008, and the related combined statements of operations and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of ABHOW's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Casa de la Vista, Fern Lodge, Harbor View Manor, Oak Knolls Haven, Tahoe Senior Plaza, Judson Terrace Lodge, Hillcrest Gardens and Broadmoor Plaza, those statements reflect total assets of \$35,102,000 and \$35,156,000 as of September 30, 2009 and 2008, respectively, and total revenues of \$3,918,000 and \$3,564,000, respectively for the years ended September 30, 2009 and 2008, see Note 15. Those statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for Casa de la Vista, Fern Lodge, Harbor View Manor, Oak Knolls Haven, Tahoe Senior Plaza, Judson Terrace Lodge, Hillcrest Gardens and Broadmoor Plaza, is based solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, such financial statements present fairly, in all material respects, the combined financial position of the Corporation as of September 30, 2009 and 2008, and the combined results of their operations and changes in their net assets and their combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California
December 29, 2009

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
COMBINED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 9,535	\$ 8,287
RESTRICTED CASH	4,410	3,260
INVESTMENTS	94,131	101,916
RESTRICTED INVESTMENTS	41,647	65,053
RESIDENT ACCOUNTS AND OTHER RECEIVABLES, LESS ALLOWANCES FOR DOUBTFUL ACCOUNTS OF \$2,498 AND \$2,507, RESPECTIVELY	11,242	9,614
NOTES RECEIVABLE - Net	4,315	4,832
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	3,007	1,478
OTHER ASSETS	9,509	10,595
LAND, BUILDING, AND EQUIPMENT - Net	<u>238,323</u>	<u>203,805</u>
TOTAL	<u>\$ 416,119</u>	<u>\$ 408,840</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 14,100	\$ 16,594
DEPOSITS	2,544	2,493
ACCRUED INTEREST	2,128	2,588
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	55,989	59,081
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	77,870	66,980
DEFERRED REVENUE FROM INVESTMENT CONTRACT	3,840	4,053
REVOCABLE TRUSTS	902	724
OBLIGATIONS UNDER ANNUITY AGREEMENTS	3,204	2,881
NOTES AND BONDS PAYABLE	220,781	221,301
RETIREMENT LIABILITIES	6,878	5,234
WORKER'S COMPENSATION LIABILITY	2,078	2,345
OTHER LIABILITIES	<u>1,602</u>	<u>1,132</u>
Total liabilities	<u>391,916</u>	<u>385,406</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 14)		
NET ASSETS		
Unrestricted	15,723	13,929
Temporarily restricted	8,014	9,054
Permanently restricted	<u>466</u>	<u>451</u>
Total net assets	<u>24,203</u>	<u>23,434</u>
TOTAL	<u>\$ 416,119</u>	<u>\$ 408,840</u>

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
COMBINED STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Thousands)

UNRESTRICTED NET ASSETS	2009	2008
OPERATING REVENUES		
Residential living	\$ 41,694	\$ 39,843
Assisted living	11,695	11,565
Health center	59,054	55,108
Other residential services	4,492	4,067
Amortization of entrance fees	18,166	16,297
Affordable housing fees and rents	4,657	3,922
Other operating revenue	4,271	4,188
Bequests and charitable giving	762	370
Net assets released from time restrictions	511	287
	145,302	135,647
OPERATING EXPENSES		
Employee costs	75,585	71,027
Supplies	10,084	9,449
Chargeable ancillary services	7,734	6,822
Other purchased services	8,575	8,329
Marketing and advertising	1,270	1,265
Utilities	6,169	6,216
Insurance	1,722	1,760
Travel and related	1,107	1,029
Leases and rents	1,414	1,544
Other operating expenses	3,540	3,153
	117,200	110,594
	28,102	25,053
INCOME BEFORE OTHER OPERATING INCOME (EXPENSES)		
OTHER OPERATING INCOME (EXPENSE)		
Investment income - net	3,190	3,389
Realized losses on investments - net	(9,557)	(1,322)
Depreciation	(16,958)	(15,178)
Mortgage interest	(6,266)	(6,034)
Reduction (increase) in unrealized loss on interest rate swaps	740	(1,934)
Write off of real estate receivable	-	(532)
Write off of undepreciated cost of assets demolished for redevelopment	-	(1,143)
	(749)	2,299
Income (loss) from operations	(749)	2,299

See accompanying notes.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
COMBINED STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008 (continued)
(In Thousands)**

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS		
Change in unrealized gains on investments	\$ 7,375	\$ (15,898)
Loss from increase in unrecognized pension obligation	<u>(4,832)</u>	<u>(1,532)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>1,794</u>	<u>(15,131)</u>
TEMPORARILY RESTRICTED ASSETS		
Contributions	523	936
Dividend and interest income	389	522
Realized losses on investments - net	(453)	(162)
Interest expense for contractual payments to beneficiaries	(1,093)	(468)
Special project fund distribution	(198)	(231)
Change in unrealized gain	303	(1,505)
Net assets released from time restrictions	<u>(511)</u>	<u>(287)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(1,040)	(1,195)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>15</u>	<u>14</u>
INCREASE (DECREASE) IN NET ASSETS	769	(16,312)
NET ASSETS - Beginning of year	<u>23,434</u>	<u>39,746</u>
NET ASSETS - End of year	<u>\$ 24,203</u>	<u>\$ 23,434</u>

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Thousands)

	2009	2008
OPERATING ACTIVITIES		
Cash received for resident services	\$ 118,530	\$ 114,107
Cash received for entrance fees for occupancy - net of refunds of \$3,161 and \$3,517	17,488	17,730
Cash received from other operating activities	5,281	4,515
Cash received from bequests and trust maturities	1,299	668
Cash earnings realized from investments	(6,518)	1,323
Cash paid for employee salaries	(56,775)	(53,057)
Cash paid for employee benefits	(16,014)	(13,375)
Cash paid for temporary labor and recruitment	(3,361)	(4,481)
Cash paid to vendors	(44,721)	(39,385)
Cash paid for interest	(6,082)	(5,879)
	<u>9,127</u>	<u>22,166</u>
INVESTING ACTIVITIES		
Acquisition of land, buildings, and equipment - CCRCs	(30,112)	(40,908)
Acquisition of land, buildings, and equipment - Affordable Housing	(11,670)	(6,091)
Acquisition of land - ABP	(4,728)	(4,026)
Investment in other assets	(663)	(317)
Decrease in restricted cash	(1,147)	(1,039)
Purchase of investments	(18,143)	(41,162)
Proceeds from sale of investments	33,306	38,069
Cash utilized from restricted investments	23,725	16,833
	<u>(9,432)</u>	<u>(38,641)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable - ABP	-	3,075
Cash received from initial entrance fees and deposits	8,415	8,727
Principal payments of notes and bonds payable - CCRCs	(22,746)	(2,435)
Proceeds from issuance of notes and bonds payable - Affordable Housing	16,669	8,154
Principal payments of notes and bonds payable - Affordable Housing	(90)	(1,398)
Cash received from restricted gifts and donations	520	1,008
Cash received from other trust activity - net	(1,215)	(2,273)
	<u>1,553</u>	<u>14,858</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,248	(1,617)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>8,287</u>	<u>9,904</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 9,535</u>	<u>\$ 8,287</u>

See accompanying notes.

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008 (continued)
(In Thousands)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 769	\$ (16,312)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of entrance fees	(18,166)	(16,297)
Entrance fees for occupancy - net of refund	17,488	17,730
Amortization of deferred revenue from investment contract	(213)	(213)
Depreciation	16,958	15,178
(Increase) decrease in unrealized gains on investments - net	(7,712)	17,228
Increase in net unrecognized actuarial loss	4,832	1,532
Change in unrealized loss on interest rate swaps	(740)	1,934
Loss on disposal of assets	-	1,143
Change in accounts receivable from residents and clients	(1,837)	366
Change in prepaid expenses and deposits	(1,525)	521
Other changes in operating assets and liabilities - net	<u>(727)</u>	<u>(644)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,127</u>	<u>\$ 22,166</u>
NON CASH DISCLOSURES		
Purchase of land with debt	<u>\$ 4,250</u>	<u>\$ -</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 1 – Business and Organization

Parent Organization – Cornerstone Affiliates (“Parent Organization” or “Cornerstone”) is a California nonprofit public benefit corporation. Cornerstone appoints the majority of the directors of American Baptist Homes of the West (the “Corporation” or “ABHOW”) and is the sole member of American Baptist Estates, Inc. (“ABE” or d.b.a. Terraces of Phoenix), Las Ventanas Retirement Community (“Las Ventanas”) and Boise Retirement Community (“Boise” or d.b.a. the Terraces at Harris Ranch).

Cornerstone Related Enterprises

American Baptist Estates, Inc. – American Baptist Estates, Inc. is an Arizona nonprofit tax-exempt corporation providing housing, health care and supportive services for the elderly in Phoenix through its continuing care retirement community (“CCRC”), Terraces of Phoenix. Prior to September 29, 2003, ABE was a controlled affiliate of ABHOW. The funds previously advanced by ABHOW to support ABE’s operating and capital needs were retained in the form of a note receivable from ABE. Based on Terraces of Phoenix’s projected cash flows, payments on the note receivable are not anticipated by ABHOW until 2012. The note has been recorded as part of notes receivable in the accompanying combined balance sheets at the estimated fair value of \$4,315,000 at September 30, 2009 and 2008.

ABHOW manages Terraces of Phoenix under a multiyear management agreement. Terraces of Phoenix and the holders of the Terraces’ debt have a maximum of \$800,000 recourse to ABHOW in the event of default.

Las Ventanas Retirement Community – Las Ventanas Retirement Community (“Las Ventanas”) is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Las Vegas, Nevada through its continuing care retirement community. On July 1, 2004, ABHOW began providing oversight management services to Las Ventanas.

Boise Retirement Community – Boise Retirement Community (“Boise”) is a California nonprofit public benefit tax-exempt corporation which owns a site in Boise, Idaho upon which the Terraces of Harris Ranch is planned for development.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 1 – Business Organization (continued)

American Baptist Homes of the West – American Baptist Homes of the West is a California nonprofit public benefit tax-exempt corporation which owns, operates, and manages both continuing care retirement communities and rental housing communities in which housing, health care, and supportive services are provided for the elderly. Cornerstone is the sole member of ABHOW and elects eight of ABHOW's fifteen directors. The executive officers of Cornerstone also serve as executive officers of ABHOW. As of September 30, 2009 the following continuing care retirement communities were owned and operated by the Corporation:

- Grand Lake Gardens
- Piedmont Gardens
- Pilgrim Haven
- Plymouth Village
- Rosewood
- San Joaquin Gardens
- Valle Verde
- Terraces of Los Gatos

American Baptist Homes Foundation of the West, Inc. – American Baptist Homes Foundation of the West, Inc. (the "Foundation") is a California nonprofit public benefit tax-exempt corporation whose primary purpose is to develop, invest and administer funds to provide residential and nursing home care on behalf of the residents of certain communities of the Corporation. The Foundation's principal activity is to administer such funds under trust agreements. The Corporation is the sole member of the Foundation, and therefore, elects the directors of the Foundation. As a result, the Corporation has control over the Foundation, and therefore, the Foundation is included in the Corporation's combined financial statements. The Foundation guarantees the bond obligations of the Corporation. The Foundation's obligations under the guaranty agreement are limited to the Foundation's income earned on its unrestricted net assets (see Note 6).

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 1 – Business Organization (continued)

Other Controlled Affiliates Included in the Combination – The Corporation is also the sole member and controlling organization for the following separately incorporated not-for-profit affiliates:

- American Baptist Homes of Washington (d.b.a. Judson Park)
- American Baptist Properties, Inc.
- Baptist Senior Adult Ministries

Affordable Housing – Operational:

- Carmel Senior Housing, Inc. including Tahoe Senior Plaza II, Inc. (d.b.a. Kelly Ridge)
- Harborview Properties, Inc. (d.b.a. Harbor View Manor)
- Oak Knolls Haven, Inc. (d.b.a. Oak Knolls Haven)
- Redlands Senior Housing, Inc. (d.b.a. Casa de la Vista)
- Redlands Senior Housing Two (d.b.a. Fern Lodge)
- San Leandro Senior Housing, Inc. (d.b.a. Broadmoor Plaza)
- Tahoe Senior Plaza, Inc. (d.b.a. Tahoe Senior Plaza)
- Judson Terrace Lodge, Inc. (d.b.a. Judson Terrace Lodge)
- Hillcrest Senior Housing, Inc. (d.b.a. Hillcrest Gardens)

Affordable Housing – Under Development:

- Good Shepherd Senior Housing (d.b.a. Good Shepherd)
- Valley Vista Senior Housing (d.b.a. Valley Vista)

The Corporation is also the sole shareholder and controlling organization of Seniority, Inc., a California for-profit corporation.

American Baptist Homes of Washington – American Baptist Homes of Washington (“ABHW”) is a Washington nonprofit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Washington through its continuing care retirement community, Judson Park. In January 2007, ABHOW issued \$37,010,000 in Refunding Revenue Bonds (see Note 6) to provide net project funds of \$26,300,000 primarily for the addition of 64 new independent living apartments (“Soundview”). Construction was completed in 2008, and by March 2009, first generation entrance fees had been used to pay down \$14,230,000 of the bonds.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 1 – Business Organization (continued)

American Baptist Properties, Inc. – American Baptist Properties, Inc. (“ABP”) is a California nonprofit public benefit corporation established in 1997 to serve as a real property holding company for the Corporation. In May 2008, ABP completed the purchase of a parcel of land in Boise, Idaho, for the purpose of developing a continuing care retirement community. The land was purchased for \$4,075,000 using a combination of cash and \$3,075,000 of debt. In June 2009, ABP completed the \$8,500,000 purchase of the land underlying Las Ventanas, the corresponding ground lease and the rights to a \$5,000,000 contingent deferred payment using a combination of cash and \$4,250,000 of debt.

Carmel Senior Housing, Inc. – Carmel Senior Housing, Inc. (“CSH”), an affiliate of the Corporation, is a California nonprofit public benefit tax-exempt corporation, and prior to 1999 acted as General Partner in Carmel Overview Limited (d.b.a. Pacific Meadows). As of April 1999, CSH resigned as General Partner of Pacific Meadows, as part of a restructuring of the partnership agreement, and remained as an inactive corporation through 2007. Under the restructured Partnership agreement, CSH maintains the right of first refusal and option to purchase the Partnership property at a future date. In connection with this restructured Partnership agreement, CSH also maintains a land lease agreement with the Partnership for the premises on which the project is built. Under this agreement, payments of \$100 per annum are due through December 31, 2047. CSH had assigned its lease rights to the Partnership.

The Corporation is currently working with all interested parties to pursue resyndication of the Partnership. All obligations from prior activities have effectively been extinguished due to the absence of liquidity in the Partnership.

Commencing in 2007, CSH began acting as Limited Partner with a 99% interest in Valley Vista Senior Housing, L.P. (“Valley Vista”), and in 2009 as General Partner with a 99% interest in Tahoe Senior Plaza II (“Kelly Ridge”). Both Valley Vista and Kelly Ridge are California limited partnerships formed for the development of affordable housing and both are funded through the use of a combination of debt and tax credit investors. Upon funding of the tax credits, the tax credit investors will be subscribed as Limited Partners, with a 99.9% collective interest in each project, and CSH will remain as General Partner in each project with a 0.1% interest.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 1 – Business Organization (continued)

Harborview Properties, Inc. – Harborview Properties, Inc. (“Harbor View Manor”) is a Washington nonprofit tax-exempt corporation providing housing for low-income elderly in the Tacoma, Washington area. Mortgage note payable to Prudential Huntoon Paige Association, LTD. in monthly installments through December 2038 of \$10,509 net of interest reduction payments as determined by the Federal Housing Administration. The mortgage note is secured by a deed of trust on Harborview's property.

Oak Knolls Haven, Inc. – Oak Knolls Haven, Inc. (“Oak Knolls Haven”) is a California nonprofit public benefit tax-exempt corporation, whose cost of construction was financed largely through loans endorsed for insurance by the United States Department of Housing and Urban Development.

Redlands Senior Housing, Inc. – Redlands Senior Housing, Inc. (“Redlands” d.b.a. Casa de la Vista) is a California nonprofit public benefit tax-exempt corporation whose cost of construction was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development.

Redlands Senior Housing Two – Redlands Senior Housing Two (“Redlands Two”) is a California nonprofit public benefit tax-exempt corporation established in 1997 to develop a senior housing complex in Redlands, California (d.b.a. Fern Lodge). Construction of the community was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development.

San Leandro Senior Housing, Inc. – San Leandro Senior Housing, Inc. (“Broadmoor Plaza”) is a California nonprofit public benefit tax-exempt corporation established in May 2001, to develop a senior housing complex in San Leandro, California (d.b.a. Broadmoor Plaza). Construction of the community was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development.

Tahoe Senior Plaza, Inc. – Tahoe Senior Plaza, Inc. (“Tahoe Senior Plaza”) is a California nonprofit public benefit tax-exempt corporation incorporated in January 1998, which developed a low-income senior housing complex in South Lake Tahoe, California. Construction of the community was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development.

Judson Terrace Lodge, Inc. – Judson Terrace Lodge, Inc. (“Judson Terrace Lodge”) is a California nonprofit public benefit tax-exempt corporation incorporated in November 2000, and developed a low-income senior housing complex in San Luis Obispo, California. Construction of the community was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 1 – Business Organization (continued)

Hillcrest Senior Housing, Inc. – Hillcrest Senior Housing, Inc. (“Hillcrest”) is a California nonprofit public benefit tax-exempt corporation established in 2005, which developed a senior housing complex in Daly City, California. Construction of the community was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development as well as other local government grants. Construction completed in August 2008, and became fully occupied and operational in October 2008.

Good Shepherd Senior Housing – Good Shepherd Senior Housing (“Good Shepherd”) is a Washington state nonprofit tax exempt corporation that will provide housing for low-income elderly in the Lynwood area. Pre-development of the 40 apartment community began in 2008 and the project is expected to commence occupancy in early 2010. Construction of the community was financed primarily through loans endorsed for insurance by the United States Department of Housing and Urban Development.

Tahoe Senior Plaza II – Tahoe Senior Plaza II (“Kelly Ridge”) is a California limited partnership formed for the development of an affordable housing community in South Lake Tahoe, California. Construction has completed and the community became fully occupied and operational in June 2009. During the course of construction, ABHOW provided certain temporary guarantees as discussed in Note 14.

Valley Vista Senior Housing – Valley Vista Senior Housing (“Valley Vista”) is a California limited partnership formed for the development of an affordable housing community in San Ramon, California. Predevelopment activities are currently underway and the land has been acquired using grant funds provided by the City of San Ramon in anticipation of development by the Corporation. Development will not commence until tax credit investors can be subscribed as limited partners for a 99.9% interest in the project. ABHOW will provide certain temporary guarantees as discussed in Note 14.

Seniority, Inc. – Seniority, Inc. (“Seniority”) is a California for-profit corporation and is wholly owned by the Corporation. Seniority commenced operations in October 1997 and provides sales and operational management and consulting services to ABHOW and unrelated third parties. In 2008, \$532,000 remaining on a note receivable restructured in 2006, following a 2004 property sale, was determined to be uncollectible and a realized loss was recorded.

Managed Rental Homes and CCRCs – At September 30, 2009, the Corporation manages twelve affordable housing rental communities and two continuing care retirement communities, while Seniority manages six market rate rental communities under management agreements (see Note 12).

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies

Basis of Combination – The accompanying financial statements combine the accounts of ABHOW, the Foundation, ABHW, ABP, BSAM, Seniority, CSH, Harbor View Manor, Oak Knolls Haven, Redlands, Redlands Two, Tahoe Senior Plaza, Broadmoor Plaza, Judson Terrace Lodge, Hillcrest Gardens and Good Shepherd. The financial statements of ABHOW and the controlled affiliates are presented on a combined basis due to the operational interdependence of these organizations and because their management is the same. All significant intercompany balances and transactions have been eliminated.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 revenue and expenses during the reported period. Actual results could differ from those estimates.

New Accounting Pronouncements – In September 2006, the FASB issued a statement on fair value measurement. This statement defines fair value, establishes the framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. The Corporation adopted the statement effective October 1, 2008, with the associated required disclosures, included in Note 3 in 2009.

In February 2007, the FASB issued a statement on the fair value option for financial assets and financial liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value, mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for the Corporation in 2009. The Corporation has exercised its option to not adopt this statement.

In August 2008, the FASB issued a pronouncement on endowments of not-for-profit organizations. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act and enhances disclosure for all endowment funds. The Corporation has adopted this guidance effective October 1, 2008, and it did not have a significant impact on the Corporation's combined position or results of operations.

In March 2008, the FASB issued a statement on disclosures about derivative instruments and hedging activities. This statement changes the disclosure requirements for derivative instruments and hedging activities. This statement is effective for the Corporation in 2010. The Corporation is evaluating the effect of adopting the statement.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

On October 1, 2008, the Corporation adopted authoritative guidance effective for fiscal years beginning after December 15, 2006. The guidance establishes a single model to address accounting for uncertainty in income tax positions. It prescribes a minimum recognition threshold that an income tax position is required to meet before being recognized in the financial statements. To recognize the position, the filing position would be sustained upon examination. The interpretation also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition of uncertain tax positions. There was no impact as a result of adopting the provisions of the interpretation.

The FASB issued a statement for subsequent events which applies to interim or annual financial periods ending after June 15, 2009. The objective is to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Corporation has implemented the statement for the fiscal year ended September 30, 2009.

In June 2009, the FASB issued “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.” The Codification establishes one level of authoritative GAAP and is effective for annual financial statements issued after September 15, 2009. Adoption of the Codification will not have an impact on the Corporation’s consolidated financial statements but will change the references to accounting pronouncements in the notes to those statements.

Cash and Cash Equivalents – Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions, and overnight investments considered to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation.

Restricted Cash – Restricted cash is defined as cash which is restricted in its use by regulatory or other agreements. These accounts are primarily replacement reserves at the affordable housing communities.

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Note 2 – Accounting Policies (continued)

Investments – Investments include certain cash equivalents held by investment managers, certificates of deposits, commercial paper, mutual funds, equity securities, corporate debt, U.S. government securities and certain cash equivalents and securities held by trustees for capital project expenditures and debt service, and are stated at fair market value. Certain investments are restricted as assets held in trust. These include assets held by trustees in accordance with the indentures relating to debt agreements and assets set aside in accordance with various trust agreements with third parties, including donors. Assets held in trust as well as assets managed for certain ABHOW affiliates are classified as restricted investments.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in the statements of operations and changes in net assets unless restricted by donor. Realized gains and losses for mutual funds are computed using the average cost method. Historical cost, on the specific identification method, is utilized to compute the realized gains and losses for all other securities. Upon determination that the cost of securities is other-than-temporarily impaired, adjustments are made to revalue the securities to current market value. Any adjustments required by this policy for unrestricted assets are charged to investment loss and restricted assets are charged to the appropriate net assets category.

Resident Accounts Receivable – The Corporation provides services to residents even though they may lack adequate funds or may participate in programs that do not pay full charges. The Corporation receives payment for health services from residents, insurance companies, Medicare, Medi-Cal, Medicaid, HMOs, and other third-party payors. As a result, the Corporation is exposed to certain credit risks. The Corporation manages its risk by regularly reviewing its accounts, by providing appropriate allowances for uncollectible accounts, and by having secured the accounts through the Care and Residence Agreements with the residents of continuing care retirement communities.

Land, Building, and Equipment – Land, building, and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Real estate predevelopment costs, such as architectural and entitlement costs, costs of model units, furnishings, etc., are capitalized as part of the building cost and depreciated over the useful life of the related building. Maintenance and repair costs are charged to operations when incurred.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

Depreciation of buildings and equipment is computed on the straight-line method using estimated useful lives of 3 to 40 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

Asset Impairment – ABHOW periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized.

Interest Rate Swaps – ABHOW uses interest rate swaps as part of its overall debt management policy. ABHOW accounts for interest rate swaps in accordance with FASB Accounting Standards Codification topic 815, *Derivatives and Hedging*. The topic requires that all derivatives be carried at fair value on the balance sheet (see Note 8).

Fair Value of Financial Instruments – The carrying amounts reported in the accompanying combined balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and due to/from government agencies, approximate fair value due to their short-term nature. Discussion on the fair value of financial instruments is included in Note 3.

Deferred Debt Issuance Costs – Expenses incurred in connection with the issuance of debt are deferred and are amortized over the term of the related financing agreements using the interest method. Unamortized deferred debt issuance cost amounted to \$3,685,000 and \$3,840,000 at September 30, 2009 and 2008, respectively, and is included in other assets in the accompanying combined balance sheets. Accumulated amortization of deferred debt issuance cost was \$1,956,000 and \$1,690,000 at September 30, 2009 and 2008, respectively.

Deferred Marketing Costs – Expenses incurred in connection with marketing of newly constructed apartments are deferred and amortized over the estimated average life of the first generation of residents. Unamortized deferred marketing cost amounted to \$3,448,000 and \$2,462,000 at September 30, 2009 and 2008, respectively and is included in other assets in the accompanying combined balance sheets. Accumulated amortization of deferred marketing cost was \$100,000 and \$0 at September 30, 2009 and 2008, respectively.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

Deferred Revenue from Investment Contract – The Corporation entered into an investment program with respect to its bond reserve funds. Under the program, the Corporation received approximately \$6,400,000 in cash proceeds representing the discounted cash value of the investment earnings on these funds over the 30-year life of the reserve funds. In exchange for these proceeds, the counterparty to the arrangements has the ability to invest certain of the Corporation's bond reserve funds over the terms of the arrangements. The funds received were recorded as deferred revenue and recognized as revenue over the life of the agreements. Revenue recognized was \$213,000 for the years ended September 30, 2009 and 2008, respectively.

Donor-Related Obligations – The Corporation has recorded certain obligations related to donations received as follows:

Revocable Trusts – Revocable trusts are trust agreements that are revocable by trustors at any time, with specific terms for each agreement. Consequently, a liability is reflected in other liabilities in the accompanying combined balance sheets equal to those related trust assets in restricted investments in the accompanying combined balance sheets.

Obligations Under Annuity Agreements – In conjunction with certain giving arrangements, the Foundation is required to pay a certain sum of money to the donor or a designated beneficiary and consequently a liability is reflected in obligations under annuity agreements in the accompanying combined balance sheets. These types of arrangements are summarized as follows:

Gift Annuities Fund – As consideration for certain gifts made to the Foundation, the Foundation enters into agreements to pay fixed annual payments to the donors or their beneficiaries for life. In accordance with Section 11521 of the California Insurance Code, a liability has been established for the future payments under the outstanding annuity contracts. In 2008 the annual computation of the temporarily restricted amount of the gift is based upon a combination of the 1983 Group Annuity Mortality Table and its 2000 update, and in 2009, the computation is based solely upon the 2000 update, with an interest assumption at 5% per annum in each year. Assets in excess of liabilities, if any, related to these annuities are available for the use of the Foundation with the approval of the California Department of Insurance.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

Annuity Trusts – Annuity trusts are trust agreements that provide for a fixed annual payment of not less than 6% of the initial value of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed to charity. The annual payment never varies, regardless of trust income or the appreciation or depreciation in the value of trust assets.

Unitrusts – Unitrusts are trust agreements that are similar to annuity trusts, except that the annual payout generally is a fixed percentage, of not less than 6%, of the value of the trust assets valued annually. In general, the unitrust beneficiary payment amounts rise and fall in proportion to the value of trust assets. In certain cases, the payout from unitrusts may be tied to trust income.

Obligation to Provide Future Services – If the present value of future outflows to provide future services, adjusted for certain noncash items, exceeds the present value of future cash in-flows, a liability is recognized. An evaluation of the future service obligation for residents indicated a liability was not considered to be necessary at September 30, 2009 and 2008.

Types of Entrance Fees – The Care and Residence Agreements between the Corporation and the residents provide for the payment of an entrance fee. Entrance fees received by the Corporation are categorized into two types: initial entrance fees and entrance fees for reoccupancy and are recorded as deferred revenue from entrance fees. Initial entrance fees, which are the initial fees on new or expanded facilities, are used to provide funds for acquisition and construction of physical facilities, debt retirement, and to defray anticipated deficits in the operations of new homes for a period of time. Entrance fees from reoccupancy in existing homes are used for general purposes, including capital expenditures, support of operations (including benevolence), new development, and funding of reserves.

Refund Policy on Entrance Fees – The Care and Residence Agreement provides the resident with the right to a refund of the entrance fee, less 1.5% for 67 months or 2% for 44 months after an initial reduction of 12% of the original fee for each month of residency, under certain circumstances. For a majority of contracts, upon the death of a resident, the unamortized balance of the entrance fee becomes the property of the Corporation and is included in income. For contracts established in fiscal year 2006 or later, the resident's estate is entitled to a partial refund if death occurs in the first 44 months of the contract. Amounts amortized to income were \$18,166,000 and \$16,297,000 for the years ended September 30, 2009 and 2008, respectively.

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Note 2 – Accounting Policies (continued)

In 2008, with the completion of the Judson Park Soundview expansion, offering primarily rebatable entrance fee contracts, it was determined that the rebatable portion of the contract should be amortized to income over the life of the building, consistent with generally accepted accounting principles. This treatment commenced in April 2008 and resulted in \$241,000 and \$117,000 of income recognition in fiscal year 2009 and 2008, respectively.

In 2008, a 2000 update to the 1983 Group Annuity Mortality Table was implemented. The longer life expectancy in the updated tables resulted in a reduction to amounts amortized to income.

At September 30, 2009 and 2008, the Corporation had deferred revenue of \$133,859,000 and \$126,061,000, respectively, related to entrance fees received that will be recognized as revenue in future years unless refunded. On a contractual basis, approximately \$55,989,000 and \$59,081,000 of the deferred revenue and deposits were subject to refund as of September 30, 2009 and 2008, respectively. Actual refunds of entrance fees from this type of contract were \$3,161,000 and \$3,517,000 for the years ended September 30, 2009 and 2008, respectively. Based on historical experience, management expects refunds in future years to approximate \$4,000,000 per year and has classified that amount as a component of entrance fees subject to refund.

In certain prior years, the Corporation offered a contract option at one community whereby 50% or 80% of the entrance fee is refundable at death or termination of the contract. Beginning in October 2003, the Corporation began offering 50% and 80% contract rebate options at most of its communities, whereby the entrance fee is rebated to the resident or their estate upon reoccupancy of the apartment. At September 30, 2009 and 2008, \$20,832,000 and \$15,999,000, respectively, of the entrance fees related to these types of contracts are contractually refundable, and are included in refundable fees and deposits in the accompanying combined balance sheets.

Revenue Recognition – Entrance fees are initially recorded as deferred revenue and are amortized to income using the straight-line method over the remaining life expectancy of the resident. The life expectancy of each resident is updated annually based upon the 2000 Group Annuity Mortality Table.

Monthly service fees, ancillary and other service fees are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Accounts receivable over 150 days past their contractual due date are fully reserved.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

The Corporation provides health care services primarily to residents of its homes. Revenues from the Medicare, Medi-Cal/Medicaid programs accounted for approximately 23% and 19% of the Corporation's net revenue for the years ended September 30, 2009 and 2008, respectively. Laws and regulations governing the Medicare, Medi-Cal and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare, Medi-Cal, and Medicaid.

Net Assets – The Corporation reports three classifications of net assets. A description of each classification of net assets is as follows:

Unrestricted Net Assets – Unrestricted net assets include unrestricted contributions and income earned on unrestricted funds, and amounts for which restrictions have expired.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent resources restricted by donors for specific expenditures and are composed of trusts as well as donations for special projects. The related investment income on temporarily restricted net assets is transferred to unrestricted net assets, except for investment income earned on temporarily restricted funds held in trust which is restricted for payment of distributions to trust beneficiaries under the trust agreements. Investment income earned on restricted net assets is recorded in temporarily restricted or unrestricted net assets.

Also included in temporarily restricted net assets are assets held in trust under life annuity gifts. The assets are valued at fair market value in accordance with the requirements of the specific trust agreements. The Foundation is required to pay a certain portion of the annual income from these assets to the donor or a designated beneficiary for the life of the donor or the beneficiary. Such amounts have been estimated and reflected as obligations under annuity agreements in the accompanying combined balance sheets. The remaining assets will revert to the Foundation at the donor's or beneficiary's death. The portion of assets received in excess of that required to meet the annuity's obligations has been recognized as a contribution at the time received.

Assets received from external trusts that are controlled by third-party trustees are recognized at the present value of the estimated future distributions to be received by the Corporation over the term of the agreement.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

Permanently Restricted Net Assets – Permanently restricted net assets represent cash and investments that are subject to gift instrument restrictions that require the principal to be invested in perpetuity. The related investment income is transferred to unrestricted net assets or temporarily restricted net assets and primarily used to fund resident programs and activities and operating costs as designated by donors.

Benevolence and Contractual Allowances – The Corporation provides services to residents who meet certain criteria under its benevolence policy without charge or at amounts less than its established rates. Partial payments to which the Corporation is entitled from public assistance programs on behalf of residents that meet the Corporation’s benevolence criteria are reported as revenues. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenue. A portion of the Corporation’s revenues is subject to discounts under contracts with third-party payors. These discounts are reported as contractual allowances for the years ended (in thousands):

	2009	2008
Benevolence, based on established rates	<u>\$ 2,214</u>	<u>\$ 2,064</u>
Contractual allowances	<u>\$ 8,705</u>	<u>\$ 8,470</u>

Performance Indicator – “Income from operations” as reflected in the accompanying combined statement of operations and changes in net assets is a performance indicator. Income from operations includes all changes in unrestricted net assets other than primarily noncash changes in unrealized gains and losses on investments, certain pension provisions and discontinued operations.

Workers’ Compensation Plan – The Corporation is partially self-insured for workers’ compensation claims up to \$200,000 and \$250,000 per year under an occurrence form insurance policy for 2009 and 2008, respectively. Claims are accrued under the plan as the incidents that give rise to them occur. The estimate of incurred but not reported claims is based on actuarial projections of the ultimate cost of settlement, including claim settlement expenses, using the Corporation’s historical claim payment experience. The estimated liability is continually monitored and reviewed and, as settlements are made or estimates are adjusted, differences are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate payments of self-insured workers’ compensation claims are dependent upon future developments, management is of the opinion that the recorded reserve is adequate (see Note 10).

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 2 – Accounting Policies (continued)

Professional Liability Insurance – The Corporation has secured claims-made policies for malpractice and general liability insurance with self-insured retentions of \$250,000 for each claim for the years ended September 30, 2009 and 2008. The Corporation has accrued a liability of \$200,000 and \$450,000 as its best estimate of the cost of known claims incurred prior to September 30, 2009 and 2008, respectively, that are within the retention amount. In addition the Corporation has accrued a liability of \$1,151,000 and \$1,394,000 at September 30, 2009 and 2008, respectively, as its best estimate of the cost of claims incurred but not yet reported.

Tax-Exempt Status – The Corporation is a California nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

Reclassifications – Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on net income or net assets as previously reported.

Note 3 – Fair Value

The Organization adopted FASB ASC Topic 820 which defines the fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC Topic 820 has been applied prospectively as of the beginning of fiscal year 2009.

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 3 – Fair Value (continued)

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying combined financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents held for investment, certificates of deposit, commercial paper, mutual funds, equity securities, corporate debt securities and U.S. government securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain hedge fund of funds and other less liquid securities. These funds are comprised of hedge fund of funds which are valued using the Net Asset Value of the underlying funds.

Interest Rate Swap Agreement – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at September 30, 2009:

	Level 1	Level 2	Level 3	Fair value at September 30, 2009
Investments				
Cash and cash equivalents, certificates of deposit, and commercial paper	\$ 40,446	\$ -	\$ -	\$ 40,446
Mutual funds	9,001	-	-	9,001
Equity securities	46,318	-	-	46,318
Corporate debt securities	24,450	-	-	24,450
U.S. government securities	9,153	-	-	9,153
Alternative investments	-	-	6,410	6,410
Interest rate swaps	-	(890)	-	(890)
Total	<u>\$ 129,368</u>	<u>\$ (890)</u>	<u>\$ 6,410</u>	<u>\$ 134,888</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 3 – Fair Value (continued)

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying combined financial statements using significant unobservable (Level 3) inputs:

	<u>Alternative Investments</u>
Balance, October 1, 2008	\$ 7,568
Total unrealized gain and loss	
Included in change in unrealized gains on investments	<u>(1,158)</u>
Balance, September 30, 2009	<u>\$ 6,410</u>

Net losses for the period that are attributable to the change in unrealized gains or losses for Level 3 assets still held at year end amounts to \$1,158,000 included in change in unrealized gains on investments in the accompanying combined statements of operations and changes in net assets.

The following methods were used to estimate the fair value of all other financial instruments.

Cash and Cash Equivalents – The carrying amount approximates fair value.

Notes and Bonds Payable – The fair value of notes and bonds payable is estimated based on discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

The following table presents estimated fair values of the Corporation's financial instruments in accordance with FASB ASC Topic 825 not previously disclosed at September 30, 2009 and 2008:

	<u>2009</u>		<u>2008</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents - unrestricted	\$ 9,535	\$ 9,535	\$ 8,287	\$ 8,287
Cash and cash equivalents - restricted	\$ 4,410	\$ 4,410	\$ 3,260	\$ 3,260
Notes receivable	\$ 4,315	\$ 4,315	\$ 4,832	\$ 4,832
Notes and bonds payable	\$ 220,781	\$ 219,267	\$ 221,301	\$ 206,106

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Corporation would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of September 30, 2009 and 2008. Current estimates of fair value may differ significantly from the amounts presented.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 4 – Investments

Investments are held at September 30, 2009 and 2008, for the following purpose (at fair value) (in thousands):

	<u>2009</u>	<u>2008</u>
Investments		
Principal, interest, and other reserves held in trust under bond indenture or mortgage agreements	\$ 29,615	\$ 53,007
Investments held in trust under revocable trust, gift annuity, annuity trust or unitrust agreements	<u>12,032</u>	<u>12,046</u>
Total assets held in trust - restricted marketable securities	41,647	65,053
Investments - unrestricted	<u>94,131</u>	<u>101,916</u>
Total investments	<u>\$ 135,778</u>	<u>\$ 166,969</u>

Investments at September 30, 2009 and 2008, consist of the following at fair value (in thousands):

	<u>2009</u>	<u>2008</u>
Cash equivalents, certificates of deposit, and commercial paper	\$ 40,446	\$ 69,948
Mutual funds	9,001	6,858
Equity securities	46,318	45,917
Alternative investments	6,410	7,568
Corporate debt securities	24,450	23,030
U.S. government securities	<u>9,153</u>	<u>13,648</u>
Total	<u>\$ 135,778</u>	<u>\$ 166,969</u>

Alternative investments are invested in two hedge fund of funds as of September 30, 2009. Cash equivalents, certificates of deposit, and commercial paper include \$22,835,000 and \$42,436,000 at September 30, 2009 and 2008, respectively, invested in accordance with bond indentures and additional amounts to comply with bank collateral requirements. Of these amounts, \$10,871,000 at September 30, 2009 and \$23,941,000 at September 30, 2008 are amounts held for various Corporation redevelopment projects at the California continuing care retirement communities.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 4 – Investments (continued)

The following table shows the gross unrealized losses and fair value of investments and assets limited as to use with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2009 and 2008, (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2009						
Bonds	\$ 4,195	\$ 209	\$ 6,692	\$ 1,415	\$ 10,887	\$ 1,624
Equity	10,639	1,242	348	140	10,987	1,382
Total temporarily impaired investments	<u>\$ 14,834</u>	<u>\$ 1,451</u>	<u>\$ 7,040</u>	<u>\$ 1,555</u>	<u>\$ 21,874</u>	<u>\$ 3,006</u>
September 30, 2008						
Bonds	\$ 22,606	\$ 1,763	\$ 153	\$ 12	\$ 22,759	\$ 1,775
Equity	33,156	9,180	76	129	33,232	9,309
Total temporarily impaired investments	<u>\$ 55,762</u>	<u>\$ 10,943</u>	<u>\$ 229</u>	<u>\$ 141</u>	<u>\$ 55,991</u>	<u>\$ 11,084</u>

The fair value of these investments has declined due to a number of reasons, including changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of an other-than-temporary impairment under management's policy described below. ABHOW follows a policy of evaluating securities for impairment which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment income (loss) and a new cost basis in the investment is established. During 2009 and 2008, certain securities were determined to be other-than-temporarily impaired and resulted in an impairment charge of \$2,210,000 and \$1,676,000, respectively, which is included in realized losses on investments - net, in the accompanying combined statements of operations and changes in net assets.

The unrealized losses on these investments represent approximately 2.2% and 6.6% of ABHOW's portfolio as of September 30, 2009 and 2008, respectively. Gross unrealized gains on investments as of September 30, 2009 and 2008, were approximately \$7,353,000 and \$5,388,000, respectively.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 4 – Investments (continued)

Investment income (loss) primarily on unrestricted net assets for the years ended September 30, 2009 and 2008, is as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Dividend, interest, and other investment income	\$ 3,190	\$ 3,389
Other-than-temporary impairment	(2,210)	(1,676)
Net realized gain (loss) on investments	<u>(7,347)</u>	<u>354</u>
Total investment income (loss) - net	<u>\$ (6,367)</u>	<u>\$ 2,067</u>

Investment income is net of investment expenses of \$364,000 and \$498,000 for the years ended September 30, 2009 and 2008, respectively.

Note 5 – Land, Buildings, and Equipment

Land, buildings, and equipment at cost as of September 30, 2009 and 2008, consist of the following (in thousands):

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 44,180	\$ 29,965
Buildings and improvements	307,077	270,887
Furnishings and equipment	50,957	47,517
Automotive equipment	<u>929</u>	<u>862</u>
Total	403,143	349,231
Accumulated depreciation	<u>(195,085)</u>	<u>(178,701)</u>
Total	208,058	170,530
Construction in progress	<u>30,265</u>	<u>33,275</u>
Total	<u>\$ 238,323</u>	<u>\$ 203,805</u>

In 2008, as part of the San Joaquin Gardens redevelopment, the existing administrative building was demolished. This building had not been fully depreciated at the time of demolition, which resulted in a \$1,143,000 loss on retirement.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 6 – Notes and Bonds Payable

A summary of the Corporation’s notes and bonds payable at September 30, 2009 and 2008, is as follows (in thousands):

	2009	2008
Secured		
Bonds used to refinance existing debt and renovate existing retirement communities in California:		
Series 1997A, Revenue Refunding Certificates of Participation (dated October 15, 1997), secured by deed of trust and gross revenue - Serial certificates, annual principal payable commencing on October 1, 1998, in varying amounts ranging from \$800,000 to \$1,330,000 through 2017, and amounts ranging from \$1,410,000 to \$2,335,000 through 2027; interest at fixed rates ranging from 5.25% to 5.85%, payable semiannually on April 1 and October 1.	\$ 28,100	\$ 28,900
Series 1997B, Taxable Revenue Refunding Certificates of Participation (dated October 15, 1997), secured by deed of trust and gross revenue (converted on April 1, 1998, to tax-exempt Series 1998A Certificates): Serial certificates annual principal payable commencing on October 1, 1998 in varying amounts ranging from \$1,005,000 to \$1,725,000 through 2017, and \$1,835,000 to \$3,145,000 through 2027; interest at fixed rates ranging from 5.50% to 6.20%, payable semiannually on April 1 and October 1.	36,770	37,775
Series 1997C, Variable Rate Demand Taxable Revenue Refunding Certificates of Participation (dated October 30, 1997), secured by deed of trust due October 1, 2027, subject to earlier tender, interest at variable rates determined daily by a remarketing agency payable monthly (converted on April 1, 1998 to tax-exempt Series 1998B Certificates). Rates before LOC fees at September 30, 2009 and 2008 were 0.25% and 5.05%, respectively	10,855	11,265
Series 1997D, Variable Rate Demand Taxable Revenue Refunding Certificates of Participation (dated October 30, 1997), secured by deed of trust due October 1, 2027, subject to earlier tender, interest at variable rates determined daily by a remarketing agency payable monthly (converted on March 1, 2002 to tax-exempt Series 2002A Certificates). Rates before LOC fees at September 30, 2009 and 2008 were 0.25% and 5.05%, respectively.	8,980	9,320

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 6 – Notes and Bonds Payable (continued)

	2009	2008
Series 2006, Variable Rate Demand Taxable Revenue Bonds pursuant to a Bond Trust Indenture dated September 1, 2006 to finance the acquisition, construction, and equipping of CCRC's of ABHOW. Interest at variable rates determined daily by a remarketing agency payable monthly. Rates before LOC fees at September 30, 2009 and 2008 were 0.30% and 7.80%, respectively.	50,000	50,000
Other secured obligations		
Series 2007, Variable Rate Demand Nonprofit Revenue and Refunding Revenue Bonds (dated January 30, 2007), secured by deed of trust due February 1, 2037, subject to earlier tender, interest at variable rates determined weekly by a remarketing agency payable monthly. Rates at September 30, 2009 and 2008 were 2.77% at LIBOR plus 2.50% and 8.00% before LOC fees, respectively.	22,780	37,010
Land acquisition loan payable to Sovereign Bank and secured by Boise, Idaho land. The loan bears interest at LIBOR plus 2.50%, maturing May 14, 2013. Rates at September 30, 2009 and 2008 were 3.01% and 4.99%, respectively.	3,075	3,075
Land acquisition loan payable to Sovereign Bank and secured by Las Ventanas land and related ground lease. The loan bears interest at LIBOR plus 4.00%, maturing May 14, 2013. The interest rate at September 30, 2009 was 4.35%.	4,250	-
9.25% mortgage note to the Department of Housing and Urban Development, secured by deed of trust and security interest in all gross revenues of Casa de la Vista, payable in monthly installments of \$29,000, including interest through March 2013.	3,285	3,330
Mortgage note payable to Prudential Huntoon Paige Association, LTD. in monthly installments of \$22,729 (through April 2007) and \$10,509 (May 2007 - December 2038), including interest at 5.35%, less interest reduction payments as determined by the Federal Housing Administration under applicable provisions of section 236 of the National Housing Act, until December 1, 2038. Current interest reduction is \$12,324 per month. The mortgage note is secured by a deed of trust on the Harborview's property.	1,862	1,888

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 6 – Notes and Bonds Payable (continued)

	<u>2009</u>	<u>2008</u>
5.70% first mortgage payable to Evanston Financial in monthly installments (including interest) of \$10,250 until December 1, 2042. The loan is secured by a deed of trust on Oak Knoll real estate and a security interest in all rents, profits and income from Oak Knoll.	1,832	1,850
Capital advances payable to Department of Housing and Urban Development, secured by Fern Lodge real estate, 5.75% interest payable monthly if not maintained as affordable housing, principal due 2039, unless forgiven.	4,889	4,889
Capital advances payable to Department of Housing and Urban Development, secured by Tahoe Senior Plaza real estate. The capital advances bear no interest and are not required to be repaid if properly maintained as affordable housing, principal due 2039, unless forgiven.	4,603	4,603
Capital advances payable to Department of Housing and Urban Development, secured by Broadmoor Plaza real estate. The capital advances bear no interest and are not required to be repaid if properly maintained as affordable housing for forty years, various principal due dates from 2044 to 2064, unless forgiven.	8,627	8,077
Capital advances payable to Department of Housing and Urban Development, secured by Judson Terrace Lodge real estate. The capital advances bear no interest and are not required to be repaid if properly maintained as affordable housing for forty years, various principal due dates from 2034 to 2044, unless forgiven.	3,911	3,911
Capital advances payable to Department of Housing and Urban Development, secured by Hillcrest real estate. The capital advances bear no interest and are not required to be repaid if properly maintained as affordable housing for forty years.	10,088	8,089
Land acquisition loans payable to the San Ramon Redevelopment Agency Contra Costa, secured by Valley Vista real estate. The land acquisition advances bear no interest and are not required to be repaid if properly maintained as affordable housing for forty years.	7,267	5,961
Construction loan payable to the California Housing Finance Agency, secured by Kelly Ridge real estate and maturing upon funding of the tax credits. The loan bears interest at a variable rate, which at September 30, 2009 was 1.90%.	3,621	-
Construction loan payable to the City of South Lake Tahoe, secured by Kelly Ridge real estate and due in 2064. The loan bears interest at a rate of 3.5%, with principal and accrued interest only payable to the extent that certain operating cash flow targets are achieved by the community.	2,702	-

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 6 – Notes and Bonds Payable (continued)

	2009	2008
Capital advances payable to Department of Housing and Urban Development, secured by Good Shepherd real estate. The capital advances bear no interest and are not required to be repaid if properly maintained as affordable housing for forty years.	2,963	-
Total secured notes and bonds payable	220,460	219,943
Unsecured		
Notes to individuals bearing interest rates of 5% to 10% with varying maturities	194	194
Other Casa de la Vista advances	127	127
Total unsecured notes payable	321	321
Fair value adjustment to debt underlying interest rate swap hedge (Note 8)	-	1,037
Total notes and bonds payable	\$ 220,781	\$ 221,301

In 2008, American Baptist Properties obtained a revolving line of credit in the amount of \$15,000,000, maturing on May 14, 2013. In June 2009, \$4,250,000 was drawn upon the line to fund half of the purchase price of the Las Ventanas land and related ground lease. At September 30, 2009 and 2008, the facility had an interest rate of 4.35% and 4.99%, respectively.

Pursuant to a guaranty agreement, the Foundation has guaranteed the performance of the Corporation on its bond obligations secured by the eight California continuing care retirement communities. The Foundation's obligations under the guaranty agreement are limited to the Foundation's income earned on its unrestricted net assets. The Corporation and the Foundation are required to maintain compliance with certain financial reporting, administrative, and financial covenants on a combined reporting basis (see Note 7).

The Series 1998B and 2002A bonds are backed by irrevocable letters of credit issued by a bank for \$10,855,000 and \$8,980,000, respectively. The letters of credit are subject to certain administrative and financial covenants and expire April 14, 2010 (see Note 16). The Nonprofit Revenue and Refunding Revenue Bonds Series 2007 are backed by an irrevocable letter of credit issued by a bank for \$22,780,000. The letters of credit are subject to certain administrative and financial covenants and expire January 30, 2012. See Note 7 for the Corporation's compliance with financial covenants.

During 2006, the Corporation issued \$50 million of additional tax-exempt bonds. The 2006 bonds are backed by irrevocable letters of credit issued by a bank for \$50,548,000. The letter of credit is subject to certain administrative and financial covenants and expires September 26, 2011. See Note 7 for the Corporation's compliance with financial covenants.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 6 – Notes and Bonds Payable (continued)

Capitalized interest expense for the year ended September 30, 2009, was \$193,000, composed of \$1,041,000 of interest expense net of \$848,000 of interest income. Capitalized interest expense for the year ended September 30, 2008, was \$1,134,000, composed of \$2,960,000 of interest expense net of \$1,826,000 of interest income.

Scheduled maturities of notes and bonds payable are as follows (in thousands):

<u>Year Ending September 30,</u>	
2010	\$ 27,828
2011	4,484
2012	4,728
2013	12,316
2014	5,266
Thereafter	<u>166,159</u>
	<u><u>\$ 220,781</u></u>

Scheduled maturities in 2010 include the full amounts due under the Series 1998B and 2002A Certificates, totaling \$19,835,000 as the letter of credit supporting the obligations matures April 14, 2010. The Corporation intends to refinance these obligations in advance of the maturity date (see Note 16).

The Corporation maintains a standby letter of credit with a bank for workers' compensation as discussed in Note 10.

Note 7 – Compliance with Financial Covenants

ABHOW Debt – ABHOW is subject to financial covenants on its obligated group debt which include a debt service coverage ratio and minimum days of cash-on-hand requirement. There is also a limitation on capital expenditures if debt service coverage or days cash-on-hand requirements are not met. ABHOW was in compliance with each of these debt covenants as of and for the year ended September 30, 2009.

Judson Park Debt – American Baptist Homes of Washington, d.b.a. Judson Park is subject to financial covenants on debt which include a debt service coverage ratio and minimum days cash on hand requirement. Judson Park was in compliance with each of these debt covenants as of and for the year ended September 30, 2009.

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Note 7 – Compliance with Financial Covenants (continued)

ABP Debt – ABHOW has provided a debt service guaranty on obligations of American Baptist Properties. ABP financial covenants require that ABHOW support debt service payments of ABP if ABP's liquidity falls below \$875,000. Obligations of ABP include the Boise land loan of \$3,075,000, a \$4,250,000 Las Ventanas land loan and additional capacity on a revolving line of credit (see Note 16). ABP was in compliance with debt covenants as of and for the year ended September 30, 2009.

Note 8 – Interest Rate Swaps

In December 2000, the Corporation entered into several interest rate swaps which convert underlying notional amounts of: \$26,725,000 (for 27 years), \$13,385,000 (for 17 years) and \$5,595,000 (for 7 years) related to the Corporation's 1997 Series A and B debt from fixed interest rates to variable interest rates based on the SIFMA Municipal Swap Index (formerly BMA Municipal Swap Index) (7.96% as of September 30, 2008). These swaps were designated by the Corporation as a hedge against changes in the overall fair value of the underlying debt. In accordance with FASB Accounting Standards Codification, the fair value of the interest rate swaps was included in other assets in the Corporation's balance sheets. Any ineffectiveness in the hedge was recognized as an unrealized gain or loss in other operating income (expense) in the accompanying combined statements of operations and changes in net assets. The change in the fair value of the underlying debt was reflected as an adjustment to the debt balance.

On October 1, 2007, the \$5,595,000 original notional amount was fully paid and the \$13,385,000 notional amount was called away in accordance with swap terms. The \$26,725,000 notional amount remained outstanding but was subsequently called away on April 1, 2009.

In March 2007, an additional forward swap was placed to manage interest rate risk relating to a contemplated refunding in 2008. The refunding contemplated replacing all remaining Series 1997 debt as of October 1, 2008, estimated to be \$86.695 million. The swap was tied to the SIFMA index with a strike price of 3.947%. At issuance of the refunding bonds, if the SIFMA index was greater than the strike price, the Corporation would receive a cash payment and if it was less, the Corporation would make a cash payment that is eligible to be funded with refunding bond proceeds. During fiscal year 2008, this forward swap was no longer functioning as intended due to market disruptions. The transaction was terminated during 2008 at an aggregate cost of approximately \$100,000. The contemplated refunding transaction has been delayed until a more favorable financing environment exists, (see Note 16).

The net effect of the various interest rate swaps provided interest expense savings of approximately \$430,000 and \$269,000 for the years ending September 30, 2009 and 2008, respectively, prior to being called away on April 1, 2009.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 8 – Interest Rate Swaps (continued)

A summary of the components of the various interest rate swaps as of September 30, 2009 and 2008, is as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Swaps qualifying for hedge accounting in other assets and bonds payable		
Fair value of swap assets - beginning of year	\$ (345)	\$ (164)
Increase (decrease) in fair value	<u>345</u>	<u>(181)</u>
Fair value of swap assets - end of year	<u>\$ -</u>	<u>\$ (345)</u>
Fair value adjustment to debt underlying interest rate swap		
hedge - beginning of year	\$ (1,037)	\$ (382)
Increase (decrease) in fair value of debt underlying		
interest rate swap hedge	<u>1,037</u>	<u>(655)</u>
Fair value adjustment to debt underlying interest rate swap hedge -		
end of the year	<u>\$ -</u>	<u>\$ (1,037)</u>
Swaps not qualifying for hedge accounting in other liabilities		
Fair value of swap - beginning of year	\$ (248)	\$ 850
Increase in unrealized loss from fair value adjustment	<u>(642)</u>	<u>(1,098)</u>
Fair value of swaps - end of year	<u>\$ (890)</u>	<u>\$ (248)</u>
Impact on statement of operations and changes in net assets -		
net increase (decrease) in unrealized gain from hedge inefficiency		
and mark-to-market of floating to fixed rate swaps	<u>\$ 740</u>	<u>\$ (1,934)</u>

Note 9 – Employee Benefit Plans

Defined Benefit Pension Plan – The Corporation’s employees with service prior to December 31, 2002, for nonunion, and up to September 30, 2003, for union, are eligible to participate in a defined benefit retirement plan which covers certain employees who are at least 21 years of age and have completed one year of service. Benefits are based on years of service and a percentage of the employee’s compensation. Employees vest after completion of five years of service. The Corporation’s funding policy is to contribute annually the amount required under the minimum funding standards of the Employee Retirement Income Security Act (“ERISA”). The Board of Directors approved the freezing of the plan for all nonunion employees effective December 31, 2002, and for union employees effective September 30, 2003. Contributions are intended to provide for benefits attributed to service to the date of freezing.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 9 – Employee Benefit Plans (continued)

A recognition of the Plan's benefit obligations, fair value of assets, funded status, and amounts recognized in the Corporation's accompanying combined balance sheets is as follows as of September 30, 2009 and 2008, (in thousands):

	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 24,155	\$ 25,302
Service cost	-	99
Interest cost	1,965	1,527
Actuarial gain	3,229	(1,405)
Benefits paid	(1,738)	(1,368)
Benefit obligation at measurement date	\$ 27,611	\$ 24,155
Change in plan asset		
Fair value of plan assets at beginning of year	\$ 25,908	\$ 28,378
Actual return on plan assets	(38)	(1,102)
Employer contribution	2,000	-
Benefits paid	(1,738)	(1,368)
Fair value of plan assets at measurement date	\$ 26,132	\$ 25,908
Funded status at measurement date	\$ (1,479)	\$ 1,753
Unrecognized net actuarial loss	11,091	6,242
Unrecognized prior service cost	82	99
Prepaid benefit	9,694	8,094
Accumulated other comprehensive income for unrecognized net actuarial losses	(11,173)	(6,341)
Net (liability) asset recognized	\$ (1,479)	\$ 1,753

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 9 – Employee Benefit Plans (continued)

The components of net periodic benefit cost included as part of employee costs in the Corporation's accompanying combined statement of operations and changes in net assets is as follows for the years ended September 30, 2009 and 2008, (in thousands):

	<u>2009</u>	<u>2008</u>
Interest cost	\$ 1,572	\$ 1,527
Expected return on plan assets	(1,753)	(1,994)
Amortization of prior service cost	14	-
Recognized net actuarial loss	<u>487</u>	<u>258</u>
Net periodic benefit cost	<u>\$ 320</u>	<u>\$ (209)</u>

The following assumptions were used for the September 30, 2009 and June 30, 2008 measurement dates (in thousands):

	<u>2009</u>	<u>2008</u>
Actuarial present value of the benefit obligation		
Weighted-average discount rate	5.50%	6.75%
Rate of increase in future compensation levels*	n/a	n/a
Long-term rate of return on plan assets	7.00%	7.25%
Net periodic benefit cost		
Weighted-average discount rate	6.75%	6.25%
Rate of increase in future compensation levels	n/a	n/a
Long-term rate of return on plan assets	7.00%	7.25%

* As the Plan was frozen for all employees as of September 30, 2003, the rate of increase in future compensation levels are not considered to be applicable at 2009 and 2008, respectively.

Pension plan assets are as follows:

	<u>2009</u>	<u>2008</u>
Equity securities	32%	37%
Debt securities	61%	55%
Guaranteed insurance contract	<u>7%</u>	<u>8%</u>
Total	<u>100%</u>	<u>100%</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 9 – Employee Benefit Plans (continued)

The expected rate of return on plan assets for computing pension expense was 7.00% and 7.25% for the years ended September 30, 2009 and 2008, respectively. These rates were based primarily on investment portfolios of 40% equities and 60% fixed income. Real rates of return (before inflation) for these categories are assumed to be 5.5% and 3.5% respectively, with a long term inflation rate of 3.25%.

The Corporation expects to contribute \$1,000,000 to its defined benefit retirement plan for the year ending September 30, 2010.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2010	\$	1,790
2011		1,770
2012		1,790
2013		1,810
2014		1,810
Thereafter		9,080
	\$	18,050

Supplemental Retirement Income Plan Agreements – Certain management employees or retirees of the Corporation participate in supplemental retirement income plans, and have individually entered into agreements with the Corporation whereby the employees will be provided specific amounts of annual retirement income for the balance of their lifetime following retirement. During the year ended September 30, 2005, accrued benefits for active participants in the supplemental retirement income plan were transferred into a new non-qualified plan under IRC 457(f) that distributes a lump-sum payment at retirement. The Corporation is accruing the present value of such retirement benefits, assuming a discount rate of 6.0% at September 30, 2009 and 2008, from the date of eligibility to the normal retirement date at age 65 for active participants and for the present value of future benefit payments for retirees. The benefits under the IRC 457(f) plan are discretionary and do not vest until the participant reaches age 65, dies, becomes disabled or is involuntary terminated without cause. No benefits are due to participants who terminate their employment prior to age 65. The present value of the future lump sum payments to active participants is \$7.2 million at September 30, 2009.

Assets available for benefits for the pool of participants in the IRC 457(f) plan are subject to the claims of the Corporation's creditors. The assets are included in investments and amounted to \$4,448,000 and \$3,529,000 at September 30, 2009 and 2008, respectively. Normal funding for the pool of active participants is approximately \$750,000 per year.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 9 – Employee Benefit Plans (continued)

The Corporation annually assesses the estimated liability related to the supplemental retirement income plan agreements. At September 30, 2009 and 2008, ABHOW recognized a liability of \$5,157,000 and \$5,000,000, respectively, which is included in retirement liabilities in the accompanying combined balance sheets. Actual payments made to retirees under the agreements and plan were \$244,000 and \$280,000 for the years ended September 30, 2009 and 2008, (in thousands):

	<u>2009</u>	<u>2008</u>
Retirement liabilities and life insurance premiums incurred	\$ 85	\$ 267
Decrease (increase) in cash value of life insurance	<u>(28)</u>	<u>49</u>
Total expense	<u>\$ 57</u>	<u>\$ 316</u>

Defined Contribution Plan – Effective January 1, 1999, the Corporation also participates in a defined contribution retirement plan covering all eligible employees. The Corporation’s contribution was a match of employee contributions up to 4% of eligible earnings in calendar years 2009 and 2008. Expense incurred under the plan for the years ended September 30, 2009 and 2008, was \$965,000 and \$951,000, respectively.

Note 10 – Self-Insured Workers’ Compensation Plan

The Corporation has a partially self-funded workers’ compensation program, covering all employees, which includes a reinsurance policy covering individual claims in excess of \$200,000 and \$250,000 per occurrence at September 30, 2009 and 2008, respectively. The Corporation has recorded a total liability for claims payable of \$2,078,000 and \$2,345,000, respectively, including an estimate of incurred but not reported claims assuming a discount rate of 6.25% at September 30, 2009 and 2008. As required by the insurer, the Corporation obtained letters of credit for \$4,318,000 in connection with this program.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 11 – Functional Expenses

Management of the Corporation presents operating expenses in its accompanying combined statements of operations and changes in net assets by natural class categories. Operating expenses classified by functional categories for the years ended September 30, 2009 and 2008, were as follows (in thousands):

	2009	2008
Direct resident care	\$ 43,449	\$ 41,110
Dietary services	19,065	17,591
Housekeeping and laundry services	5,707	5,283
Property	17,642	17,111
Resident services and activities	3,753	3,434
Marketing	3,467	3,224
Administrative and general	24,117	22,841
Total expense	\$ 117,200	\$ 110,594

Note 12 – Relationship and Transactions with Managed Rental Homes and CCRCS

The Corporation and its affiliates manage rental housing communities, continuing care retirement communities and assisted living communities (see Note 1) under management agreements whereby the Corporation or its affiliates provide administrative and management services to all communities and sales management services to the continuing care retirement communities.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 12 – Relationship and Transactions with Managed Rental Homes and CCRCS (continued)

Management fees for providing these services for the years ended September 30, 2009 and 2008, are included in other operating revenue earned by Seniority and ABHOW, and for affordable housing are included in affordable housing fees and rents and are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Seniority - Independent and Assisted Living		
Cedar Creek	\$ 50	\$ 125
Nikkei Gardens	125	40
Kokoro	94	94
Pacific Gardens	-	13
Oak Hill	27	81
Cypress Springs	90	-
Cottonwood Court	97	-
Courtside Cottages	102	-
Sun Grove	123	53
Total Seniority	<u>708</u>	<u>406</u>
ABHOW - Continuing Care Retirement Communities		
Terraces of Phoenix	310	262
Las Ventanas - oversight management only	-	-
Total ABHOW	<u>310</u>	<u>262</u>
Affordable Housing		
Allen Temple Arms I	43	43
Allen Temple Arms II	35	34
Allen Temple Arms III	42	42
Allen Temple Arms IV	20	20
Bellflower Friendship Manor	87	77
Bellflower Oak Street Manor	18	18
Casa De Redwoods	74	71
E.E. Cleveland Manor	45	46
Judson Terrace	67	65
Manila Terrace	20	20
Mount Rubidoux Manor	143	144
Pacific Meadows	114	114
Total affordable housing	<u>708</u>	<u>694</u>
Total management fees	<u>\$ 1,726</u>	<u>\$ 1,362</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 12 – Relationship and Transactions with Managed Rental Homes and CCRCS (continued)

Amounts receivable from these managed homes for management fees and cost recoveries for other services such as dining, purchase cards, payroll, and insurance at September 30, 2009 and 2008, are included in accounts receivable and are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Seniority - Independent and Assisted Living		
Cedar Creek	\$ 204	\$ 169
Boise	202	80
Nikkei Gardens	24	1
Cottonwood Court	30	-
Cypress Springs	28	-
Sun Grove	-	1
	<u>488</u>	<u>251</u>
ABHOW - Continuing Care Retirement Communities		
Terraces of Phoenix	1,267	764
	<u>1,267</u>	<u>764</u>
Affordable Housing		
Allen Temple Arms I	101	79
Allen Temple Arms II	12	25
Allen Temple Arms III	15	39
Allen Temple Arms IV	126	103
Bellflower Friendship Manor	23	1
Bellflower Oak Street Manor	2	-
Casa De Redwoods	2	-
E.E. Cleveland Manor	42	62
Judson Terrace	91	44
Manila Terrace	-	(1)
Mount Rubidoux Manor	39	157
Pacific Meadows	568	613
	<u>1,021</u>	<u>1,122</u>
Total affordable housing	<u>1,021</u>	<u>1,122</u>
Total receivable	<u>\$ 2,776</u>	<u>\$ 2,137</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 12 – Relationship and Transactions with Managed Rental Homes and CCRCS (continued)

Terraces of Phoenix receivable represents a portion of the management fee that is not payable until certain financial ratios are achieved. Repayment of this receivable is anticipated to commence in 2010. Pacific Meadows receivable represents major repairs that are anticipated to be collected following resyndication in 2010.

In addition, receivables from these communities are included in other assets in the accompanying combined balance sheets and are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Allen Temple Gardens III	\$ -	\$ 3
Allen Temple Gardens IV	-	9
	<u>\$ -</u>	<u>\$ 12</u>
Total long-term receivables		

Note 13 – Leases

ABHOW has entered into operating leases for premises and equipment. Rent expense was approximately \$1,400,000 and \$1,537,000 for the years ended September 30, 2009 and 2008, respectively.

Future minimum annual lease payments under non-cancelable operating leases are as follows (in thousands):

2010	\$ 1,209
2011	1,106
2012	995
2013	869
2014	<u>440</u>
Total	<u>\$ 4,619</u>

Note 14 – Commitments and Contingencies

The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, based upon current facts and circumstances the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 14 – Commitments and Contingencies (continued)

ABHOW is aware of the existence of asbestos in certain of its buildings. ABHOW has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, ABHOW will record an estimate of the costs of the required asbestos abatement.

ABHOW has provided a debt service guaranty for the obligations of ABP (see Notes 6 and 7) in the event ABP liquidity falls below \$875,000. ABP liquidity at September 30, 2009 totaled \$2,632,000.

During FY 2008, ABHOW provided a temporary construction loan guaranty in the amount of \$4,730,000 for the development of Tahoe Senior Plaza II affordable housing community. The construction loan will be retired by a combination of funds provided by tax credit investors that are bound by subscription agreements for \$3.2 million as well as government funding for \$4.3 million. The 33 unit building is complete and operational, and take-out funding is scheduled for January 2010, at which time the guaranty will be released.

During FY 2009, authorization was given for ABHOW to guaranty a \$20,000,000 construction loan to the Valley Vista affordable housing community and to guaranty \$5,000,000 of debt related to the resyndication and refurbishment of Pacific Meadows. The \$20,000,000 guaranty is not expected to be released until the middle of 2011, upon completion and fill of Valley Vista. The \$5,000,000 guaranty is also not expected to be released until the middle of 2011, and cannot be entered into until the \$4,730,000 Tahoe Senior Plaza II guaranty is released.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 15 – Summary of HUD Audited Financial Statements (in thousands)

	2009		2008	
	Total Assets	Total Revenues	Total Assets	Total Revenues
Casa De La Vista	\$ 1,726	\$ 887	\$ 1,957	\$ 892
Fern Lodge	4,914	322	5,098	309
Harbor View Manor	1,703	1,177	1,773	1,167
Oak Knolls Haven	1,444	404	1,464	382
Tahoe Senior Plaza	3,652	258	3,760	248
Judson Terrace Lodge	3,843	197	3,923	195
Broadmoor Plaza	7,957	378	8,079	362
Hillcrest Gardens	9,863	295	9,102	9
	<u>\$ 35,102</u>	<u>\$ 3,918</u>	<u>\$ 35,156</u>	<u>\$ 3,564</u>

Note 16 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. ABHOW recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. ABHOW's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

ABHOW has evaluated subsequent events through December 29, 2009 which is the date the financial statements are issued.

On October 28, 2009, in conjunction with the Corporation being granted the ability to temporarily guarantee \$25,000,000 of affordable housing construction debt (see Note 14), the ABP \$15,000,000 revolving line of credit was reduced to \$11,000,000 and requires all three letter of credit banks to approve any future drawings.

On November 7, 2008, Judson Park received notification from its letter of credit bank Sovereign, that its confirming letter of credit would not be renewed at its January 30, 2009 expiration. As, it was not feasible for Sovereign to secure a replacement confirming letter of credit, a modification to the trust indenture and reimbursement agreement was executed that allowed the bonds to be owned by Sovereign until a replacement facility could be obtained that would allow remarketing. On November 19, 2009 Banco Santander provided the new confirming letter of credit, and the bonds were successfully remarketed.

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

Note 16 – Subsequent Events (continued)

Subsequent to September 30, 2009, as a result of favorable conditions in the credit markets, it was determined that an opportunity had arisen to potentially refinance, with fixed rate debt, the ABHOW 1997 debt. On November 24, 2009, a notice of intent was publicly filed, and at December 29, 2009, the Corporation continues to pursue a refinancing should the prevailing market conditions permit.

On December 2, 2009, ABHOW's letter of credit on the remaining 1997 variable rate debt for the \$19.5 million expiring January 14, 2010, was extended for 90 days through April 14, 2010, to correspond with the Corporation's intended refinancing of its 1997 debt as discussed above.

SUPPLEMENTAL COMBINING SCHEDULES

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL COMBINING SCHEDULES

To the Members of the Board of Directors of
American Baptist Homes of the West

Our report on our audits of the combined financial statements of American Baptist Homes of the West ("ABHOW") as of September 30, 2009 and 2008, and for the years then ended appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis of the basic combined financial statements rather than to present the financial position and results of operation of the individual affiliates, and are not a required part of the basic combined financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the basic combined financial statements. In our opinion, which insofar as it relates to Casa de la Vista, Fern Lodge, Harbor View Manor, Oak Knolls Haven, Tahoe Senior Plaza, Judson Terrace Lodge, Hillcrest Gardens and Broadmoor Plaza, is based on the reports of other auditors, such information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.



San Francisco, California
December 29, 2009

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2009
(In Thousands)

	ABHOW Obligated Group	Judson Park	BSAM	Seniority Inc.	Foundation	American Baptist Properties
ASSETS						
CASH AND CASH EQUIVALENTS	\$ 4,940	\$ 3,717	\$ -	\$ 357	\$ 183	\$ 7
RESTRICTED CASH	2,567	-	-	-	-	-
INVESTMENTS	60,025	1,987	-	-	29,494	2,625
RESTRICTED INVESTMENTS	29,615	-	2,086	-	9,946	-
RESIDENT ACCOUNTS AND OTHER RECEIVABLES - net	8,958	1,815	-	359	98	-
INTERCOMPANY	14,418	(4,786)	-	36	(567)	(8,250)
NOTES RECEIVABLE - net	4,315	-	-	-	-	-
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	2,509	58	-	-	11	56
OTHER ASSETS	6,300	2,399	476	-	-	264
LAND, BUILDING, AND EQUIPMENT - net	144,926	37,691	-	-	-	12,977
TOTAL	\$ 278,573	\$ 42,881	\$ 2,562	\$ 752	\$ 39,165	\$ 7,679
LIABILITIES AND NET ASSETS (DEFICIT)						
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 12,228	\$ 692	\$ -	\$ 559	\$ 50	\$ 42
DEPOSITS	2,478	66	-	-	-	-
ACCRUED INTEREST	1,962	35	-	-	-	-
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	38,664	17,325	-	-	-	-
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	72,225	5,645	-	-	-	-
DEFERRED REVENUE FROM INVESTMENT CONTRACT	3,840	-	-	-	-	-
REVOCABLE TRUSTS	-	-	-	-	902	-
OBLIGATIONS UNDER ANNUITY AGREEMENTS	-	-	-	-	3,204	-
NOTES AND BONDS PAYABLE	142,166	22,780	-	-	-	7,325
RETIREMENT LIABILITIES	6,878	-	-	-	-	-
WORKER'S COMPENSATION LIABILITY	2,078	-	-	-	-	-
OTHER LIABILITIES	426	934	-	-	78	-
Total liabilities	282,945	47,477	-	559	4,234	7,367
COMMITMENTS AND CONTINGENCIES						
NET ASSETS (DEFICIT)						
Unrestricted	(4,372)	(4,596)	(9)	193	29,022	312
Temporarily restricted	-	-	2,440	-	5,574	-
Permanently restricted	-	-	131	-	335	-
Total net assets (deficit)	(4,372)	(4,596)	2,562	193	34,931	312
TOTAL	\$ 278,573	\$ 42,881	\$ 2,562	\$ 752	\$ 39,165	\$ 7,679

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2009 (continued)
(In Thousands)

	Casa de la Vista	Fern Lodge	Harbor View Manor	Oak Knolls Haven	Tahoe Senior Plaza	Carmel Senior Housing
ASSETS						
CASH AND CASH EQUIVALENTS	\$ 1	\$ 9	\$ 140	\$ -	\$ 11	\$ 44
RESTRICTED CASH	330	363	295	364	147	5
INVESTMENTS	-	-	-	-	-	-
RESTRICTED INVESTMENTS	-	-	-	-	-	-
RESIDENT ACCOUNTS AND OTHER RECEIVABLES - net	4	-	5	(1)	-	-
INTERCOMPANY	(96)	(5)	-	(131)	(10)	(560)
NOTES RECEIVABLE - net	-	-	-	-	-	-
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	69	20	163	16	14	21
OTHER ASSETS	-	-	-	122	3	-
LAND, BUILDING, AND EQUIPMENT - net	1,418	4,527	1,100	1,074	3,487	6,932
TOTAL	<u>\$ 1,726</u>	<u>\$ 4,914</u>	<u>\$ 1,703</u>	<u>\$ 1,444</u>	<u>\$ 3,652</u>	<u>\$ 6,442</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 249	\$ 21	\$ 84	\$ 33	\$ 15	\$ 7
DEPOSITS	-	-	-	-	-	-
ACCRUED INTEREST	-	-	-	-	-	131
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	-	-	-	-	-	-
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	-	-	-	-	-	-
DEFERRED REVENUE FROM INVESTMENT CONTRACT	-	-	-	-	-	-
REVOCABLE TRUSTS	-	-	-	-	-	-
OBLIGATIONS UNDER ANNUITY AGREEMENTS	-	-	-	-	-	-
NOTES AND BONDS PAYABLE	3,412	4,889	1,862	1,832	4,603	6,323
RETIREMENT LIABILITIES	-	-	-	-	-	-
WORKER'S COMPENSATION LIABILITY	-	-	-	-	-	-
OTHER LIABILITIES	26	19	30	13	13	19
Total liabilities	<u>3,687</u>	<u>4,929</u>	<u>1,976</u>	<u>1,878</u>	<u>4,631</u>	<u>6,480</u>
COMMITMENTS AND CONTINGENCIES						
NET ASSETS (DEFICIT)						
Unrestricted	(1,961)	(15)	(273)	(434)	(979)	(38)
Temporarily restricted	-	-	-	-	-	-
Permanently restricted	-	-	-	-	-	-
Total net assets (deficit)	<u>(1,961)</u>	<u>(15)</u>	<u>(273)</u>	<u>(434)</u>	<u>(979)</u>	<u>(38)</u>
TOTAL	<u>\$ 1,726</u>	<u>\$ 4,914</u>	<u>\$ 1,703</u>	<u>\$ 1,444</u>	<u>\$ 3,652</u>	<u>\$ 6,442</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2009 (continued)
(In Thousands)**

	Judson Terrace Lodge	Broadmoor Plaza	Hillcrest Gardens	Good Shepherd	Subtotal	Eliminations	Total
ASSETS							
CASH AND CASH EQUIVALENTS	\$ 4	\$ 30	\$ 85	\$ 7	\$ 9,535	\$ -	\$ 9,535
RESTRICTED CASH	79	187	48	25	4,410	-	4,410
INVESTMENTS	-	-	-	-	94,131	-	94,131
RESTRICTED INVESTMENTS	-	-	-	-	41,647	-	41,647
RESIDENT ACCOUNTS AND OTHER RECEIVABLES - net	-	2	2	-	11,242	-	11,242
INTERCOMPANY	-	(6)	(43)	-	-	-	-
NOTES RECEIVABLE - net	-	-	-	-	4,315	-	4,315
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	14	39	17	-	3,007	-	3,007
OTHER ASSETS	-	-	-	-	9,564	(55)	9,509
LAND, BUILDING, AND EQUIPMENT - net	3,746	7,705	9,754	2,986	238,323	-	238,323
TOTAL	\$ 3,843	\$ 7,957	\$ 9,863	\$ 3,018	\$ 416,174	\$ (55)	\$ 416,119
LIABILITIES AND NET ASSETS (DEFICIT)							
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 60	\$ 46	\$ 14	\$ 55	\$ 14,155	\$ (55)	\$ 14,100
DEPOSITS	-	-	-	-	2,544	-	2,544
ACCRUED INTEREST	-	-	-	-	2,128	-	2,128
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	-	-	-	-	55,989	-	55,989
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	-	-	-	-	77,870	-	77,870
DEFERRED REVENUE FROM INVESTMENT CONTRACT	-	-	-	-	3,840	-	3,840
REVOCABLE TRUSTS	-	-	-	-	902	-	902
OBLIGATIONS UNDER ANNUITY AGREEMENTS	-	-	-	-	3,204	-	3,204
NOTES AND BONDS PAYABLE	3,911	8,627	10,088	2,963	220,781	-	220,781
RETIREMENT LIABILITIES	-	-	-	-	6,878	-	6,878
WORKER'S COMPENSATION LIABILITY	-	-	-	-	2,078	-	2,078
OTHER LIABILITIES	10	20	14	-	1,602	-	1,602
Total liabilities	3,981	8,693	10,116	3,018	391,971	(55)	391,916
COMMITMENTS AND CONTINGENCIES							
NET ASSETS (DEFICIT)							
Unrestricted	(138)	(736)	(253)	-	15,723	-	15,723
Temporarily restricted	-	-	-	-	8,014	-	8,014
Permanently restricted	-	-	-	-	466	-	466
Total net assets (deficit)	(138)	(736)	(253)	-	24,203	-	24,203
TOTAL	\$ 3,843	\$ 7,957	\$ 9,863	\$ 3,018	\$ 416,174	\$ (55)	\$ 416,119

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2008
(In Thousands)

	ABHOW Obligated Group	Judson Park	BSAM	Seniority Inc.	Foundation	American Baptist Properties
ASSETS						
CASH AND CASH EQUIVALENTS	\$ 5,538	\$ 1,917	\$ 61	\$ 303	\$ 35	\$ 142
RESTRICTED CASH	743	604	-	-	-	-
INVESTMENTS	67,122	1,821	-	-	29,918	3,055
RESTRICTED INVESTMENTS	42,294	10,713	2,076	-	9,970	-
RESIDENT ACCOUNTS AND OTHER RECEIVABLES - net	6,559	2,516	51	237	226	1
INTERCOMPANY	8,632	(4,786)	-	30	308	(4,000)
NOTES RECEIVABLE - net	4,832	-	-	-	-	-
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	1,006	107	-	-	7	-
OTHER ASSETS	7,315	2,308	493	-	-	372
LAND, BUILDING, AND EQUIPMENT - net	128,205	38,953	-	-	-	4,000
TOTAL	<u>\$ 272,246</u>	<u>\$ 54,153</u>	<u>\$ 2,681</u>	<u>\$ 570</u>	<u>\$ 40,464</u>	<u>\$ 3,570</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 12,874	\$ 1,056	\$ -	\$ 529	\$ 104	\$ 39
DEPOSITS	1,732	761	-	-	-	-
ACCRUED INTEREST	2,469	119	-	-	-	-
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	43,387	15,694	-	-	-	-
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	64,171	2,809	-	-	-	-
DEFERRED REVENUE FROM INVESTMENT CONTRACT	4,053	-	-	-	-	-
REVOCABLE TRUSTS	-	-	-	-	724	-
OBLIGATIONS UNDER ANNUITY AGREEMENTS	-	-	-	-	2,881	-
NOTES AND BONDS PAYABLE	144,451	37,010	-	-	-	3,075
RETIREMENT LIABILITIES	5,234	-	-	-	-	-
WORKER'S COMPENSATION LIABILITY	2,345	-	-	-	-	-
OTHER LIABILITIES	485	371	-	30	99	-
Total liabilities	<u>281,201</u>	<u>57,820</u>	<u>-</u>	<u>559</u>	<u>3,808</u>	<u>3,114</u>
COMMITMENTS AND CONTINGENCIES						
NET ASSETS (DEFICIT)						
Unrestricted	(8,955)	(3,667)	53	11	29,779	456
Temporarily restricted	-	-	2,497	-	6,557	-
Permanently restricted	-	-	131	-	320	-
Total net assets (deficit)	<u>(8,955)</u>	<u>(3,667)</u>	<u>2,681</u>	<u>11</u>	<u>36,656</u>	<u>456</u>
TOTAL	<u>\$ 272,246</u>	<u>\$ 54,153</u>	<u>\$ 2,681</u>	<u>\$ 570</u>	<u>\$ 40,464</u>	<u>\$ 3,570</u>

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2008 (continued)
(In Thousands)

	Casa de la Vista	Fern Lodge	Harbor View Manor	Oak Knolls Haven	Tahoe Senior Plaza	Carmel Senior Housing
ASSETS						
CASH AND CASH EQUIVALENTS	\$ 4	\$ 6	\$ 45	\$ 1	\$ 14	\$ -
RESTRICTED CASH	296	348	271	578	171	-
INVESTMENTS	-	-	-	-	-	-
RESTRICTED INVESTMENTS	-	-	-	-	-	-
RESIDENT ACCOUNTS AND OTHER RECEIVABLES - net	6	2	8	1	-	-
INTERCOMPANY	(13)	-	-	(142)	-	-
NOTES RECEIVABLE - net	-	-	-	-	-	-
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	47	18	167	41	13	-
OTHER ASSETS	-	-	-	103	4	-
LAND, BUILDING, AND EQUIPMENT - net	1,617	4,724	1,282	882	3,558	-
TOTAL	\$ 1,957	\$ 5,098	\$ 1,773	\$ 1,464	\$ 3,760	\$ -
LIABILITIES AND NET ASSETS (DEFICIT)						
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 262	\$ 15	\$ 104	\$ 27	\$ 23	\$ -
DEPOSITS	-	-	-	-	-	-
ACCRUED INTEREST	-	-	-	-	-	-
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	-	-	-	-	-	-
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	-	-	-	-	-	-
DEFERRED REVENUE FROM INVESTMENT CONTRACT REVOCABLE TRUSTS	-	-	-	-	-	-
OBLIGATIONS UNDER ANNUITY AGREEMENTS	-	-	-	-	-	-
NOTES AND BONDS PAYABLE	3,458	4,889	1,888	1,850	4,603	-
RETIREMENT LIABILITIES	-	-	-	-	-	-
WORKER'S COMPENSATION LIABILITY	-	-	-	-	-	-
OTHER LIABILITIES	25	17	32	13	12	-
Total liabilities	3,745	4,921	2,024	1,890	4,638	-
COMMITMENTS AND CONTINGENCIES						
NET ASSETS (DEFICIT)						
Unrestricted	(1,788)	177	(251)	(426)	(878)	-
Temporarily restricted	-	-	-	-	-	-
Permanently restricted	-	-	-	-	-	-
Total net assets (deficit)	(1,788)	177	(251)	(426)	(878)	-
TOTAL	\$ 1,957	\$ 5,098	\$ 1,773	\$ 1,464	\$ 3,760	\$ -

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2008 (continued)
(In Thousands)

	Judson Terrace Lodge	Broadmoor Plaza	Hillcrest Gardens	Subtotal	Eliminations	Total
ASSETS						
CASH AND CASH EQUIVALENTS	\$ 3	\$ 51	\$ 167	\$ 8,287	\$ -	\$ 8,287
RESTRICTED CASH	63	173	13	3,260	-	3,260
INVESTMENTS	-	-	-	101,916	-	101,916
RESTRICTED INVESTMENTS	-	-	-	65,053	-	65,053
RESIDENT ACCOUNTS AND OTHER RECEIVABLES - net	-	3	4	9,614	-	9,614
INTERCOMPANY	(8)	(14)	(7)	-	-	-
NOTES RECEIVABLE - net	-	-	-	4,832	-	4,832
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	12	45	15	1,478	-	1,478
OTHER ASSETS	-	-	-	10,595	-	10,595
LAND, BUILDING, AND EQUIPMENT - net	3,853	7,821	8,910	203,805	-	203,805
TOTAL	<u>\$ 3,923</u>	<u>\$ 8,079</u>	<u>\$ 9,102</u>	<u>\$ 408,840</u>	<u>\$ -</u>	<u>\$ 408,840</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 58	\$ 505	\$ 998	\$ 16,594	\$ -	\$ 16,594
DEPOSITS	-	-	-	2,493	-	2,493
ACCRUED INTEREST	-	-	-	2,588	-	2,588
DEFERRED REVENUE AND DEPOSITS FROM ENTRANCE FEES SUBJECT TO REFUND	-	-	-	59,081	-	59,081
DEFERRED REVENUE FROM ENTRANCE FEES - NONREFUNDABLE	-	-	-	66,980	-	66,980
DEFERRED REVENUE FROM INVESTMENT CONTRACT	-	-	-	4,053	-	4,053
REVOCABLE TRUSTS	-	-	-	724	-	724
OBLIGATIONS UNDER ANNUITY AGREEMENTS	-	-	-	2,881	-	2,881
NOTES AND BONDS PAYABLE	3,911	8,077	8,089	221,301	-	221,301
RETIREMENT LIABILITIES	-	-	-	5,234	-	5,234
WORKER'S COMPENSATION LIABILITY	-	-	-	2,345	-	2,345
OTHER LIABILITIES	10	19	19	1,132	-	1,132
Total liabilities	<u>3,979</u>	<u>8,601</u>	<u>9,106</u>	<u>385,406</u>	<u>-</u>	<u>385,406</u>
COMMITMENTS AND CONTINGENCIES						
NET ASSETS (DEFICIT)						
Unrestricted	(56)	(522)	(4)	13,929	-	13,929
Temporarily restricted	-	-	-	9,054	-	9,054
Permanently restricted	-	-	-	451	-	451
Total net assets (deficit)	<u>(56)</u>	<u>(522)</u>	<u>(4)</u>	<u>23,434</u>	<u>-</u>	<u>23,434</u>
TOTAL	<u>\$ 3,923</u>	<u>\$ 8,079</u>	<u>\$ 9,102</u>	<u>\$ 408,840</u>	<u>\$ -</u>	<u>\$ 408,840</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(In Thousands)**

UNRESTRICTED NET ASSETS	ABHOW Obligated Group	Judson Park	BSAM	Seniority Inc.	Foundation	American Baptist Properties
OPERATING REVENUES						
Residential living	\$ 37,009	\$ 4,685	\$ -	\$ -	\$ -	\$ -
Assisted living	9,900	1,795	-	-	-	-
Health center	50,105	8,949	-	-	-	-
Other residential services	4,394	98	-	-	-	-
Amortization of entrance fees	16,482	1,684	-	-	-	-
Affordable housing fees and rents	1,042	-	-	-	-	-
Other operating revenue	4,180	240	-	4,545	-	-
Foundation community benefit	1,154	59	-	-	-	-
Bequests and charitable giving	-	3	-	-	759	-
Net assets released from time restrictions	-	-	-	-	511	-
Total operating revenues	124,266	17,513	-	4,545	1,270	-
OPERATING EXPENSES						
Employee costs	63,014	8,285	-	2,537	611	-
Supplies	8,459	1,344	-	29	9	-
Chargeable ancillary services	6,687	1,047	-	-	-	-
Other purchased services	7,130	627	-	111	91	306
Marketing and advertising	2,712	379	-	1,121	43	-
Utilities	4,916	695	-	16	7	-
Insurance	1,276	240	-	23	32	-
Travel and related	820	50	-	139	69	-
Leases and rents	1,333	35	-	19	12	-
Corporate allocations	215	1,432	-	210	(215)	-
Foundation community distribution	-	-	-	-	1,295	-
Other operating expenses	2,841	271	1	160	48	1
Total operating expenses	99,403	14,405	1	4,365	2,002	307
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	24,863	3,108	(1)	180	(732)	(307)
OTHER OPERATING INCOME (EXPENSE)						
Investment income - net	1,870	126	-	2	1,028	148
Realized losses on investments - net	(5,497)	(60)	-	-	(3,778)	(222)
Depreciation	(13,247)	(2,313)	-	-	-	-
Mortgage interest	(4,155)	(1,315)	-	-	-	(108)
Accelerated amortization of prior loan issuance costs	-	-	-	-	-	-
Reduction in unrealized loss on interest rate swaps	1,381	(641)	-	-	-	-
Gain on sale of real estate	61	-	(61)	-	-	-
INCOME (LOSS) FROM OPERATIONS	5,276	(1,095)	(62)	182	(3,482)	(489)
Change in unrealized gains and losses on investments	4,139	166	-	-	2,725	345
Loss from increase of unrecognized pension obligation	(4,832)	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	4,583	(929)	(62)	182	(757)	(144)
TEMPORARILY RESTRICTED ASSETS						
Contributions	-	-	2	-	521	-
Dividend and interest income	-	-	121	-	268	-
Realized losses on investments - net	-	-	(252)	-	(201)	-
Interest expense for contractual payments to beneficiaries	-	-	(213)	-	(880)	-
Special project fund distribution	-	-	-	-	(198)	-
Change in unrealized gain	-	-	285	-	18	-
Net assets released from time restrictions	-	-	-	-	(511)	-
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	(57)	-	(983)	-
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	15	-
INCREASE (DECREASE) IN NET ASSETS	4,583	(929)	(119)	182	(1,725)	(144)
NET ASSETS (DEFICIT) - Beginning of year	(8,955)	(3,667)	2,681	11	36,656	456
NET ASSETS (DEFICIT) - End of year	\$ (4,372)	\$ (4,596)	\$ 2,562	\$ 193	\$ 34,931	\$ 312

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009 (continued)
(In Thousands)

UNRESTRICTED NET ASSETS	Casa de la Vista	Fern Lodge	Harbor View Manor	Oak Knolls Haven	Tahoe Senior Plaza	Carmel Senior Housing
OPERATING REVENUES						
Residential living	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assisted living	-	-	-	-	-	-
Health center	-	-	-	-	-	-
Other residential services	-	-	-	-	-	-
Amortization of entrance fees	-	-	-	-	-	-
Affordable housing fees and rents	887	322	1,176	404	258	-
Other operating revenue	-	-	-	-	-	54
Foundation community benefit	-	-	1	-	-	-
Bequests and charitable giving	-	-	-	-	-	-
Net assets released from time restrictions	-	-	-	-	-	-
Total operating revenues	<u>887</u>	<u>322</u>	<u>1,177</u>	<u>404</u>	<u>258</u>	<u>54</u>
OPERATING EXPENSES						
Employee costs	193	131	361	85	85	22
Supplies	149	16	102	21	17	5
Chargeable ancillary services	-	-	-	-	-	-
Other purchased services	94	76	144	48	73	9
Marketing and advertising	-	-	10	1	-	-
Utilities	52	47	187	34	47	12
Insurance	22	16	47	22	12	-
Travel and related	1	2	5	5	5	2
Leases and rents	3	-	7	2	-	-
Corporate allocations	-	-	-	-	-	-
Foundation community distribution	-	-	-	-	-	-
Other operating expenses	15	14	18	27	8	6
Total operating expenses	<u>529</u>	<u>302</u>	<u>881</u>	<u>245</u>	<u>247</u>	<u>56</u>
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	<u>358</u>	<u>20</u>	<u>296</u>	<u>159</u>	<u>11</u>	<u>(2)</u>
OTHER OPERATING INCOME (EXPENSE)						
Investment income - net	2	2	3	7	1	-
Realized losses on investments - net	-	-	-	-	-	-
Depreciation	(215)	(214)	(214)	(65)	(113)	-
Mortgage interest	(318)	-	(107)	(109)	-	(36)
Accelerated amortization of prior loan issuance costs	-	-	-	-	-	-
Reduction in unrealized loss on interest rate swaps	-	-	-	-	-	-
Gain on sale of real estate	-	-	-	-	-	-
Total other operating income (expense)	<u>(331)</u>	<u>(336)</u>	<u>(332)</u>	<u>(164)</u>	<u>(112)</u>	<u>(36)</u>
INCOME (LOSS) FROM OPERATIONS	<u>(173)</u>	<u>(192)</u>	<u>(22)</u>	<u>(8)</u>	<u>(101)</u>	<u>(38)</u>
Change in unrealized gains and losses on investments	-	-	-	-	-	-
Loss from increase of unrecognized pension obligation	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(173)</u>	<u>(192)</u>	<u>(22)</u>	<u>(8)</u>	<u>(101)</u>	<u>(38)</u>
TEMPORARILY RESTRICTED ASSETS						
Contributions	-	-	-	-	-	-
Dividend and interest income	-	-	-	-	-	-
Realized losses on investments - net	-	-	-	-	-	-
Interest expense for contractual payments to beneficiaries	-	-	-	-	-	-
Special project fund distribution	-	-	-	-	-	-
Change in unrealized gain	-	-	-	-	-	-
Net assets released from time restrictions	-	-	-	-	-	-
Total temporarily restricted assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(173)</u>	<u>(192)</u>	<u>(22)</u>	<u>(8)</u>	<u>(101)</u>	<u>(38)</u>
NET ASSETS (DEFICIT) - Beginning of year	<u>(1,788)</u>	<u>177</u>	<u>(251)</u>	<u>(426)</u>	<u>(878)</u>	<u>-</u>
NET ASSETS (DEFICIT) - End of year	<u>\$ (1,961)</u>	<u>\$ (15)</u>	<u>\$ (273)</u>	<u>\$ (434)</u>	<u>\$ (979)</u>	<u>\$ (38)</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009 (continued)
(In Thousands)**

UNRESTRICTED NET ASSETS	Judson Terrace Lodge	Broadmoor Plaza	Hillcrest Gardens	Good Shepherd	Subtotal	Eliminations	Total
OPERATING REVENUES							
Residential living	\$ -	\$ -	\$ -	\$ -	\$ 41,694	\$ -	\$ 41,694
Assisted living	-	-	-	-	11,695	-	11,695
Health center	-	-	-	-	59,054	-	59,054
Other residential services	-	-	-	-	4,492	-	4,492
Amortization of entrance fees	-	-	-	-	18,166	-	18,166
Affordable housing fees and rents	197	378	295	-	4,959	(302)	4,657
Other operating revenue	-	-	-	-	9,019	(4,748)	4,271
Foundation community benefit	-	-	-	-	1,214	(1,214)	-
Bequests and charitable giving	-	-	-	-	762	-	762
Net assets released from time restrictions	-	-	-	-	511	-	511
Total operating revenues	197	378	295	-	151,566	(6,264)	145,302
OPERATING EXPENSES							
Employee costs	59	108	94	-	75,585	-	75,585
Supplies	15	20	8	-	10,194	(110)	10,084
Chargeable ancillary services	-	-	-	-	7,734	-	7,734
Other purchased services	35	86	46	-	8,876	(301)	8,575
Marketing and advertising	1	-	-	-	4,267	(2,997)	1,270
Utilities	43	67	46	-	6,169	-	6,169
Insurance	7	17	8	-	1,722	-	1,722
Travel and related	2	2	5	-	1,107	-	1,107
Leases and rents	-	-	3	-	1,414	-	1,414
Corporate allocations	-	-	-	-	1,642	(1,642)	-
Foundation community distribution	-	-	-	-	1,295	(1,214)	81
Other operating expenses	7	25	17	-	3,459	-	3,459
Total operating expenses	169	325	227	-	123,464	(6,264)	117,200
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	28	53	68	-	28,102	-	28,102
OTHER OPERATING INCOME (EXPENSE)							
Investment income - net	-	1	-	-	3,190	-	3,190
Realized losses on investments - net	-	-	-	-	(9,557)	-	(9,557)
Depreciation	(110)	(195)	(272)	-	(16,958)	-	(16,958)
Mortgage interest	-	(73)	(45)	-	(6,266)	-	(6,266)
Accelerated amortization of prior loan issuance costs	-	-	-	-	-	-	-
Reduction in unrealized loss on interest rate swaps	-	-	-	-	740	-	740
Gain on sale of real estate	-	-	-	-	-	-	-
INCOME (LOSS) FROM OPERATIONS	(82)	(214)	(249)	-	(749)	-	(749)
Change in unrealized gains and losses on investments	-	-	-	-	7,375	-	7,375
Loss from increase of unrecognized pension obligation	-	-	-	-	(4,832)	-	(4,832)
Discontinued operations	-	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(82)	(214)	(249)	-	1,794	-	1,794
TEMPORARILY RESTRICTED ASSETS							
Contributions	-	-	-	-	523	-	523
Dividend and interest income	-	-	-	-	389	-	389
Realized losses on investments - net	-	-	-	-	(453)	-	(453)
Interest expense for contractual payments to beneficiaries	-	-	-	-	(1,093)	-	(1,093)
Special project fund distribution	-	-	-	-	(198)	-	(198)
Change in unrealized gain	-	-	-	-	303	-	303
Net assets released from time restrictions	-	-	-	-	(511)	-	(511)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	(1,040)	-	(1,040)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	15	-	15
INCREASE (DECREASE) IN NET ASSETS	(82)	(214)	(249)	-	769	-	769
NET ASSETS (DEFICIT) - Beginning of year	(56)	(522)	(4)	-	23,434	-	23,434
NET ASSETS (DEFICIT) - End of year	\$ (138)	\$ (736)	\$ (253)	\$ -	\$ 24,203	\$ -	\$ 24,203

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(In Thousands)

UNRESTRICTED NET ASSETS	ABHOW Obligated Group	Judson Park	BSAM	Seniority Inc.	Foundation	American Baptist Properties
OPERATING REVENUES						
Residential living	\$ 36,910	\$ 2,933	\$ -	\$ -	\$ -	\$ -
Assisted living	9,897	1,668	-	-	-	-
Health center	46,467	8,641	-	-	-	-
Other residential services	3,987	80	-	-	-	-
Amortization of entrance fees	15,487	810	-	-	-	-
Affordable housing fees and rents	1,000	-	-	-	-	-
Other operating revenue	3,892	238	-	3,975	-	-
Foundation community benefit	1,149	58	-	-	-	-
Bequests and charitable giving	-	2	-	-	356	-
Net assets released from time restrictions	-	-	-	-	287	-
Total operating revenues	<u>118,789</u>	<u>14,430</u>	<u>-</u>	<u>3,975</u>	<u>643</u>	<u>-</u>
OPERATING EXPENSES						
Employee costs	59,458	7,771	-	2,140	559	-
Supplies	8,065	1,102	-	37	7	-
Chargeable ancillary services	5,919	903	-	-	-	-
Other purchased services	7,022	527	-	29	96	397
Marketing and advertising	2,485	285	-	1,058	68	-
Utilities	5,078	625	-	14	6	-
Insurance	1,341	218	-	23	34	-
Travel and related	764	36	-	155	53	-
Leases and rents	1,429	63	-	21	16	-
Corporate allocations	133	1,264	-	212	(133)	-
Foundation community distribution	-	-	-	-	1,291	-
Other operating expenses	2,577	186	-	152	38	-
Total operating expenses	<u>94,271</u>	<u>12,980</u>	<u>-</u>	<u>3,841</u>	<u>2,035</u>	<u>397</u>
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	<u>24,518</u>	<u>1,450</u>	<u>-</u>	<u>134</u>	<u>(1,392)</u>	<u>(397)</u>
OTHER OPERATING INCOME (EXPENSE)						
Investment income - net	2,020	138	-	3	1,084	116
Realized gains on investments - net	(814)	96	-	-	(586)	(18)
Depreciation	(12,813)	(1,264)	-	-	-	-
Mortgage interest	(4,718)	(707)	-	-	-	(12)
Accelerated amortization of prior loan issuance costs	-	-	-	-	-	-
(Increase) reduction in unrealized loss on interest rate swaps	(1,684)	(250)	-	-	-	-
Write off of real estate receivable	(266)	-	-	(266)	-	-
Write off of undepreciated cost of assets demolished for redevelopment	(1,143)	-	-	-	-	-
INCOME (LOSS) FROM OPERATIONS	<u>5,100</u>	<u>(537)</u>	<u>-</u>	<u>(129)</u>	<u>(894)</u>	<u>(311)</u>
Change in unrealized gains and losses on investments	(8,779)	(66)	-	-	(6,548)	(480)
Gain from reduction of unrecognized pension obligation	(1,532)	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(5,211)</u>	<u>(603)</u>	<u>-</u>	<u>(129)</u>	<u>(7,442)</u>	<u>(791)</u>
TEMPORARILY RESTRICTED ASSETS						
Contributions	-	-	51	-	885	-
Dividend and interest income	-	-	75	-	447	-
Realized losses on investments - net	-	-	(73)	-	(89)	-
Interest expense for contractual payments to beneficiaries	-	-	(118)	-	(350)	-
Special project fund distribution	-	-	-	-	(231)	-
Change in unrealized gain	-	-	(439)	-	(1,066)	-
Net assets released from time restrictions	-	-	-	-	(287)	-
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>	<u>(504)</u>	<u>-</u>	<u>(691)</u>	<u>-</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(5,211)</u>	<u>(603)</u>	<u>(504)</u>	<u>(129)</u>	<u>(8,119)</u>	<u>(791)</u>
NET ASSETS (DEFICIT) - Beginning of year	<u>(3,744)</u>	<u>(3,064)</u>	<u>3,185</u>	<u>140</u>	<u>44,775</u>	<u>1,247</u>
NET ASSETS (DEFICIT) - End of year	<u>\$ (8,955)</u>	<u>\$ (3,667)</u>	<u>\$ 2,681</u>	<u>\$ 11</u>	<u>\$ 36,656</u>	<u>\$ 456</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2008 (continued)
(In Thousands)**

UNRESTRICTED NET ASSETS	Casa de la Vista	Fern Lodge	Harbor View Manor	Oak Knolls Haven	Tahoe Senior Plaza	Carmel Senior Housing
OPERATING REVENUES						
Residential living	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assisted living	-	-	-	-	-	-
Health center	-	-	-	-	-	-
Other residential services	-	-	-	-	-	-
Amortization of entrance fees	-	-	-	-	-	-
Affordable housing fees and rents	753	306	1,001	364	242	-
Other operating revenue	129	3	166	17	6	-
Foundation community benefit	-	-	-	-	-	-
Bequests and charitable giving	10	-	-	1	-	-
Net assets released from time restrictions	-	-	-	-	-	-
Total operating revenues	892	309	1,167	382	248	-
OPERATING EXPENSES						
Employee costs	181	121	420	78	81	-
Supplies	145	15	131	16	12	-
Chargeable ancillary services	-	-	-	-	-	-
Other purchased services	92	77	156	54	58	-
Marketing and advertising	-	-	31	-	-	-
Utilities	51	45	188	33	55	-
Insurance	22	15	44	25	13	-
Travel and related	2	3	6	2	4	-
Leases and rents	4	-	7	1	-	-
Corporate allocations	-	-	-	-	-	-
Foundation community distribution	-	-	-	-	-	-
Other operating expenses	13	13	16	35	11	-
Total operating expenses	510	289	999	244	234	-
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	382	20	168	138	14	-
OTHER OPERATING INCOME (EXPENSE)						
Investment income - net	4	4	2	8	2	-
Realized gains on investments - net	-	-	-	-	-	-
Depreciation	(217)	(213)	(207)	(48)	(111)	-
Mortgage interest	(321)	-	(93)	(110)	-	-
Accelerated amortization of prior loan issuance costs	-	-	-	-	-	-
(Increase) reduction in unrealized loss on interest rate swaps	-	-	-	-	-	-
Write off of real estate receivable	-	-	-	-	-	-
Write off of undepreciated cost of assets demolished for redevelopment	-	-	-	-	-	-
INCOME (LOSS) FROM OPERATIONS	(152)	(189)	(130)	(12)	(95)	-
Change in unrealized gains and losses on investments	(25)	-	-	-	-	-
Gain from reduction of unrecognized pension obligation	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(177)	(189)	(130)	(12)	(95)	-
TEMPORARILY RESTRICTED ASSETS						
Contributions	-	-	-	-	-	-
Dividend and interest income	-	-	-	-	-	-
Realized losses on investments - net	-	-	-	-	-	-
Interest expense for contractual payments to beneficiaries	-	-	-	-	-	-
Special project fund distribution	-	-	-	-	-	-
Change in unrealized gain	-	-	-	-	-	-
Net assets released from time restrictions	-	-	-	-	-	-
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	-	-
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(177)	(189)	(130)	(12)	(95)	-
NET ASSETS (DEFICIT) - Beginning of year	(1,611)	366	(121)	(414)	(783)	-
NET ASSETS (DEFICIT) - End of year	\$ (1,788)	\$ 177	\$ (251)	\$ (426)	\$ (878)	\$ -

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2008 (continued)
(In Thousands)

UNRESTRICTED NET ASSETS	Judson Terrace Lodge	Broadmoor Plaza	Hillcrest Gardens	Subtotal	Eliminations	Total
OPERATING REVENUES						
Residential living	\$ -	\$ -	\$ -	\$ 39,843	\$ -	\$ 39,843
Assisted living	-	-	-	11,565	-	11,565
Health center	-	-	-	55,108	-	55,108
Other residential services	-	-	-	4,067	-	4,067
Amortization of entrance fees	-	-	-	16,297	-	16,297
Affordable housing fees and rents	191	358	9	4,224	(302)	3,922
Other operating revenue	3	4	-	8,433	(4,245)	4,188
Foundation community benefit	-	-	-	1,207	(1,207)	-
Bequests and charitable giving	1	-	-	370	-	370
Net assets released from time restrictions	-	-	-	287	-	287
Total operating revenues	195	362	9	141,401	(5,754)	135,647
OPERATING EXPENSES						
Employee costs	72	142	4	71,027	-	71,027
Supplies	12	13	1	9,556	(107)	9,449
Chargeable ancillary services	-	-	-	6,822	-	6,822
Other purchased services	38	79	6	8,631	(302)	8,329
Marketing and advertising	-	-	-	3,927	(2,662)	1,265
Utilities	44	74	3	6,216	-	6,216
Insurance	10	15	-	1,760	-	1,760
Travel and related	-	3	1	1,029	-	1,029
Leases and rents	-	3	-	1,544	-	1,544
Corporate allocations	-	-	-	1,476	(1,476)	-
Foundation community distribution	-	-	-	1,291	(1,207)	84
Other operating expenses	5	22	1	3,069	-	3,069
Total operating expenses	181	351	16	116,348	(5,754)	110,594
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	14	11	(7)	25,053	-	25,053
OTHER OPERATING INCOME (EXPENSE)						
Investment income - net	1	4	3	3,389	-	3,389
Realized gains on investments - net	-	-	-	(1,322)	-	(1,322)
Depreciation	(110)	(195)	-	(15,178)	-	(15,178)
Mortgage interest	-	(73)	-	(6,034)	-	(6,034)
Accelerated amortization of prior loan issuance costs	-	-	-	-	-	-
(Increase) reduction in unrealized loss on interest rate swaps	-	-	-	(1,934)	-	(1,934)
Write off of real estate receivable	-	-	-	(532)	-	(532)
Write off of undepreciated cost of assets demolished for redevelopment	-	-	-	(1,143)	-	(1,143)
INCOME (LOSS) FROM OPERATIONS	(95)	(253)	(4)	2,299	-	2,299
Change in unrealized gains and losses on investments	-	-	-	(15,898)	-	(15,898)
Gain from reduction of unrecognized pension obligation	-	-	-	(1,532)	-	(1,532)
Discontinued operations	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(95)	(253)	(4)	(15,131)	-	(15,131)
TEMPORARILY RESTRICTED ASSETS						
Contributions	-	-	-	936	-	936
Dividend and interest income	-	-	-	522	-	522
Realized losses on investments - net	-	-	-	(162)	-	(162)
Interest expense for contractual payments to beneficiaries	-	-	-	(468)	-	(468)
Special project fund distribution	-	-	-	(231)	-	(231)
Change in unrealized gain	-	-	-	(1,505)	-	(1,505)
Net assets released from time restrictions	-	-	-	(287)	-	(287)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	(1,195)	-	(1,195)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	14	-	14
INCREASE (DECREASE) IN NET ASSETS	(95)	(253)	(4)	(16,312)	-	(16,312)
NET ASSETS (DEFICIT) - Beginning of year	39	(269)	-	39,746	-	39,746
NET ASSETS (DEFICIT) - End of year	\$ (56)	\$ (522)	\$ (4)	\$ 23,434	\$ -	\$ 23,434

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) COMMUNITY INFORMATION
(ABHOW OBLIGATED GROUP)
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(In Thousands)**

UNRESTRICTED NET ASSETS	Corporate Office	Grand Lake Gardens	Piedmont Gardens	Pilgrim Haven	Plymouth Village
OPERATING REVENUES					
Residential living	\$ -	\$ 2,358	\$ 5,561	\$ 2,789	\$ 4,891
Assisted living	-	-	2,334	709	1,207
Health center	-	-	8,965	6,929	3,580
Other residential services	-	218	171	157	965
Amortization of entrance fees	-	318	2,918	1,236	2,012
Affordable housing fees and rents	1,042	-	-	-	-
Other operating revenue	2,184	29	193	95	295
Foundation community benefit	61	29	231	76	172
Bequests and charitable giving	-	-	-	-	-
Total operating revenues	3,287	2,952	20,373	11,991	13,122
OPERATING EXPENSES					
Employee costs	9,219	1,391	9,722	5,673	6,089
Supplies	170	252	1,154	719	971
Chargeable ancillary services	-	2	1,065	613	495
Other purchased services	1,540	146	956	408	582
Marketing and advertising	24	289	370	214	300
Utilities	243	277	844	304	416
Insurance	80	50	189	84	167
Travel and related	475	21	72	11	38
Leases and rents	908	12	61	27	67
Corporation allocations	(8,574)	227	1,578	883	997
Other operating expenses	1,078	76	426	186	215
Total operating expenses	5,163	2,743	16,437	9,122	10,337
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)	(1,876)	209	3,936	2,869	2,785
OTHER OPERATING INCOME (EXPENSE)					
Investment income - net	1,864	-	-	-	-
Realized losses on investments - net	(5,454)	-	-	-	-
Depreciation	(852)	(502)	(1,869)	(584)	(2,159)
Mortgage interest	(89)	(80)	(338)	(108)	(264)
Reduction in unrealized loss on interest rate swaps	1,381	-	-	-	-
Gain on sale of real estate	61	-	-	-	-
INCOME (LOSS) FROM OPERATIONS	(4,965)	(373)	1,729	2,177	362
Change in unrealized gains and losses on investments	4,139	-	-	-	-
Loss from increase of unrecognized pension obligation	(4,832)	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(5,658)	(373)	1,729	2,177	362
NET ASSETS (DEFICIT) - Beginning of year	(69,865)	(2,333)	28,608	11,136	7,518
NET ASSETS (DEFICIT) - End of year	\$ (75,523)	\$ (2,706)	\$ 30,337	\$ 13,313	\$ 7,880

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) COMMUNITY INFORMATION
(ABHOW OBLIGATED GROUP)
FOR THE YEAR ENDED SEPTEMBER 30, 2009 (continued)
(In Thousands)

UNRESTRICTED NET ASSETS	Rosewood	San Joaquin Gardens	Valle Verde	Terrace of Los Gatos	Total
OPERATING REVENUES					
Residential living	\$ 2,901	\$ 3,393	\$ 7,538	\$ 7,578	\$ 37,009
Assisted living	1,115	1,721	1,244	1,570	9,900
Health center	5,980	9,009	8,390	7,252	50,105
Other residential services	64	1,450	1,260	109	4,394
Amortization of entrance fees	570	1,876	3,563	3,989	16,482
Affordable housing fees and rents	-	-	-	-	1,042
Other operating revenue	208	278	656	242	4,180
Foundation community benefit	59	130	359	37	1,154
Bequests and charitable giving	-	-	-	-	-
Total operating revenues	<u>10,897</u>	<u>17,857</u>	<u>23,010</u>	<u>20,777</u>	<u>124,266</u>
OPERATING EXPENSES					
Employee costs	5,746	8,082	9,799	7,293	63,014
Supplies	903	1,568	1,446	1,276	8,459
Chargeable ancillary services	1,047	1,634	1,050	781	6,687
Other purchased services	1,004	955	952	587	7,130
Marketing and advertising	307	337	440	431	2,712
Utilities	540	730	839	723	4,916
Insurance	140	204	203	159	1,276
Travel and related	31	67	57	48	820
Leases and rents	46	76	93	43	1,333
Corporation allocations	935	1,383	1,557	1,229	215
Other operating expenses	203	272	147	238	2,841
Total operating expenses	<u>10,902</u>	<u>15,308</u>	<u>16,583</u>	<u>12,808</u>	<u>99,403</u>
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)					
	(5)	2,549	6,427	7,969	24,863
OTHER OPERATING INCOME (EXPENSE)					
Investment income - net	-	6	-	-	1,870
Realized losses on investments - net	(9)	(34)	-	-	(5,497)
Depreciation	(1,210)	(1,369)	(2,620)	(2,082)	(13,247)
Mortgage interest	(342)	(416)	(532)	(1,986)	(4,155)
Reduction in unrealized loss on interest rate swaps	-	-	-	-	1,381
Gain on sale of real estate	-	-	-	-	61
INCOME (LOSS) FROM OPERATIONS	<u>(1,566)</u>	<u>736</u>	<u>3,275</u>	<u>3,901</u>	<u>5,276</u>
Change in unrealized gains and losses on investments	-	-	-	-	4,139
Loss from increase of unrecognized pension obligation	-	-	-	-	(4,832)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(1,566)	736	3,275	3,901	4,583
NET ASSETS (DEFICIT) - Beginning of year	<u>(8,860)</u>	<u>13,392</u>	<u>19,519</u>	<u>(8,070)</u>	<u>(8,955)</u>
NET ASSETS (DEFICIT) - End of year	<u>\$ (10,426)</u>	<u>\$ 14,128</u>	<u>\$ 22,794</u>	<u>\$ (4,169)</u>	<u>\$ (4,372)</u>

**AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) COMMUNITY INFORMATION
(ABHOW OBLIGATED GROUP)
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(In Thousands)**

UNRESTRICTED NET ASSETS	Corporate Office	Grand Lake Gardens	Piedmont Gardens	Pilgrim Haven	Plymouth Village
OPERATING REVENUES					
Residential living	\$ -	\$ 2,210	\$ 5,775	\$ 2,660	\$ 4,816
Assisted living	-	-	2,529	613	1,176
Health center	-	-	8,645	6,842	3,138
Other residential services	-	116	150	105	793
Amortization of entrance fees	-	210	2,316	1,610	1,954
Affordable housing fees and rents	1,000	-	-	-	-
Other operating revenue	1,792	30	186	89	301
Foundation community benefit	63	28	233	78	171
Bequests and charitable giving	-	-	-	-	-
Total operating revenues	2,855	2,594	19,834	11,997	12,349
OPERATING EXPENSES					
Employee costs	8,442	1,269	9,356	5,374	5,702
Supplies	126	222	1,216	653	950
Chargeable ancillary services	-	-	923	550	543
Other purchased services	1,606	207	931	474	458
Marketing and advertising	54	255	333	201	290
Utilities	302	250	905	299	455
Insurance	45	54	215	93	172
Travel and related	475	9	20	10	34
Leases and rents	964	14	58	29	74
Corporation allocations	(8,688)	254	1,590	866	1,003
Other operating expenses	983	61	171	115	253
Total operating expenses	4,309	2,595	15,718	8,664	9,934
INCOME (LOSS) BEFORE OTHER OPERATING INCOME (EXPENSES)					
	(1,454)	(1)	4,116	3,333	2,415
OTHER OPERATING INCOME (EXPENSE)					
Investment income - net	2,020	-	-	-	-
Realized gains on investments - net	(814)	-	-	-	-
Depreciation	(745)	(444)	(1,914)	(604)	(2,139)
Mortgage interest	(607)	(83)	(348)	(111)	(272)
(Increase) reduction in unrealized loss on interest rate swaps	(1,684)	-	-	-	-
Write off of real estate receivable	(266)	-	-	-	-
Write off of undepreciated cost of assets demolished for redevelopment	-	-	-	-	-
INCOME (LOSS) FROM OPERATIONS					
	(3,550)	(528)	1,854	2,618	4
Change in unrealized gains and losses on investments	(9,360)	185	362	(109)	1,038
Gain from reduction of unrecognized pension obligation	(1,532)	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS					
	(14,442)	(343)	2,216	2,509	1,042
NET ASSETS (DEFICIT) - Beginning of year					
	(55,423)	(1,990)	26,392	8,627	6,476
NET ASSETS (DEFICIT) - End of year					
	<u>\$ (69,865)</u>	<u>\$ (2,333)</u>	<u>\$ 28,608</u>	<u>\$ 11,136</u>	<u>\$ 7,518</u>

AMERICAN BAPTIST HOMES OF THE WEST AND COMBINED AFFILIATES
(A MEMBER OF CORNERSTONE AFFILIATES)
SUPPLEMENTAL COMBINING SCHEDULES – STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIT) COMMUNITY INFORMATION
(ABHOW OBLIGATED GROUP)
FOR THE YEAR ENDED SEPTEMBER 30, 2008 (continued)
(In Thousands)

UNRESTRICTED NET ASSETS	Rosewood	San Joaquin Gardens	Valle Verde	Terrace of Los Gatos	Total
OPERATING REVENUES					
Residential living	\$ 2,809	\$ 3,744	\$ 7,459	\$ 7,437	\$ 36,910
Assisted living	1,247	1,623	1,155	1,554	9,897
Health center	4,985	8,480	7,747	6,630	46,467
Other residential services	171	1,364	1,217	71	3,987
Amortization of entrance fees	560	2,188	2,994	3,655	15,487
Affordable housing fees and rents	-	-	-	-	1,000
Other operating revenue	249	258	757	230	3,892
Foundation community benefit	59	126	363	28	1,149
Bequests and charitable giving	-	-	-	-	-
Total operating revenues	10,080	17,783	21,692	19,605	118,789
OPERATING EXPENSES					
Employee costs	5,612	7,560	9,443	6,700	59,458
Supplies	887	1,410	1,383	1,218	8,065
Chargeable ancillary services	958	1,445	838	662	5,919
Other purchased services	1,020	816	972	538	7,022
Marketing and advertising	301	283	373	395	2,485
Utilities	508	714	955	690	5,078
Insurance	136	228	211	187	1,341
Travel and related	41	84	42	49	764
Leases and rents	66	86	97	41	1,429
Corporation allocations	1,082	1,322	1,532	1,172	133
Other operating expenses	298	233	228	235	2,577
Total operating expenses	10,909	14,181	16,074	11,887	94,271
INCOME (LOSS) BEFORE					
OTHER OPERATING INCOME (EXPENSES)	(829)	3,602	5,618	7,718	24,518
OTHER OPERATING INCOME (EXPENSE)					
Investment income - net	-	-	-	-	2,020
Realized gains on investments - net	-	-	-	-	(814)
Depreciation	(1,158)	(1,238)	(2,670)	(1,901)	(12,813)
Mortgage interest	(353)	(348)	(548)	(2,048)	(4,718)
(Increase) reduction in unrealized loss on interest rate swaps	-	-	-	-	(1,684)
Write off of real estate receivable	-	-	-	-	(266)
Write off of undepreciated cost of assets demolished for redevelopment	-	(1,143)	-	-	(1,143)
INCOME (LOSS) FROM OPERATIONS	(2,340)	873	2,400	3,769	5,100
Change in unrealized gains and losses on investments	(312)	544	491	(1,618)	(8,779)
Gain from reduction of unrecognized pension obligation	-	-	-	-	(1,532)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(2,652)	1,417	2,891	2,151	(5,211)
NET ASSETS (DEFICIT) - Beginning of year	(6,208)	11,975	16,628	(10,221)	(3,744)
NET ASSETS (DEFICIT) - End of year	\$ (8,860)	\$ 13,392	\$ 19,519	\$ (8,070)	\$ (8,955)

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

	Page
DEFINITIONS OF CERTAIN TERMS.....	C-1
SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE	C-16
Funds.....	C-16
Investment of Funds.....	C-19
Arbitrage; Compliance with the Tax Exemption Agreement.....	C-20
Supplemental Bond Indentures.....	C-20
Defeasance.....	C-22
Events of Default; Acceleration.....	C-23
Waiver of Events of Default.....	C-24
Direction of Proceedings.....	C-24
Application of Moneys.....	C-25
Removal of the Bond Trustee.....	C-26
SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT.....	C-26
Representations by ABHOW.....	C-26
Assignment and Pledge of Authority’s Rights.....	C-27
Payments in Respect of the Series 2010 Obligation and the Loan Agreement.....	C-27
ABHOW’s Obligations Unconditional.....	C-28
Certain Covenants of ABHOW Relating to the Use and Operation of Certain of Its Property.....	C-28
Indemnification of the Authority and the Bond Trustee.....	C-28
Maintenance of Corporate Existence and Status.....	C-30
Licensure.....	C-31
Financial Statements.....	C-31
Supplements and Amendments to the Loan Agreement.....	C-31
Defaults and Remedies.....	C-32
Required Optional Redemption and Application of Certain Gifts.....	C-34
SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE	C-34
General.....	C-34
Authorization of Obligations.....	C-35
Particular Covenants of the Obligated Group Representative and Each Member.....	C-35
Covenants as to Maintenance of Properties, Etc.....	C-36
Insurance.....	C-37
Financial Statements.....	C-37
Limitations on Encumbrances.....	C-38
Limitations on Additional Indebtedness.....	C-38
Limitations on Guaranties.....	C-40

TABLE OF CONTENTS
(continued)

	Page
Rate Covenant	C-40
Sale, Lease or Other Disposition of Property	C-41
Liquidity Covenant	C-43
Approval of Consultants	C-44
Consolidation, Merger, Sale or Conveyance	C-45
The Obligated Group	C-46
Insurance and Condemnation Proceeds	C-47
Designation of Principal Property	C-48
Additions to Excluded Property	C-48
Defaults and Remedies	C-48
Related Bond Trustee or Bondholders Deemed to be Obligation Holders	C-52
Removal and Resignation of the Master Trustee	C-52
Supplements and Amendments	C-53
Satisfaction and Discharge of Master Indenture	C-53
SUMMARY OF CERTAIN PROVISIONS OF THE DEEDS OF TRUST	C-54
General	C-54
Representations and Warranties	C-54
Liens	C-55
Maintenance of Lien	C-56
Event of Default	C-56
Remedies	C-57
Acceleration and Foreclosure	C-57
Chicago Title Powers	C-57
The Master Trustee’s Right to Enter, Inspect and Cure	C-58
Receiver	C-58
Transfer of Property; Right to Declare Obligations Due on Transfer	C-58

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

THE MASTER INDENTURE, THE BOND INDENTURE, THE LOAN AGREEMENT, AND THE DEEDS OF TRUST

Brief descriptions of the Master Indenture, the Bond Indenture, the Loan Agreement and the Deeds of Trust are included hereafter in this Appendix C of the Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Bond Indenture, the Loan Agreement and the Deeds of Trust are qualified in their entirety by reference to each such document, copies of which are available for review prior to the issuance and delivery of the Series 2010 Bonds at the offices of the Authority and thereafter at the offices of the Bond Trustee. All references to the Series 2010 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Bond Indenture.

DEFINITIONS OF CERTAIN TERMS

“ABAG” means ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority.

“ABHOW” means American Baptist Homes of the West, a California nonprofit public benefit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“ABHOW Agreements” means, collectively, the Master Indenture, the Bond Indenture, the Loan Agreement and each other financing document to which ABHOW is a party.

“Act” means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Additional Indebtedness” means any Indebtedness incurred subsequent to the execution and delivery of the original Master Indenture other than (1) Direct Note Obligation No. 1 to the Authority to secure the Series 2006 Bonds, (2) Direct Note Obligation No. 2 to Bank of America, N.A., and (3) the Series 2010 Obligation.

“Affiliate” means a corporation, partnership, joint venture, association, limited liability company, business trust or similar entity (a) which controls, is controlled by or is under common control with, directly or indirectly, a Member; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition, “Directing Body” means with respect to: (a) a corporation having stock, such corporation’s board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of

contingencies, entitled to elect a majority of the corporation's directors (both of which groups shall be considered a Directing Body); (b) a not for profit corporation not having stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion; and (c) any other entity, its governing board or body. For the purposes of this definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

"Annual Debt Service" means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on irrevocable deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness; provided that (i) any annual fees payable in respect of a credit facility issued to secure any series of Related Bonds, if any (other than annual fees to be paid from proceeds of a bond issue escrowed for such purpose) shall be included in the determination of Annual Debt Service; and (ii) to the extent an Interest Rate Agreement has been entered into in connection with any particular Indebtedness, the actual debt service paid after the effect of payments made to or received from the provider of the Interest Rate Agreement shall be included in the determination of Annual Debt Service. Whenever the term "Annual Debt Service" is used in the calculation of a Debt Service Coverage Ratio, any Guaranties shall be included only to the extent there was an actual payment on the Guaranty in such Fiscal Year.

"Authority" means the California Statewide Communities Development Authority and its successors and assigns.

"Authorized Denomination" means \$100,000 and integral multiples of \$5,000 in excess thereof; provided however, that denominations may be reduced to \$5,000 at such time that the Series 2010 Bonds obtain a rating of "A-" or better from any rating agency then rating the Series 2010 Bonds.

"Balloon Indebtedness" means Long-Term Indebtedness of a Member, 25% or more of the principal of which becomes due (either by maturity or mandatory redemption) during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date.

"Bond Financed Property" means all of the property of ABHOW financed or refinanced with the proceeds of the Series 2010 Bonds and the COPs.

"Bond Indenture" means the Bond Trust Indenture dated as of February 1, 2010, between the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

"Bond Register" means the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of Series 2010 Bonds.

"Bond Trustee" means U.S. Bank National Association, as bond trustee, or any successor trustee under the Bond Indenture.

"Bondholder," "Series 2010 Bondholder," "holder" and "owner of the Series 2010 Bonds" means any registered owner of any Series 2010 Bond.

"Book Value" means, when used in connection with Principal Property or other Property of any Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such person and in conformity with generally accepted accounting principles, and when used in connection

with Principal Property or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of each Member determined in such a way that no portion of such value of Property of any Member is included more than once.

“Business Day” means any day other than (i) a Saturday, Sunday or legal holiday or a day on which banks in the State of California, the City of Chicago, the State of New York or in any city in which the designated corporate trust office of the Bond Trustee is located are required or authorized by law to remain closed, (ii) a day on which the New York Stock Exchange is closed, or (iii) a day on which the Federal Reserve Bank of Chicago is closed.

“Cash and Liquid Investments” means all unrestricted cash and liquid investment balances, including without limitation, such amounts constituting board designated funds, whether classified as current or noncurrent assets, held by the Obligated Group and the Foundation for any of their corporate purposes, but excluding amounts available under lines of credit, all as set forth in the most recent financial statements delivered under the Master Indenture.

“Chicago Title” means Chicago Title Company.

“Closing Date” means the date of original issuance and delivery of the Series 2010 Bonds.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a Section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such Section which are applicable to the Series 2010 Bonds or the use of the proceeds thereof.

“Completion Indebtedness” means any Long-Term Indebtedness incurred by any Member for the purpose of financing the completion of acquiring, constructing, renovating, refurbishing, equipping or improving any project for which Long-Term Indebtedness has previously been incurred in accordance with the provisions hereof.

“Construction Consultant” means the architects, engineers, development consultant, supervising contractors or other qualified consultant selected by the Obligated Group or any Member in connection with the acquisition, installation, improvement or construction of a project or a portion thereof for which Long-Term Indebtedness has previously been incurred in accordance with the provisions hereof, delivered to the Master Trustee in connection with the issuance of Completion Indebtedness.

“COPs” means the four series of Revenue Refunding Certificates of Participation (American Baptist Home of the West Project) evidencing direct, undivided fractional interests of the owners thereof in purchase payments to be made by ABAG from installment payments received from ABHOW issued pursuant to the Trust Agreement dated as of October 1, 1997 among ABAG, ABHOW and U.S. Bank National Association, as successor trustee.

“Corporate Trust Office” means the office of the Master Trustee at which its principal corporate trust business is conducted, which, at the date hereof, is located at One California Street, 10th Floor, Suite 1000, San Francisco, California, 94111, Attention: Corporate Trust Services.

“Current Value” means the aggregate sum of the Book Value of personal property plus the fair market value of the real property. The fair market value of real property shall be as reflected in the most recent written report of an appraiser selected by ABHOW, which shall be an appraiser who is a member of the American Institute of Real Estate Appraisers (MAI), and the report shall be delivered to the Master

Trustee (which report shall be dated not more than three years prior to the date as of which Current Value is to be calculated).

“Days Cash on Hand” means the amount determined by dividing (1) the Cash and Liquid Investments of the Obligated Group and the Foundation as of a particular date by (2) the quotient derived by dividing (a) the Obligated Group’s total operating expenses (less depreciation and amortization and other non-cash items, including, without limitation, losses on refinancing of debt) for the most recent preceding Fiscal Year for which audited financial statements have been delivered under the Master Indenture by (b) the number of days in such Fiscal Year.

“Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Annual Debt Service, each as defined in the Master Indenture.

“Debt Service Reserve Fund Requirement” means \$9,221,250 through October 1, 2028. Thereafter “Debt Service Reserve Fund Requirement” shall mean the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on Series 2010 Bonds then outstanding, (ii) an amount equal to 10% of the original principal amount of the Series 2010 Bonds or (iii) an amount equal to 125% of the average annual debt service with respect to the Series 2010 Bonds (calculated as of the date of the issuance of the Series 2010 Bonds).

“Deeds of Trust” means the eight Deeds of Trust and, Security Agreements, Agreement and Fixture Filing with Assignment of Rents and Leases, each dated as of October 1, 1997, as amended and supplemented, and as the same may be further supplemented and amended from time to time, under which ABHOW has granted a lien and security interest on its Facilities to Chicago Title, to be held for the benefit of the Master Trustee.

“Defaulted Interest” means interest on any Series 2010 Bond which is payable but not duly paid on the date due.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns appointed pursuant to the Bond Indenture.

“DTC Participants” means those broker dealers, banks and other financial institutions reflected on the books of DTC.

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

“Excluded Property” means any assets of “employee pension benefit plans” as defined in the Employee Retirement Income Security Act of 1974, as amended, maintained by or for the benefit of the Obligated Group, any moneys and securities held as an entrance fee or security deposit, or in a resident trust fund, for any resident of any Facility of a Member, and the real estate described in Exhibit C to the Master Indenture, as amended as provided in the Master Indenture from time to time, and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith. Except where explicitly set forth in the Master Indenture, neither Principal Property nor Property include Excluded Property.

“Extendable Indebtedness” means indebtedness which is repayable or subject to purchase at the option of the holder thereof prior to its stated maturity, but only to the extent of money available for the repayment or purchase therefore and not more frequently than once every year.

“Facilities” means the facilities of ABHOW financed with the COPs and the Series 2010 Bonds.

“Fiscal Year” means that period adopted by ABHOW as its annual accounting period. Initially, the Fiscal Year is the period from October 1 of a year to September 30 of the next year.

“Fitch” means Fitch Ratings Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative.

“First Supplemental Master Indenture” means the First Supplemental Master Trust Indenture dated as of February 1, 2010 by and among the Members of the Obligated Group and the Master Trustee, pursuant to which the Series 2010 Obligation is being issued.

“Foundation” means American Baptist Homes Foundation of the West, Inc., a California nonprofit public benefit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“Governing Body” means, when used with respect to any Member, its board of directors, board of trustees, or other board or group of individuals in which all of the powers of such Member are vested except for those powers reserved to the corporate membership thereof by the articles of incorporation or bylaws of such Member.

“Government Obligations” means securities which consist of (a) United States Government Obligations, or (b) evidences of a direct ownership in future interest or principal payments on United States Government Obligations, which obligations are held in a custody account by a custodian satisfactory to the Bond Trustee pursuant to the terms of a custody agreement.

“Gross Revenues” are defined as all receipts, revenues, income and other money received by or on behalf of any Member of the Obligated Group from any source whatsoever, including, but not limited to, (a) revenues derived from the operation and possession of each Member’s facilities, including accounts receivable, (b) gifts, bequests, grants, donations and contributions, exclusive of any gifts, bequests, grants, donations or contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or for the payment of operating expenses, and (c) revenues derived from (1) condemnation proceeds, (2) inventory and other tangible and intangible property, (3) private and governmental health care reimbursement programs and agreements, (4) insurance proceeds, (5) contract rights and other rights now or hereafter owned by each Member, and (6) realized investment earnings.

“Guaranty,” solely for purposes of this Appendix C, means all loan commitments and all obligations of any Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person which would, if such other Person were a Member, constitute Indebtedness. For purposes of the other portions of this Official Statement, “Guaranty” means the Guaranty Agreement dated as of February 1, 2010 of the Foundation to ABHOW, the Bond Trustee and the Master Trustee.

“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 Project or to persons on or about the Project or (ii) cause the Project 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 Code §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 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 Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“Income Available for Debt Service” means, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members, net income after taxes) of the Obligated Group for such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles, provided that no such determination shall include any gain or loss resulting from (i) the extinguishment of Indebtedness, (ii) any disposition of capital assets not made in the ordinary course of business or any revenue of an Affiliate which is not a Member, (iii) any gain or loss resulting from changes in the valuation of Indebtedness, investment securities or any Interest Rate Agreement, (iv) the application of changes in accounting principles, (v) any other extraordinary or non-recurring losses or gains, (vi) Initial Entrance Fees, or (vii) any other non-cash revenue or expense items. For purposes of this definition, revenues shall include (1) resident service revenues, (2) other operating revenues, (3) non-operating revenues or contributions (other than restricted contributions, income derived from the sale or other disposition of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute funded interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness), and (4) entrance fees received minus (a) entrance fees amortized during such Fiscal Year and (b) entrance fees refunded to residents.

“Indebtedness” means, for any Person, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and (c) all obligations for the payment of money incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise; provided that Indebtedness shall not include Indebtedness of one Member to another Member, any Guaranty by any Member of Indebtedness of any other Member, the joint and several liability of any Member on Indebtedness issued by another Member, Interest Rate Agreements or any obligation to repay moneys deposited by patients or others with a Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to entrance fees (whether amortized into income or not), endowment or similar funds deposited by or on behalf of such residents including but not limited to any deferred obligations for the refund or repayment of entrance

fees, any rent, development, marketing, operating or other fees that have been deferred from the year in which they were originally due as a result of deferral or subordination.

“Independent Consultant” means a firm (but not an individual) which (1) is in fact independent of and has no relationship with ABHOW or a Member other than as provided within the scope of a consulting engagement including, but not limited to, subparagraphs (2) and (3) below, (2) does not have any direct financial interest or any material indirect financial interest in any Member or any Affiliate and (3) is not connected with any Member or any Affiliate as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions, and designated by the Obligated Group Representative, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Obligated Group and having a favorable reputation for skill and experience in the financial affairs of such facilities.

“Independent Counsel” means an attorney, duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Authority, ABHOW or the Bond Trustee.

“Industry Restrictions” means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Members.

“Initial Entrance Fees” means fees received upon the initial occupancy of any newly-constructed independent living units (including any such fees collected for the purpose of obtaining a parking space) not previously occupied, other than security deposits, monthly rentals or monthly service charges, paid to a Member by residents of living units for the purpose of obtaining the right to reside in those living units or to obtain a parking space including any refundable resident deposits described in any lease, residency agreement or similar agreement with respect to those living units or parking spaces, but shall not include any such amounts held in escrow or otherwise set aside pursuant to the requirements of any such agreement or a reservation agreement prior to the occupancy of the living unit or parking space covered by such lease, residency agreement or similar agreement (which amounts shall be included if and when occupancy occurs).

“Insurance Consultant” means a person or firm (which may be an insurance broker or agent of a Member) who is not, and no member, director, officer or employee of which is, an officer or employee of any Member or any Affiliate, designated by the Obligated Group Representative and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

“Interest Payment Date” means each April 1 and October 1, commencing April 1, 2010. In each case, if any date so specified is not a Business Day, the Interest Payment Date shall be the immediately following Business Day.

“Interest Rate Agreement” means an interest rate exchange, hedge or similar agreement, expressly identified in an Officer’s Certificate of ABHOW delivered to the Master Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g. a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. An Interest Rate Agreement shall not constitute Indebtedness under the Master Indenture.

“Lien” means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Member has only a leasehold interest unless the Lien is with respect to such leasehold interest.

“Long-Term Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

“Long-Term Indebtedness” means Indebtedness having an original maturity greater than one year or renewable at the option of a Member for a period greater than one 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 30 consecutive days during each calendar year.

“Loan Agreement” means the Loan Agreement dated as of February 1, 2010 between the Authority and ABHOW relating to the Series 2010 Bonds, as it may from time to time be amended and supplemented.

“Master Indenture” means the Master Trust Indenture dated as of February 1, 2010, by and among ABHOW, as the initial Member of the Obligated Group, and the Master Trustee, as supplemented and amended by the First Supplemental Master Indenture, and as it may from time to time be further amended or as supplemented in accordance with the terms thereof.

“Master Trustee” means U.S. Bank National Association, or any successor trustee under the Master Indenture.

“Maximum Annual Debt Service” means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) There shall be included in the Long-Term Indebtedness of any Member, 20% of the annual principal and interest requirements with respect to the debt of any Person subject to a Guaranty by such Member. If any Member has been required by reason of its Guaranty to make a payment in respect of another Person’s Indebtedness within the immediately preceding two Fiscal Years, all of the annual principal and interest requirements with respect to the debt subject to the Guaranty shall be included in Long-Term Indebtedness.

(b) For any Long-Term Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, be made on the assumption that such Long-Term Indebtedness will be amortized in accordance with such credit arrangement.

(c) For any Balloon Indebtedness and Interim Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Long-Term Indebtedness is to be amortized over a period specified by the Obligated Group Representative up to 30 years in duration, beginning on the date of maturity of such Indebtedness or such earlier date as may be specified by the Obligated Group Representative, assuming level debt service and a rate of interest equal to the Projected Rate; provided, however that if the Projected Rate cannot be determined the rate shall be assumed to be a fixed rate of interest equal to the most recently published Bond Buyer 30-year Revenue Bond Index or a similar index.

(d) For any Extendable Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Extendable Indebtedness is to be amortized over the period until its stated maturity, assuming level debt service and a fixed rate of interest equal to the current rate of interest on such Extendable Indebtedness.

(e) If interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (including Balloon Indebtedness and Interim Indebtedness, if the Obligated Group Representative does not choose to use paragraph (c) above, and including Extendable Indebtedness, if the Obligated Group Representative does not choose to use paragraph (d) above), the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be a fixed rate of interest equal to the most recently published average of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index over the preceding ten years (or a similar index if unavailable), plus the cost of any credit enhancement fees.

(f) Anything in the Master Indenture to the contrary notwithstanding, any portion of any Indebtedness of any Member for which an Interest Rate Agreement has been obtained by such Member shall be deemed to bear interest for the period of time that such Interest Rate Agreement is in effect at a net rate which takes into account the interest payments made by such Member on such Indebtedness and the payments made or received by such Member on such Interest Rate Agreement; provided that the long-term credit rating of the provider of such Interest Rate Agreement (or any guarantor thereof) is in one of the three highest rating categories of any Rating Agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise) or is at least as high as that of the Obligated Group.

“Member” or “Member of the Obligated Group” means any Person who is designated as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative.

“Obligated Group” means all Members.

“Obligated Group Representative” means ABHOW or such other Member as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

“Obligation” means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, reimbursement agreements, loan agreements or leases. Reference to a “Series of Obligations” or to “Obligations of a Series” means Obligations or series of Obligations issued pursuant to a single Related Supplement.

“Officer’s Certificate” means a certificate signed by the Obligated Group Representative.

“Opinion of Bond Counsel” means an opinion of nationally recognized municipal bond counsel, which opinion may be based upon a ruling or rulings of the Internal Revenue Service, and which counsel and opinion, including the scope, form, substance and other aspects thereof, are acceptable to the Authority.

“Outstanding,” when used with reference to the Master Indenture and Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (b) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (c) any Obligation held by any Member, and (d) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of the various financial covenants contained herein, but only for such purposes, only one of such Obligations shall be deemed Outstanding. Interest Rate Agreements shall not be deemed Outstanding as they are not deemed Indebtedness.

“Permitted Encumbrances” shall have the meaning and include:

- (a) Liens securing any Member’s Obligations;
- (b) Liens arising by reason of good faith deposits by any Member in the ordinary course of business (for other than borrowed money), deposits by any Member to secure public or statutory obligations or deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;
- (c) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker’s compensation, unemployment insurance, pension or profit-sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;
- (d) any judgment Lien against any Member so long as such judgment is being contested in good faith and execution thereon is stayed;
- (e) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any Property, to:
 - (1) terminate such right, power, franchise, grant, license, or permit, provided, that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or
 - (2) purchase, condemn appropriate or recapture, or designate a purchaser of, the Property or any portion thereof;
- (f) any Liens on any of the Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days;

(g) easements, rights-of-way, servitudes, restrictions, oil, gas, or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any of the Property which do not materially impair the use of such Property or materially and adversely affect the value thereof,

(h) rights reserved to or vested in any municipality or public authority to control or regulate any of the Property or to use such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof, to the extent that it affects title to any Property;

(i) landlord's Liens;

(j) Liens on moneys deposited with any Member as security for or as prepayment for the cost of patient care;

(k) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests or the income thereon;

(l) Liens on Property due to rights of third-party payors for recoupment of amounts paid to any Member;

(m) purchase of money security interest and security interest existing on any of the Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise, or placed upon Property to secure a portion of the purchase price thereof, or lessee's interest in leases required to be capitalized in accordance with GAAP;

(n) Any Lien described in Exhibit A hereto which is existing on the date of execution hereof provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any Member not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance;

(o) Liens on funds or securities posted in a collateral account held by a counterparty to an Interest Rate Agreement, or by a third party custodian therefore;

(p) Liens on Excluded Property.

"Person" means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

"Principal Property" means that portion of the property, plant and equipment, wherever situated and whether now owned or hereafter acquired that: (a) is material and integral to or a material and integral part of the primary operations of a Member, and (b) is so designated pursuant to the Master Indenture.

"Program Participants" means the Cities of Bakersfield, Fresno, Oakland, Pleasanton, Redlands and Santa Barbara, California and the County of Santa Clara, California.

"Project" means the construction, remodeling and equipping of ABHOW's Facilities financed or refinanced, directly or indirectly, with the proceeds of the Series 2010 Bonds, more fully described in Exhibit B to the Bond Indenture.

“Project Gifts” means gifts, grants, donations, bequests or other charitable contributions or below market rate loans regardless of form or source thereof, the proceeds of which when received will be restricted to be used for payment of the costs directly related to all or a portion of the Project or were raised to pay the costs related directly to all or a portion of the Project; excluding, however, proceeds intended to be ancillary to the Project.

“Projected Rate” means the projected yield at par of an obligation as set forth in the report of an Independent Consultant. Such report shall state that in determining the Projected Rate such Independent Consultant reviewed the yield evaluations at par of no fewer than three obligations selected by such Independent Consultant, the interest on which is entitled to the exemption from federal income tax afforded by Section 103(a) of the Code or any successor thereto (or, if it is not expected that it will be reasonably possible to issue such tax-exempt obligations, then obligations the interest on which is subject to federal income taxation) which obligations such Consultant states in its report are reasonable comparators for utilizing in developing such Projected Rate and which obligations: (i) were outstanding on a date selected by the Independent Consultant which date so selected occurred during the 90-day period preceding the date of the calculation utilizing the Projected Rate in question, (ii) to the extent practicable, are obligations of Persons engaged in operations similar to those of the Obligated Group and having a credit rating similar to that of the Obligated Group, (iii) are not entitled to the benefits of any credit enhancement, including without limitation any letter or line of credit or insurance policy, and (iv) to the extent practicable, have a remaining term and amortization schedule substantially the same as the obligation with respect to which such Projected Rate is being developed.

“Property” means any and all rights, titles and interests in and to any and all assets of the Obligated Group, whether real or personal, tangible or intangible and wherever situated, as shown on the most recent audited financial statements for the Obligated Group for the most recent fiscal year for which they are available. Property shall not include the land, leasehold interests, buildings, fixtures or equipment constituting Excluded Property.

“Purchase Contract” means the Bond Purchase Contract dated February 4, 2010 among B.C. Ziegler and Company d/b/a Ziegler Capital Markets, ABHOW and the Authority, providing for the sale of the Series 2010 Bonds.

“Qualified Investments” means dollar denominated investments in any of the following:

- (a) Government Obligations;
- (b) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency;
- (c) any bond, debenture, note, participation certificate or other similar obligation issued by a government sponsored agency (such as the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation or the Federal Farm Credit Bank) which is either (i) at the time of purchase rated in the highest rating category by any Rating Agency, or (ii) backed by the full faith and credit of the United States of America;
- (d) U.S. denominated deposit account, certificates of deposit and banker’s acceptances of any bank, trust company, or savings and loan association, including the Master Trustee or Bond Trustee or its affiliates, which at the time of purchase have a rating on their short-term certificates of deposit on the date of purchase in one of the two highest short-term rating categories (without regard to any refinement or

gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which mature not more than 360 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which matures not more than 270 days after the date of purchase;

(f) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by any Rating Agency in any of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);

(g) investment agreements with banks (including without limitation the Bond Trustee or the Master Trustee) that at the time such agreement is executed are rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency or investment agreements with non-bank financial institutions, provided that (1) all of the unsecured, direct long-term debt of either the non-bank financial institution or the related guarantor of such non-bank financial institution is rated by any Rating Agency at the time such agreement is executed in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if such non-bank financial institution and any related guarantor have no outstanding long-term debt that is rated, all of the short-term debt of either the non-bank financial institution or the related guarantor of such non-bank financial institution is rated by any Rating Agency in one of the two highest rating categories (without regard to any refinement or gradation of the rating category by numerical modifier or otherwise) assigned to short term indebtedness by any Rating Agency. If such non-bank financial institution and any guarantor do not have any short-term or long-term debt, but do have a rating in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), then investment agreements with such non-bank financial institutions will be permitted;

(h) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clause (b) and (c) above, which agreements may be entered into with a bank (including without limitation the Bond Trustee or its affiliates or the Master Trustee), a trust company, financial services firm or a broker dealer which is a member of the Securities Investors Protection Corporation, provided that (i) the Bond Trustee or its affiliates or a custodial agent of the Bond Trustee or its affiliates has possession of the collateral and that the collateral is, to the knowledge of the Bond Trustee, free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, and (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%, and (v) such obligations must be held in the custody of the Bond Trustee or its affiliates or the Master Trustee;

(i) investments in a money market fund, which may be funds of the Bond Trustee or its affiliates, rated (at the time of purchase) in the highest rating category for this type of investment by any Rating Agency, including money market mutual funds from which the Bond Trustee or its affiliates derive a fee for investment advisory or other services to the fund;

(j) shares in any investment company, money market mutual fund, fixed income mutual fund, Exchange Traded Fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and the majority of whose investments consist solely of Qualified Investments as defined in paragraphs (a) through (i) above,

including money market mutual funds from which the Master Trustee, Bond Trustee or its affiliates derive a fee for investment advisory or other services to the fund; and

(k) for purposes of the Debt Service Reserve Fund created under the Bond Trust Indenture for the Series 2010 Bonds, the investments deposited into the Debt Service Reserve Fund upon issuance of the Series 2010 Bonds.

The Bond Trustee shall be entitled to assume that any investment which at the time of purchase is a Qualified Investment remains a Qualified Investment thereafter, absent receipt of written notice or information to the contrary.

For the purposes of this definition, obligations issued or held in the name of the Bond Trustee (or in the name of the Authority and payable to the Bond Trustee) in book-entry form on the books of the Department of Treasury of the United States shall be deemed to be deposited with the Bond Trustee.

“Rating Agency” means Moody’s, Standard & Poor’s or Fitch and their respective successors and assigns.

“Related Bonds” means any revenue bonds, certificates of participation or other obligations issued or executed and delivered by any government issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to ABHOW or a Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such government issuer. As of the initial execution and delivery of the Master Indenture, Related Bonds include (1) the Authority’s Variable Rate Demand Revenue Bonds, Series 2006 (American Baptist Homes of the West) and (2) the Series 2010 Bonds.

“Related Loan Document” means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member (or any Property financed or refinanced with such proceeds is loaned, leased, subleased or sold to a Member).

“Related Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

“Required Information Recipients” means the Master Trustee, B.C. Ziegler and Company doing business as Ziegler Capital Markets, as initial purchaser, each bond trustee, EMMA or any other nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission, the Authority, and all owners of \$500,000 or more in aggregate principal amount of Series 2010 Bonds who request such reports in writing (which written request shall include a certification as to such ownership).

“Required Payment” means any payment whether at maturity, by acceleration, upon proceeding for redemption or otherwise, required to be made by any Member under the Master Indenture, any Related Supplement, any Obligation or otherwise in connection with a financing, including, but not limited to, the payment of principal, interest and premium and lease payments.

“Series 2006 Bonds” means the \$50,000,000 California Statewide Communities Development Authority Variable Rate Demand Revenue Bonds, Series 2006 (American Baptist Homes of the West).

“Series 2010 Bonds” means the \$106,580,000 aggregate principal amount of California Statewide Communities Development Authority Revenue Bonds, Series 2010 (American Baptist Homes of the West), authorized to be issued pursuant to the terms and conditions of the Bond Indenture.

“Series 2010 Obligation” means Direct Note Obligation No. 3, dated February 24, 2010, from ABHOW to the Authority under the First Supplemental Master Indenture.

“Short-Term Indebtedness” means all Indebtedness having an original maturity less than or equal to one year and not renewable at the option of a Member for a term greater than one year.

“Special Record Date” means the date fixed by the Bond Trustee pursuant to the Bond Indenture for the payment of Defaulted Interest.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative.

“State” means the State of California.

“Subordinated Indebtedness” means Indebtedness incurred by a Member which by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment to all Outstanding Obligations and to all other obligations of a Member not containing such subordination provisions.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code and which is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Tax Exemption Agreement” means the Tax Exemption Agreement relating to the Series 2010 Bonds dated the Closing Date among ABHOW, the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

“Total Operating Revenues” means the sum of total unrestricted operating revenues as shown on the consolidated or combined financial statements of the Obligated Group, determined in accordance with generally accepted accounting principles.

“Unassigned Rights” means the right of the Authority to receive payment of its fees and expenses, the Authority’s right to indemnification in certain circumstances and the Authority’s right to enforce the special services covenant of the Loan Agreement, the Authority’s right to receive notices under the Bond Indenture, the Loan Agreement, the Purchase Contract, the Tax Exemption Agreement or any other Bond document, and the Authority’s right to execute and deliver supplements and amendments to the Loan Agreement.

“United States Government Obligations” means noncallable direct obligations of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America.

“Written Request” with reference to the Authority means a request in writing (which may be by electronic means acceptable to the Bond Trustee) signed by Chairman, the Vice Chairman, Secretary or member of the Authority, and with reference to ABHOW means a request in writing signed by the President, a Vice President, Secretary or Assistant Secretary of ABHOW, or any other officers designated by the Authority or ABHOW, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The Bond Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Bond Indenture for a full and complete statement of its provisions. All references to the Interest Fund, Bond Sinking Fund, Optional Redemption Fund, Debt Service Reserve Fund and Project Fund under this heading shall mean such funds created under and pursuant to the Bond Indenture.

FUNDS

(a) **Interest Fund.** The Authority shall establish with the Bond Trustee and maintain so long as any of the Series 2010 Bonds are outstanding a separate account to be known as the “Interest Fund – ABHOW – Series 2010” (the “Interest Fund”).

On or before the 20th day of each month, commencing as provided in the Bond Indenture, the Bond Trustee shall deposit in the Interest Fund moneys received from ABHOW in an amount which, together with an equal amount to be deposited on the 20th day of each such month, if any, occurring prior to the next succeeding Interest Payment Date, will be not less than the amount of interest to become due on the Series 2010 Bonds on such Interest Payment Date. Thereafter, on the 20th day of each month, the Bond Trustee shall deposit in the Interest Fund moneys received from ABHOW in an amount which is equal to not less than one-sixth (1/6) of the interest to become due on the next succeeding Interest Payment Date. No deposit pursuant to this paragraph need be made if and to the extent that there is a sufficient amount already on deposit and available for such purpose in the Interest Fund. If the 20th day of any such month is not a Business Day, the deposit required under the Bond Indenture to be made shall be made on the next succeeding Business Day.

Moneys on deposit in the Interest Fund, other than income earned thereon which is to be transferred to other funds, must be used to pay interest on the Series 2010 Bonds.

In connection with any partial redemption or defeasance prior to maturity of the Series 2010 Bonds, the Bond Trustee may, at the request of ABHOW, use any amounts on deposit in the Interest Fund in excess of the amount needed to pay the interest on the Series 2010 Bonds remaining outstanding on the first interest payment date occurring on or after the date of such redemption or defeasance to pay the principal of and interest on the Series 2010 Bonds to be redeemed or defeased.

(b) **Bond Sinking Fund.** The Authority shall establish with the Bond Trustee and maintain so long as any of the Series 2010 Bonds are outstanding a separate account to be known as the “Bond Sinking Fund – ABHOW – Series 2010” (the “Bond Sinking Fund”).

On each sinking fund payment date, after making the deposits required by the provisions of the Bond Indenture summarized herein under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Interest Fund”, the Bond Trustee shall deposit in the Bond Sinking Fund moneys received from ABHOW in an amount which, together with any moneys already on deposit in the Bond Sinking Fund and available to make such payment, is not less than the principal becoming due on the Series 2010 Bonds on such date.

On or before the 20th day of each month, commencing as provided in the Bond Indenture, after making the deposits required by the provisions of the Bond Indenture summarized herein under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Interest Fund", the Bond Trustee shall deposit in the Bond Sinking Fund moneys received from ABHOW in an amount which, together with an equal amount to be deposited on the 20th day of each such month, if any, occurring before the next succeeding October 1, will be not less than the amount of principal to become due on the Series 2010 Bonds on the next succeeding October 1 by maturity or by mandatory Bond Sinking Fund redemption. Thereafter, on the 20th day of each month, the Bond Trustee shall deposit in the Bond Sinking Fund from moneys received from ABHOW an amount which is not less than one-twelfth (1/12) of the principal of the Series 2010 Bonds on the next succeeding October 1 by maturity or by mandatory Bond Sinking Fund redemption. No deposit pursuant to this paragraph need be made if and to the extent that there is a sufficient amount already on deposit and available for such purpose in the Bond Sinking Fund. If the 20th day of any month is not a Business Day, the deposit required to be made shall be made on the next succeeding Business Day.

In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee may, at the request of ABHOW, purchase an equal principal amount of Series 2010 Bonds in the open market at prices not exceeding the principal amount of the Series 2010 Bonds being purchased plus accrued interest. In addition, the amount of Series 2010 Bonds to be redeemed on any date pursuant to the mandatory Bond Sinking Fund redemption schedule shall be reduced by the principal amount of Series 2010 Bonds assigned to such mandatory Bond Sinking Fund redemption date or to the period during which such Series 2010 Bond Sinking Fund redemption date occurs which are acquired by ABHOW and delivered to the Bond Trustee for cancellation.

In connection with any partial redemption or defeasance prior to maturity of the Series 2010 Bonds, the Bond Trustee may, at the request of ABHOW, use any amounts on deposit in the Bond Sinking Fund in excess of the amount needed to pay principal on the Series 2010 Bonds remaining outstanding on the first principal or mandatory sinking fund payment date occurring on or after the date of such redemption or defeasance to pay the principal of and interest on the Series 2010 Bonds to be redeemed or defeased.

(c) Debt Service Reserve Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Series 2010 Bonds are outstanding a separate account to be known as the "Debt Service Reserve Fund – ABHOW – Series 2010" (the "Debt Service Reserve Fund"), which may be divided into two or more subaccounts. A deposit to the credit of the Debt Service Reserve Fund shall be made from the debt service reserve fund securing the COPs and from the proceeds of the Series 2010 Bonds in accordance with the provisions of the Bond Indenture. Amounts on deposit in the Debt Service Reserve Fund shall be administered by the Bond Trustee as described by the provisions of the Bond Indenture summarized under this heading. Except as provided in the Bond Indenture, moneys on deposit in the Debt Service Reserve Fund shall be used only to make up any deficiencies in the Interest Fund and the Bond Sinking Fund (in that order).

Qualified Investments in the Debt Service Reserve Fund shall be valued by the Bond Trustee on the first Business Day of each Fiscal Year (the "Valuation Date"), on the basis of fair market value (which valuation shall take into account any accrued and unpaid interest). If on any Valuation Date the amount on deposit in the Debt Service Reserve Fund is less than 90% of the Debt Service Reserve Fund Requirement as a result of a decline in the market value of investments on deposit in the Debt Service Reserve Fund, the Loan Agreement requires ABHOW to deposit in the Debt Service Reserve Fund the amount necessary to restore the amount on deposit in the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Fund Requirement within 120 days following the date on which ABHOW receives notice of such deficiency. If at any time the amount on deposit in the Debt Service Reserve Fund

is less than 100% of the Debt Service Reserve Fund Requirement as a result of the Debt Service Reserve Fund having been drawn upon, the Loan Agreement requires ABHOW to restore the amount on deposit in the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Fund Requirement by the deposit with the Bond Trustee of an amount equal to such deficiency in not more than 12 substantially equal monthly installments beginning with the first day of the seventh month after the month in which such draw occurred.

In connection with any partial redemption or defeasance prior to maturity of the Series 2010 Bonds, the Bond Trustee may, at the request of ABHOW, use any amounts on deposit in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement for such Debt Service Reserve Fund after such redemption to pay the principal of or the principal portion of the redemption price of said Series 2010 Bonds to be redeemed or defeased. On the final maturity date of the Series 2010 Bonds, any moneys in the Debt Service Reserve Fund may be used to pay the principal of and interest on the Series 2010 Bonds on such final maturity date.

(d) Optional Redemption Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Series 2010 Bonds are outstanding a separate account to be known as the “Optional Redemption Fund – ABHOW – Series 2010” (the “Optional Redemption Fund”). In the event of (a) prepayment by or on behalf of ABHOW of amounts payable on the Loan Agreement, (b) receipt by the Bond Trustee of condemnation awards or insurance proceeds for purposes of redeeming Series 2010 Bonds or (c) deposit with the Bond Trustee by ABHOW or the Authority of moneys from any other source for redeeming Series 2010 Bonds, such moneys shall be deposited in the Optional Redemption Fund.

Moneys on deposit in the Optional Redemption Fund shall be used first to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second for the purchase or redemption of Series 2010 Bonds in accordance with the provisions of the Bond Indenture.

Funds transferred to the Bond Trustee pursuant to the provisions of the Bond Indenture shall be deposited in the Optional Redemption Fund and used to optionally redeem Series 2010 Bonds on the earliest date practicable in accordance with the provisions of the Bond Indenture without further request from the Authority or ABHOW.

(e) Project Fund. The Authority shall establish with the Bond Trustee a separate account to be known as the “Project Fund – ABHOW – Series 2010” (the “Project Fund”). Cash or securities deposited in the Project Fund shall be paid out from time to time by the Bond Trustee upon receipt by the Bond Trustee of a Project Fund Request substantially in the form attached in Exhibit C to the Bond Indenture. If for any reason ABHOW should decide prior to the payment of any item in said Project Fund Request not to pay such item, it shall give telephonic notice confirmed in writing of such decision to the Bond Trustee and thereupon the Bond Trustee shall not make such payment.

ABHOW may make substitutions for the Project as originally described, if it does so in accordance with the Loan Agreement.

If after payment by the Bond Trustee of all Project Fund Requests and after receipt by the Bond Trustee of the Project completion certificate there shall remain any moneys in the Project Fund, ABHOW may (a) elect to retain all or a portion of such moneys in the Project Fund and withdraw such moneys by submission of additional Project Fund Requests with respect to additional costs of a continuing care facility; provided that no such additional costs may be paid if (i) such payment would cause the average maturity of the Series 2010 Bonds to exceed 120% of the average reasonably expected economic life of

the Project, or (ii) such health care facility is not located on the real estate described in the notice of public hearing published in connection with the issuance of the Series 2010 Bonds; provided, that the Bond Trustee is entitled to rely on the written request of ABHOW with respect to a request for funds pursuant to (a) above, that such payment is permitted and that the conditions of (i) and (ii) of this paragraph have been satisfied; (b) direct the Bond Trustee to transfer such moneys to the Optional Redemption Fund to optionally redeem Series 2010 Bonds; or (c) direct the Bond Trustee to apply such moneys in any other manner, provided there shall be delivered to the Bond Trustee and the Authority an Opinion of Bond Counsel to the effect that such application will not adversely affect the validity of the Series 2010 Bonds or any exemption from federal income taxation to which the interest on the Series 2010 Bonds would otherwise be entitled.

As soon as practicable after ABHOW has made an election or direction pursuant to (a) or (b) of the immediately preceding paragraph, ABHOW shall recalculate the average reasonably expected economic life of the Bond Financed Property, which calculation shall include (i) the average reasonably expected economic life of any additional projects undertaken with moneys remaining on deposit in the Project Fund at the completion of the Project as originally described, and (ii) the amount of moneys transferred from the Project Fund to the Optional Redemption Fund as an asset with an economic life of zero.

If the Project has been abandoned and moneys remain on deposit in the Project Fund, such moneys must be deposited in the Bond Fund to optionally redeem Series 2010 Bonds.

INVESTMENT OF FUNDS

The Bond Indenture provides that:

(a) Moneys in the Interest Fund, Bond Sinking Fund, Optional Redemption Fund, Project Fund and Debt Service Reserve Fund shall be invested in Qualified Investments upon a Written Request of ABHOW filed with the Bond Trustee. Such investments shall be made so as to mature on or prior to the date or dates that moneys therefrom are anticipated to be required, and moneys on deposit in the Debt Service Reserve Fund may be invested in investments which mature on or prior to the scheduled maturity of the Series 2010 Bonds. The Bond Trustee, when authorized by ABHOW, may purchase or sell securities through itself or a related subsidiary as principal or agent, in the purchase and sale of securities for such investments; provided, however, that in no case shall any investment be otherwise than in accordance with the investment limitations contained in the Bond Indenture and the Tax Exemption Agreement. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investments.

(b) The investment earnings on funds on deposit in the Project Fund shall be held therein and used to pay costs of the Project. Investment earnings on funds on deposit in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement shall be transferred to the Interest Fund. All income in excess of the requirements of the other funds held under the Bond Indenture derived from the investment of moneys on deposit in any such funds shall be deposited in:

(i) The Debt Service Reserve Fund, to the extent necessary to maintain the amount required to be on deposit therein;

(ii) The Bond Sinking Fund to the extent of the amount required to be deposited therein to make the next required principal payment on the Series 2010 Bonds occurring within 13 months of the date of deposit;

(iii) The Interest Fund to the extent of the estimated amount required to be deposited therein to make any interest payment on the Series 2010 Bonds occurring within 13 months of the date of deposit; and

(iv) The balance, if any, in the Optional Redemption Fund.

ARBITRAGE; COMPLIANCE WITH THE TAX EXEMPTION AGREEMENT

ABHOW and the Authority, to the extent of its discretion under the provisions of the Bond Indenture summarized herein under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – INVESTMENT OF FUNDS”, covenant and agree that they will not take any action or fail to take any action with respect to the investment of the proceeds of the Series 2010 Bonds or with respect to the payments derived from the Loan Agreement or any other moneys regardless of source or where held which may, notwithstanding compliance with the other provisions of the Bond Indenture, the Loan Agreement and the Tax Exemption Agreement, result in constituting the Series 2010 Bonds “arbitrage bonds” within the meaning of such term as used in Section 148 of the Code.

ABHOW covenants and agrees that it will not sell, lease or otherwise dispose of (including without limitation any involuntary disposition), directly or indirectly, in whole or in part, any portion of its portion of the Bond Financed Property unless the conditions set forth in the Tax Exemption Agreement related to the preservation of the tax-exempt status of interest on the Series 2010 Bonds are satisfied.

SUPPLEMENTAL BOND INDENTURES

The Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Bond Indenture;
- (b) to grant to or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them;
- (c) to assign and pledge under the Bond Indenture additional revenues, properties or collateral;
- (d) to evidence the appointment of a separate bond trustee or the succession of a new bond trustee under the Bond Indenture;
- (e) to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute thereafter in effect or to permit the qualification of the Series 2010 Bonds for sale under the securities laws of any state of the United States of America;
- (f) to permit the issuance of coupon bonds under the Bond Indenture and to permit the exchange of Bonds from fully registered form to coupon form and vice versa;
- (g) to provide for the refunding or advance refunding of the Series 2010 Bonds, including the right to establish and administer an escrow fund and to take related action in connection therewith;

(l) in any other way which the Bond Trustee has determined does not materially adversely affect the rights or interests of any Series 2010 Bondholder.

The Authority and the Bond Trustee may not enter into an indenture or indentures supplemental to the Bond Indenture pursuant to paragraphs (f) and (g) of the provisions of the Bond Indenture summarized under this heading unless they shall have received an Opinion of Bond Counsel to the effect that the issuance of coupon Series 2010 Bonds will not adversely affect the validity of such Series 2010 Bonds or any exemption from federal income tax to which the interest on the Series 2010 Bonds would otherwise be entitled.

In addition to supplemental indentures covered by the section of the Bond Indenture summarized under this heading and subject to the terms and provisions contained in the Bond Indenture, and not otherwise, the holders of a majority in aggregate principal amount of the Series 2010 Bonds which are outstanding under the Bond Indenture at the time of the execution of such indenture or supplemental indenture shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Bond Trustee of such other indenture or indentures supplemental thereto as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or any supplemental indenture; provided, however, that nothing summarized under this heading shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Series 2010 Bonds, without the consent of the holders of such Series 2010 Bonds, (b) a reduction in the amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund provided in the Bond Indenture, without the consent of the holders of all the Series 2010 Bonds at the time outstanding, (c) the creation of any lien prior to or on a parity with the lien of the Bond Indenture, without the consent of the holders of all the Series 2010 Bonds at the time outstanding, (d) a reduction in the aggregate principal amount of Series 2010 Bonds the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all the Series 2010 Bonds at the time outstanding, or (e) the modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes of the Bond Indenture summarized under this heading, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by first class mail or an overnight delivery service, postage prepaid, to the registered owners of the Series 2010 Bonds at their addresses as the same shall appear on the Bond Register. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Series 2010 Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental indenture when consented to and approved as provided by the provisions of the Bond Indenture summarized under this heading. If the holders of not less than a majority in aggregate principal amount of the Series 2010 Bonds which are outstanding under the Bond Indenture at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Bond Indenture, no holder of any Series 2010 Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as the provisions of the Bond

Indenture summarized under this heading permitted and provided, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

Anything in the Bond Indenture to the contrary notwithstanding, so long as ABHOW is not in default under the Loan Agreement or the Members of the Obligated Group are not in default under the Master Indenture, a supplemental indenture under the Bond Indenture which adversely affects the rights of ABHOW under the Loan Agreement or any Member under the Master Indenture shall not become effective unless and until ABHOW shall have consented in writing to the execution and delivery of such supplemental indenture. In this regard, the Bond Trustee shall cause notice of the proposed execution and delivery of any such supplemental indenture to which ABHOW has not already consented, together with a copy of the proposed supplemental indenture and a written consent form to be signed by ABHOW, to be sent by first class mail or an overnight delivery service, postage prepaid, to ABHOW at least 30 days prior to the proposed date of execution and delivery of any such supplemental indenture.

DEFEASANCE

If the Authority shall pay or provide for the payment of the entire indebtedness on all Series 2010 Bonds outstanding (including, for the purpose of the Bond Indenture, any Series 2010 Bonds held by ABHOW) in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Series 2010 Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys, in an amount sufficient to pay or redeem (when redeemable) all Series 2010 Bonds outstanding (including the payment of premium, if any, and interest payable on such Series 2010 Bonds to maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in Government Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Series 2010 Bonds outstanding at or before their respective maturity dates; it being understood that the investment income on such United States Government Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, all Series 2010 Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, United States Government Obligations in such amount as the Bond Trustee shall determine, in reliance on a certified public accountant's verification report, will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof and any uninvested cash, be fully sufficient to pay or redeem (when redeemable) and discharge all the Series 2010 Bonds outstanding (including the payment of premium, if any, and interest payable on such Series 2010 Bonds to maturity or redemption date thereof), at or before their respective maturity dates;

and if the Authority shall also pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, then and in that case the Bond Indenture and the estate and rights granted thereunder shall cease, determine and become null and void, and thereupon the Bond Trustee shall, upon Written Request of the Authority, and upon receipt by the Bond Trustee of an Officer's Certificate and an opinion of Independent Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Bond Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Bond Indenture and the lien thereof. The satisfaction and discharge of the Bond Indenture shall be without prejudice to the rights of the Bond

Trustee to charge and be reimbursed by the Authority and ABHOW for any expenditures which it may thereafter incur in connection herewith.

All moneys, funds, securities, or other property remaining on deposit in the Interest Fund, Bond Sinking Fund, Optional Redemption Fund, Debt Service Reserve Fund or in any other fund or investment under the Bond Indenture (other than said Government Obligations or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Authority and ABHOW, as their respective interests may appear; provided that if the Authority shall have no further interest in such moneys.

The Authority or ABHOW may at any time surrender to the Bond Trustee for cancellation by it any Series 2010 Bonds previously authenticated and delivered which the Authority or ABHOW may have acquired in any manner whatsoever, and such Series 2010 Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

EVENTS OF DEFAULT; ACCELERATION

Each of the following events is an “event of default” under the Bond Indenture:

(a) payment of any installment of interest on any of the Series 2010 Bonds shall not be made when the same shall become due and payable; or

(b) payment of the principal of or the redemption premiums, if any, on any of the Series 2010 Bonds shall not be made when the same shall become due and payable, whether such payment is at maturity or by proceedings for redemption, and whether such payment is expected to be paid from any Fund under the Bond Indenture or otherwise; or

(c) the occurrence of an event of default as defined in the Loan Agreement; or

(d) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or

(e) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Series 2010 Bonds or in the Bond Indenture or in any agreement supplemental thereto on the part of the Authority to be performed, and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority and ABHOW by the Bond Trustee; provided that the Bond Trustee may give notice in its discretion and shall give such notice at the written request of the holders of not less than 25% in aggregate principal amount of the Series 2010 Bonds then outstanding; or

(f) the Authority, ABHOW or the Bond Trustee shall default in the performance of any covenant, condition, agreement or provision of the Tax Exemption Agreement, and such default shall continue for a period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to ABHOW and the Bond Trustee, as the case may be, by any other party; provided that if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Authority, ABHOW or the Bond Trustee to remedy such default within such 30-day period shall not constitute a default under the Bond Indenture if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(g) any event of default as defined in the Master Indenture shall occur and such event of default shall be continuing from and after the date the Authority is entitled to request that the Master Trustee declare the Series 2010 Obligation to be immediately due and payable, or such event of default shall be continuing from and after the date on which the Master Trustee is entitled under the Master Indenture to declare any Obligation immediately due and payable, or the Master Trustee shall declare any Obligation immediately due and payable.

Upon (i) the happening of any event of default specified in the provisions of the Bond Indenture summarized under this subparagraphs (c), (d), (e), (f) or (g) above and the continuance of the same for the period, if any, specified in said paragraph, the Bond Trustee may, without any action on the part of the Bondholders, or (ii) the happening of an event of default specified in paragraph (a) or (b) above, the Bond Trustee shall, or (iii) the happening and continuance of an event of default specified in subparagraphs (c), (d), (e), (f) or (g) above and the written request of the owners of not less than 25% in aggregate principal amount of the Series 2010 Bonds then outstanding under the Bond Indenture and the interest accrued thereon, the Bond Trustee shall declare the entire principal amount of the Series 2010 Bonds then outstanding under the Bond Indenture and the interest accrued thereon, immediately due and payable, and the entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture summarized herein under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – WAIVER OF EVENTS OF DEFAULT" with respect to waivers of events of default and to the Bond Trustee being indemnified to its satisfaction. Upon the acceleration of the Series 2010 Bonds after an event of default, interest on the Series 2010 Bonds shall immediately cease to accrue on the date of acceleration.

WAIVER OF EVENTS OF DEFAULT

The Bond Trustee may in its discretion waive any event of default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon written request of the holders of (1) at least a majority in aggregate principal amount of all the Series 2010 Bonds outstanding in respect of which default in the payment of principal and/or interest exists, or (2) at least a majority in aggregate principal amount of all the Series 2010 Bonds outstanding in the case of any other event of default under the Bond Indenture; provided, however, that there shall not be waived (a) any event of default in the payment of the principal of any outstanding Series 2010 Bonds when due whether by mandatory redemption or at maturity specified therein or (b) any default in the payment when due of the interest on any such Series 2010 Bonds, unless prior to such waiver or rescission all arrears of interest, with interest thereon (to the extent permitted by law) at the rate borne by the Series 2010 Bonds in respect of which such default shall have occurred or all arrears of payments of principal when due, as the case may be, and all expenses of the Bond Trustee in connection with such default shall have been paid or provided for.

In case of any such waiver or rescission or in case any proceeding taken by the Bond Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Bond Trustee and the Bondholders shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Bond Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

DIRECTION OF PROCEEDINGS

The holders of a majority in aggregate principal amount of the Series 2010 Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in

connection with the enforcement of the terms and conditions of the Bond Indenture, including enforcement of the rights of the Authority under the Loan Agreement and the rights of the Bond Trustee as the holder of the Series 2010 Obligation or for the appointment of a receiver or any other proceedings thereunder; provided, that such direction shall be in accordance with the provisions of law and of the Bond Indenture.

APPLICATION OF MONEYS

Subject to the provisions of the Bond Indenture and the Tax Exemption Agreement, all moneys received by the Bond Trustee, by any receiver or by any Series 2010 Bondholder pursuant to any right given or action taken under the provisions of the Bond Indenture shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees of and the expenses, liabilities and advances incurred or made by the Bond Trustee, including reasonable attorneys fees and expenses and all moneys so deposited during the continuance of an event of default under the Bond Indenture (other than moneys for the payment of Series 2010 Bonds which have previously matured or otherwise become payable prior to such event of default or for the payment of interest due prior to such event of default thereunder), together with all moneys in the funds maintained by the Bond Trustee under the Bond Indenture, shall be applied as follows:

(i) Unless the principal of all the Series 2010 Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment of amounts, if any, payable pursuant to the Tax Exemption Agreement;

SECOND: To the payment to the Persons entitled thereto of all installments of interest then due on the Series 2010 Bonds in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

THIRD: To the payment to the Persons entitled thereto of the unpaid principal of any of the Series 2010 Bonds, including Bank Bonds, which shall have become due (other than the Series 2010 Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), and, if the amount available shall not be sufficient to pay in full the Series 2010 Bonds, then to the payment ratably, according to the amount of principal due to the Persons entitled thereto, without any discrimination or privilege;

(ii) If the principal of all the Series 2010 Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment of amounts, if any, payable pursuant to the Tax Exemption Agreement; and

SECOND: To the payment of the principal and interest then due and unpaid upon the Series 2010 Bonds, without preference or priority of principal over interest or of interest over any other installment of interest, or of any Series 2010 Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

(iii) If the principal of all the Series 2010 Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Bond

Indenture, then, subject to the provisions of the preceding paragraph in the event that the principal of all the Series 2010 Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of the first paragraph under this heading.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of the Bond Indenture summarized under this heading, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date in accordance with the Bond Indenture ten days prior to the Special Record Date. The Bond Trustee shall not be required to make payment to the holder of any unpaid Bond until such Series 2010 Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

REMOVAL OF THE BOND TRUSTEE

The Bond Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Bond Trustee and the Authority and signed by the owners of a majority in aggregate principal amount of Series 2010 Bonds then outstanding. The foregoing notwithstanding, so long as no default has occurred and is continuing under the Bond Indenture or the Loan Agreement and so long as no event has occurred which would, with the giving of notice or the passage of time become an event of default under the Bond Indenture or the Loan Agreement, the Bond Trustee may be removed at any time upon the written request of ABHOW, and delivered to the Bond Trustee, the Authority. The foregoing notwithstanding, the Bond Trustee may not be removed by ABHOW unless written notice of the delivery of such instrument or instruments signed by ABHOW is mailed to the owners of all Bonds outstanding under the Bond Indenture, which notice indicates the Bond Trustee will be removed and replaced by the successor trustee named in such notice, such removal and replacement to become effective upon the later of the acceptance of the appointment by the successor Bond Trustee, or the 60th day next succeeding the date of such notice, unless the owners of 10% or more in aggregate principal amount of such Bonds then outstanding under the Bond Indenture shall object in writing to such removal and replacement. Such notice shall be mailed by first class mail postage prepaid to the owners of all such Bonds then outstanding at the address of such owners then shown on the Bond Register, and to the Authority.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. Reference is made to the Series 2010 Loan Agreement for a full and complete statement of its provisions. ABHOW agrees that the proceeds of the Series 2010 Bonds being loaned to ABHOW shall be deposited with the Bond Trustee and applied as provided in the Bond Indenture.

REPRESENTATIONS BY ABHOW

ABHOW is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California, has full legal right, power and authority to enter into the Loan Agreement, the Master Indenture, the Deeds of Trust, the Series 2010 Obligation and the Tax Exemption Agreement, and to carry out and consummate all transactions contemplated by this Official Statement, and by proper corporate action has duly authorized the execution, delivery and performance of the Loan

Agreement, the Master Indenture, the Deeds of Trust, the Series 2010 Obligation and the Tax Exemption Agreement.

There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of ABHOW, after reasonable investigation, threatened, against or affecting ABHOW or the assets, properties or operations of ABHOW which, if determined adversely to ABHOW or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of, the Loan Agreement, the Master Indenture, the Deeds of Trust, the Series 2010 Obligation or the Tax Exemption Agreement, or upon the financial condition, assets, properties or operations of ABHOW, and ABHOW is not in default (and no event has occurred and is continuing which with the giving of notice or the passage of time or both could constitute a default) with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Loan Agreement, the Master Indenture, the Deeds of Trust, the Series 2010 Obligation or the Tax Exemption Agreement, or the financial condition, assets, properties or operations of ABHOW. All tax returns (federal, state and local) required to be filed by or on behalf of ABHOW have been filed, and all taxes shown thereon to be due, including interest and penalties, except such, if any, as are being actively contested by ABHOW in good faith, have been paid or adequate reserves have been made for the payment thereof which reserves, if any, are reflected in the audited financial statements described therein. ABHOW enjoys the peaceful and undisturbed possession of all of the premises upon which it is operating its communities.

ASSIGNMENT AND PLEDGE OF AUTHORITY'S RIGHTS

As security for the payment of the Series 2010 Bonds, the Authority will assign and pledge to the Bond Trustee all right, title and interest of the Authority in and to the Loan Agreement, and the Bond Trustee is the holder of the Series 2010 Obligation, including the right to receive payments thereunder and under the Loan Agreement (except its Unassigned Rights, including without limitation, the right to receive payment of expenses, fees, indemnification and the rights to make determinations and receive notices as provided under the Loan Agreement) and directs ABHOW to make said payments directly to the Bond Trustee. ABHOW therewith assents to such assignment and pledge and will make payments directly to the Bond Trustee without defense or set-off by reason of any dispute between ABHOW and the Authority or the Bond Trustee, and agrees that its obligation to make payments thereunder and to perform the other agreements contained in the Loan Agreement are absolute and unconditional. Until the principal of and interest on the Series 2010 Bonds shall have been fully paid or provision for the payment of the Series 2010 Bonds made in accordance with the Bond Indenture, ABHOW (a) will not suspend or discontinue any payments provided for in the Loan Agreement, (b) will perform all its other duties and responsibilities called for by the Loan Agreement, and (c) will not terminate the Loan Agreement for any cause including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Facilities, commercial frustration of purpose, any change in the laws of the United States or of the State or any agency or political subdivision of either or any failure of the Authority to perform any of its agreements, whether express or implied, or any duty, liability or obligation arising from or connected with the Loan Agreement.

PAYMENTS IN RESPECT OF THE SERIES 2010 OBLIGATION AND THE LOAN AGREEMENT

Under the terms of the Loan Agreement, ABHOW agrees to pay the Bond Trustee such amounts at such times as to provide for payment of the principal of, premium, if any, and interest on the outstanding Series 2010 Bonds under the Bond Indenture when due, whether upon a scheduled Interest Payment Date, at maturity, upon any date fixed for prepayment or by acceleration or otherwise, and the

continuance of such failure for five days. The Loan Agreement also requires that ABHOW pay certain other charges which may be incurred for such items as the Bond Trustee's fees, the Authority's fees and expenses, taxes and assessments, if any, and costs incurred in connection with the Series 2010 Bonds. All payments due on the Series 2010 Obligation, except for certain enumerated payments described in the Loan Agreement, shall be paid directly to the Bond Trustee and applied in the manner provided in the Bond Indenture.

ABHOW'S OBLIGATIONS UNCONDITIONAL

The Authority and ABHOW agree that ABHOW shall bear all risk of damage or destruction in whole or in part to its Bond Financed Property or any part thereof including without limitation any loss, complete or partial, or interruption in the use, occupancy or operation of such Bond Financed Property, or any manner or thing which for any reason interferes with, prevents or renders burdensome, the use or occupancy of such Bond Financed Property or the compliance by ABHOW with any of the terms of the Loan Agreement. In furtherance of the foregoing, but without limiting any of the other provisions of the Loan Agreement, ABHOW agrees that its obligations to pay the principal, premium, if any, and interest on the Series 2010 Obligation, to pay the other sums provided for in the Loan Agreement and to perform and observe its other agreements contained in the Loan Agreement shall be absolute and unconditional and that ABHOW shall not be entitled to any abatement or diminution thereof nor to any termination of the Loan Agreement for any reason whatsoever.

CERTAIN COVENANTS OF ABHOW RELATING TO THE USE AND OPERATION OF CERTAIN OF ITS PROPERTY

No portion of the proceeds of the Series 2010 Bonds shall be used to finance or refinance any facility, place or building to be used (1) primarily for sectarian instruction or study or as a place for devotional activities or religious worship or (2) by a person that is not an organization described in Section 501(c)(3) of the Code or a governmental unit (as described in the Code), or by an organization described in Section 501(c)(3) of the Code (including ABHOW) in an "unrelated trade or business" (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Series 2010 Bonds being treated as an obligation not described in Section 103(a) of the Code.

ABHOW shall maintain long-term care communities to residents and patients within the territorial limits of the Program Participants, as long as any Series 2010 Bonds remain outstanding; provided, however, the Authority, upon review of such facts as it deems relevant, may from time to time allow ABHOW to provide alternative services which provide public benefit to the Program Participants and their residents, or deem this special services covenant to be satisfied in whole or in part.

INDEMNIFICATION OF THE AUTHORITY AND THE BOND TRUSTEE

To the fullest extent permitted by law, ABHOW agrees to indemnify, hold harmless and defend the Authority, the Program Participants, the Bond Trustee, and each of their respective officers, governing members, directors, officials, employees, attorneys and agents (collectively, the "Indemnified Parties"), against any and all losses, damages, claims, actions, liabilities, costs and expenses of any conceivable nature, kind or character (including, without limitation, reasonable attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Parties, or any of them, may become subject under or any statutory law (including federal or state securities laws) or at common law or otherwise, arising out of or based upon or in any way relating to:

(i) the Series 2010 Bonds, the Bond Indenture, the Loan Agreement, the other agreements executed by ABHOW or the execution or amendment of the aforementioned documents or in connection

with transactions contemplated by the aforementioned documents, including the issuance, sale or resale of the Series 2010 Bonds;

(ii) any act or omission of ABHOW or any of its agents, contractors, servants, employees, tenants) or licensees in connection with the Project or the Facilities, the operation of the Project or the Facilities, or the condition, environmental or otherwise, 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 the Facilities or any part thereof;

(iii) any lien or charge upon payments by ABHOW to the Authority and the Bond Trustee under the Loan Agreement, or any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges imposed on the Authority or the Bond Trustee in respect of any portion of the Project or the Facilities;

(iv) any violation of any Environmental Regulations with respect to, or the release of any Hazardous Substances from, the Project or the Facilities or any part thereof;

(v) the defeasance and/or redemption, in whole or in part, of the Series 2010 Bonds;

(vi) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in any offering statement or disclosure or continuing disclosure document for the Series 2010 Bonds or any of the documents relating to the Series 2010 Bonds, or any omission or alleged omission from any offering statement or disclosure or continuing disclosure document for the Series 2010 Bonds of any material fact necessary to be stated therein in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(vii) any declaration of taxability of interest on the Series 2010 Bonds, or allegations that interest on the Series 2010 Bonds is taxable or any regulatory audit or inquiry regarding whether interest in the Series 2010 Bonds is taxable; or

(viii) the Bond Trustee's acceptance or administration of the trust of the Bond Indenture, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Series 2010 Bonds to which it is a party; except (A) in the case of the foregoing indemnification of the Bond Trustee or any of its respective officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the negligence or willful misconduct of such Indemnified Party; or (B) in the case of the foregoing indemnification of the Authority or the Program Participants or any of their officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the willful misconduct of such Indemnified Party. In the event that any action or proceeding is brought against any Indemnified Party with respect to which indemnity may be sought under the Loan Agreement, ABHOW, upon written notice from the Indemnified Party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party, and shall assume the payment of all expenses related thereto, with full power to litigate, compromise or settle the same in its sole discretion; provided that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement. Each Indemnified Party shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and ABHOW shall pay the reasonable fees and expenses of such separate counsel; provided, however, that such Indemnified Party may only employ separate counsel at the expense of ABHOW if in the judgment of such Indemnified Party a conflict of interest exists by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel.

(b) The rights of any persons to indemnity under the Loan Agreement and rights to payment of fees and reimbursement of expenses pursuant to the Loan Agreement and the portions of the Loan Agreement summarized under this heading shall survive the final payment or defeasance of the Series 2010 Bonds and in the case of the Bond Trustee any resignation or removal. The provisions of the Loan Agreement summarized under this heading shall survive the termination of the Loan Agreement.

MAINTENANCE OF CORPORATE EXISTENCE AND STATUS

Unless ABHOW complies with the following provisions of the Loan Agreement summarized under this heading, ABHOW agrees that as long as any Series 2010 Bonds are outstanding it will maintain its existence, will not dissolve, liquidate or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it. Any dissolution, liquidation, disposition, consolidation or merger shall be subject to the following conditions:

(a) ABHOW provides a certificate to the Authority and the Bond Trustee, in form and substance satisfactory to such parties, to the effect that no event of default exists under the Loan Agreement or under the Bond Indenture and that no event of default will be caused by the dissolution, liquidation, disposition, consolidation or merger;

(b) the entity surviving the dissolution, liquidation, disposition, consolidation or merger assumes in writing and without condition or qualification the obligations of ABHOW under the Master Indenture, the Loan Agreement and the Tax Exemption Agreement;

(c) ABHOW or the entity surviving the dissolution, liquidation, disposition, consolidation or merger, within ten (10) days after execution thereof, furnishes to the Authority and the Bond Trustee a true and complete copy of the instrument of dissolution, liquidation, disposition, consolidation or merger;

(d) neither the validity nor the enforceability of the Series 2010 Bonds or the Bond Indenture is adversely affected by the dissolution, liquidation, disposition, consolidation or merger;

(e) the dissolution, liquidation, disposition, consolidation or merger will not adversely affect any exemption from federal income taxation to which interest on the Series 2010 Bonds would otherwise be entitled;

(f) evidence that no rating on the Series 2010 Bonds, if the Series 2010 Bonds are then rated, is reduced or withdrawn as a result of the dissolution, liquidation, disposition, consolidation or merger;

(g) the Project continues to be as described in the Loan Agreement; and (i) neither the validity or enforceability of the Loan Agreement, the Master Indenture or the Tax Exemption Agreement will be adversely affected by the dissolution, liquidation, disposition, consolidation or merger and (ii) the provisions of the Act, the Master Indenture, the Bond Indenture, the Loan Agreement and the Tax Exemption Agreement are complied with concerning the dissolution, liquidation, disposition, consolidation or merger.

As of the effective date of the dissolution, liquidation, disposition, consolidation or merger, ABHOW (at its cost) shall furnish to the Authority and the Bond Trustee (i) an Opinion of Bond Counsel, in form and substance satisfactory to such parties, as to items (d) and (e) above, and (ii) an opinion of Independent Counsel, in form and substance satisfactory such parties, as to the legal, valid and binding nature of item (c) above.

ABHOW further agrees that it will not act or fail to act in any other manner which would adversely affect any exemption from federal income taxation of the interest earned by the owners of the Series 2010 Bonds to which such Series 2010 Bonds would otherwise be entitled.

LICENSURE

ABHOW warrants that its Facilities have all material state and local licenses required for the operation thereof. ABHOW will obtain and maintain or cause to be obtained and maintained all such licenses required for the operation of its Facilities and the Project and will use its best efforts to obtain and maintain or cause to be obtained and maintained such licensure, so long as it is in the best interests of ABHOW and the Series 2010 Bondholders, as determined by the governing body of ABHOW.

FINANCIAL STATEMENTS

ABHOW covenants that it will keep proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of ABHOW in accordance with generally accepted principles of accounting consistently applied (except as stated in the notes thereto), and will furnish the materials and notices required to be delivered to the Master Trustee under the Master Indenture to the Authority, to the Bond Trustee and to any requesting holder or holders of the Series 2010 Bonds.

SUPPLEMENTS AND AMENDMENTS TO THE LOAN AGREEMENT

Subject to the terms and provisions of the Bond Indenture summarized in the third paragraph under this heading, the Authority and ABHOW may, with the prior written consent of the Bond Trustee, amend or modify the Loan Agreement, or any provision thereof, or may consent to the amendment or modification thereof, in any manner not inconsistent with the terms and provisions of the Bond Indenture, for any one or more of the following purposes: (a) to cure any ambiguity or formal defect in the Loan Agreement; (b) to grant to or confer upon the Authority or Bond Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities that lawfully may be granted to or conferred upon the Authority or the Bond Trustee; (c) to amend or modify the Loan Agreement, or any part thereof, in any manner specifically required or permitted by the terms thereof, including, without limitation, as may be necessary to maintain the exclusion from gross income for purposes of federal income taxation of the interest on the Series 2010 Bonds; (d) to modify, amend or supplement the Loan Agreement, or any part thereof, or any supplement thereto, in such manner as the Bond Trustee and ABHOW deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to tax-exempt obligations of the type that includes the Series 2010 Bonds; (e) to provide that Series 2010 Bonds may be secured by an additional security not otherwise provided for in the Bond Indenture or the Loan Agreement; (f) to provide for the appointment of a successor securities depository; (g) to provide for the availability of certificated Series 2010 Bonds; (h) to provide for the addition of any interest rate mode or to provide for the modification or deletion of any interest rate mode so long as no Series 2010 Bonds will be operating in the interest rate mode when it is to be so modified or deleted, or to amend, modify or alter the interest rate setting provisions, tender provision or conversion provisions for any then existing interest rate mode so long as no Series 2010 Bonds will be operating in the interest mode when such provisions are to be so amended, modified or altered; provided that, in each case, there is delivered to the Bond Trustee an Opinion of Bond Counsel stating that any such addition, deletion, amendment, modification or alteration will not adversely affect any exclusion from gross income for purposes of federal income taxation of interest on the Series 2010 Bonds; and (i) to make any other change which does not, in the opinion of the Bond Trustee, have a material adverse effect upon the interests of the Bondholders. In addition, subject to the terms and provisions contained in provisions of the Bond Indenture summarized in the third paragraph

under this heading, the Bond Trustee may grant such waivers of compliance by ABHOW with the provisions of the Loan Agreement as to which the Bond Trustee may deem necessary or desirable to effectuate the purposes of the intent of the Loan Agreement and which, in the opinion of the Bond Trustee, do not have a material adverse effect upon the interests of the Bondholders.

Except for the amendments, changes or modifications summarized in the previous paragraph, neither the Authority nor the Bond Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the written approval or consent of the holders of a majority in aggregate principal amount of the Series 2010 Bonds which are outstanding under the Bond Indenture at the time of execution of any such amendment, change or modification; provided, however, that no such amendment, change or modification shall ever affect the obligation of ABHOW to make payments on the Series 2010 Obligation as they become due and payable. If at any time the Authority or ABHOW shall request the consent of the Bond Trustee to any such proposed amendment, change or modification of the Loan Agreement, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be mailed in the same manner as provided by the provisions of the Bond Indenture summarized under this heading with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Series 2010 Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such amendment, change or modification when consented to and approved as provided by the terms of the Bond Indenture summarized under this heading. If the holders of a majority in aggregate principal amount of the Series 2010 Bonds outstanding under the Bond Indenture at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as provided in the Bond Indenture, no holder of any Series 2010 Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Under no circumstances shall any amendment to the Loan Agreement alter the Series 2010 Obligation regarding the payments of principal, premium, if any, and interest thereon, without the consent of the owners of all the Series 2010 Bonds outstanding.

DEFAULTS AND REMEDIES

The occurrence and continuance of any of the following events shall constitute an “event of default” under the Loan Agreement:

(a) failure of ABHOW to pay any installment of principal, interest or premium on the Series 2010 Obligation or any other payment required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, at maturity, upon any date fixed for prepayment or by acceleration or otherwise, and the continuance of such failure for five days; or

(b) failure by ABHOW to perform or comply with any of the covenants, conditions or provisions of the Loan Agreement or of the Tax Exemption Agreement and failure to remedy such default within 30 days after notice thereof from the Authority to ABHOW; provided, however, that if failure to comply or perform with such covenants, conditions or provisions cannot be remedied within 30 days, but can be remedied, no “event of default” shall be deemed to have occurred or to exist if the Authority, in its discretion, shall consent to ABHOW commencing corrective action and ABHOW diligently pursues such

corrective action until it shall have complied with or performed such covenants, conditions or provisions;
or

(c) if any representation or warranty made by ABHOW in the Loan Agreement or in any statement or certificate furnished to the Authority or the Bond Trustee or the purchaser of any Series 2010 Bonds in connection with the sale of Series 2010 Bonds or furnished by ABHOW pursuant to the Loan Agreement including, without limitation, statements in this Official Statement, proves untrue in any material respect as of the date of the issuance or making thereof and shall not be made good within 60 days after notice thereof to ABHOW by the Authority or the Bond Trustee; provided, however, that if such default cannot be remedied within 60 days, but can be remedied, no “event of default” shall be deemed to have occurred or to exist if the Authority in its sole discretion, shall consent to ABHOW commencing corrective action and ABHOW diligently pursues such corrective action until such default has been cured; or

(d) any event of default shall occur under the Bond Indenture or the Master Indenture which would permit the acceleration of any obligation; or

(e) if ABHOW admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for ABHOW or for the major part of its Facilities; or

(f) if a trustee, custodian or receiver is appointed for ABHOW or for the major part of its Property and is not discharged within 60 days after such appointment; or

(g) if bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against ABHOW (other than bankruptcy proceedings instituted by ABHOW against third parties), and if instituted against ABHOW are allowed against ABHOW or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(h) if payment of any installment of interest, principal or premium on any Series 2010 Bond shall not be made when the same shall become due and payable under the provisions of the Bond Indenture

Whenever any event of default shall have occurred and be continuing under the Loan Agreement:

(i) The Authority may at its discretion, by written notice to ABHOW, request that the Bond Trustee declare the principal under the Loan Agreement and the Series 2010 Obligation (if not then due and payable) to be due and payable immediately and such principal shall thereupon become immediately due and payable as if all of the sums of money payable thereunder were originally stipulated to be paid on such accelerated payment date, anything in the Series 2010 Obligation or in the Loan Agreement to the contrary notwithstanding. The Authority shall request that the Bond Trustee declare the principal of the Series 2010 Obligation due and payable immediately upon the occurrence of any of the defaults described in (a), (e), (f), (g), or (h) above. The provisions of the Loan Agreement summarized under this heading, however, are subject to the condition that if, at any time after the principal of the Series 2010 Obligation shall have been so declared and become due and payable, all arrears of interest, if any, upon the Series 2010 Obligation and the expenses of the Authority shall be paid by ABHOW, and every other default in the observance or performance of any covenant, condition or agreement in the Series 2010 Obligation or in the Loan Agreement contained shall be made good, or be secured, to the satisfaction of the Authority,

or provision deemed by the Authority to be adequate shall be made therefor, then and in every such case the Authority, by written notice to ABHOW may waive the event of default by reason of which the principal of the Series 2010 Obligation shall have been so declared and become due and payable and may rescind and annul such declaration and its consequences; provided, however, that there shall not be waived any event of default in the payment of the principal payable on the Series 2010 Bonds when due whether by mandatory or optional redemption or at the date of maturity specified therein; and provided further that no such waiver, rescission or annulment shall extend to or affect any subsequent event of default or impair any right consequent thereon. The Authority may request that it declare the principal of the Series 2010 Obligation (if not then due and payable) to be due and payable immediately, subject to the provisions of the Bond Indenture summarized herein under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – WAIVER OF EVENTS OF DEFAULT" regarding waiver of events of default, anything in the Series 2010 Obligation or in the Loan Agreement contained to the contrary notwithstanding.

(ii) The Authority, personally or by attorney, may in its discretion proceed to protect and enforce its rights by pursuing any available remedy including a suit or suits in equity or at law, whether for damages or for the specific performance of any obligation, covenant or agreement contained in the Series 2010 Obligation, in the Loan Agreement or in the Bond Indenture, or in aid of the execution of any power granted in the Loan Agreement, or for the enforcement of any other appropriate legal or equitable remedy, as the Authority shall deem most effectual to collect the payments then due and thereafter to become due on the Series 2010 Obligation, to enforce performance and observance of any obligation, agreement or covenant of ABHOW under the Loan Agreement, under the Series 2010 Obligation or under the Bond Indenture or to protect and enforce any of the Authority's rights or duties under such documents.

REQUIRED OPTIONAL REDEMPTION AND APPLICATION OF CERTAIN GIFTS

ABHOW acknowledges in the Loan Agreement that ABHOW may from time to time receive Project Gifts. ABHOW covenants and agrees in the Loan Agreement that if and when ABHOW or any Affiliate receives any Project Gifts, ABHOW will (i) amend the Project documents in order to exclude from the Project and Bond Financed Property any costs which are to be paid from Project Gifts and in order to provide for the application of all of the funds on deposit in the Project Fund to the payment of the costs of a project which qualified for tax-exempt financing, (ii) apply the proceeds thereof or cause the proceeds thereof to be applied to the prepayment of the principal of the Series 2010 Obligation and the Series 2010 Bonds as soon as practicable after such proceeds become available to ABHOW or (iii) apply such Project Gifts in any manner with respect to which ABHOW has received an Opinion of Bond Counsel to the effect that such use of the Project Gifts will not adversely affect the validity of any exemption from federal income taxation to which the Series 2010 Bonds would otherwise be entitled.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

GENERAL

The Master Indenture, as supplemented, authorizes ABHOW, as Obligated Group Representative, and each Member to issue Obligations which are full and unlimited obligations of the respective Obligated Group. The Obligations are joint and several obligations of the current and future Members of the Obligated Group.

Set forth below is a summary of certain provisions of the Master Indenture primarily relating to restrictions imposed on the Obligated Group with respect to debt service coverage requirements, the

incurrence of Additional Indebtedness and certain other matters. The summary is not comprehensive and reference is made to the Master Indenture for a complete recital of its terms.

AUTHORIZATION OF OBLIGATIONS

Each Member authorizes to be issued from time to time Obligations or series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established under the Master Indenture.

PARTICULAR COVENANTS OF THE OBLIGATED GROUP REPRESENTATIVE AND EACH MEMBER

Payment of Principal and Interest. Each Member jointly and severally covenants and agrees to pay or cause to be paid promptly the principal of, premium, if any, and interest on every Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in the Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise, and that each Member shall faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture and any Obligation, and that the time of such payment and performance is of the essence concerning the obligations in the Master Indenture.

Pledge of Gross Revenues. Each Member covenants in the Master Indenture that, so long any Obligation remains Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a fund (in one or more accounts at such banking institution or institutions as the Obligated Group Representative shall from time to time designate in writing to the Master Trustee for such purpose (the "Depository Bank(s)")) designated as the "Gross Revenue Fund" which the Members shall establish and maintain, subject to the provisions of the Master Indenture summarized in the next paragraph. Subject only to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Indenture, each Member pledges, and to the extent permitted by law, grants a security interest to the Master Trustee in, the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the payment of Required Payments and the performance by the Members of their other obligations under the Master Indenture; provided however that each Member may create, assume or suffer to exist Permitted Encumbrances. Each Member shall execute a depository account control agreement with each Depository Bank, and shall execute and deliver such other documents as may be necessary or reasonably requested by the Master 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 any Member at any time for any lawful purpose, except as provided in the Master Indenture. If any Member is delinquent for more than one Business Day in the payment of any Required Payment with respect to any Obligation issued pursuant to a Related Supplement, the Master Trustee shall notify the Obligated Group Representative and the Depository Bank(s) of such delinquency, and, unless such Required Payment is paid, or provision for payment is duly made in a manner satisfactory to the Master Trustee in its sole discretion, within five days after receipt of such notice, the Obligated Group Representative or the appropriate Member shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Master Trustee. The Master Trustee shall continue to hold the Gross Revenue Fund until amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Required Payments in default and all other Events of Default actually known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee in its sole discretion or provision deemed by the Master Trustee in its sole discretion 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 appropriate Members. During any period that the Gross Revenue Fund is

held in the name and to the credit of the Master Trustee, the Master Trustee shall use and withdraw amounts in said fund from time to time to make Required Payments 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 debt service on Obligations ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the holders, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Members shall not be entitled to use or withdraw any of the Gross Revenues of the Obligated Group unless and to the extent that the Master Trustee at its sole discretion so directs for the payment of current or past due operating expenses of the Members; provided, however, that the Members shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Obligated Group. Each Member agrees to execute and deliver all instruments as may be required to implement the provisions of the Master Indenture summarized here. Each Member further agrees that a failure to comply with the terms of the Master Indenture summarized here shall constitute an immediate Event of Default, shall cause irreparable harm to the Obligation holders and shall entitle the Master Trustee, with or without notice, to take immediate action to compel the specific performance of the obligations of the Members as provided in the Master Indenture.

COVENANTS AS TO MAINTENANCE OF PROPERTIES, ETC.

Each Member, respectively, covenants and agrees:

(a) That it will operate and maintain its Principal Property in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof. Each Member, respectively, further covenants and agrees that it will maintain and operate its Principal Property and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or thereafter at any time constituting part of its Principal Property in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the operations of such Member will not be materially impaired.

(b) That it will pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Principal Property and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Principal Property or any part thereof, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Member shall be required to pay any tax, assessment, rate or charge as provided in the Master Indenture as long as it shall in good faith contest the validity thereof, provided that such Member shall have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate.

(c) That it will pay or otherwise satisfy and discharge all of its Obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectability is being contested in good faith.

(d) That it will at all times comply with all terms, covenants and provisions of any Lien at such time existing upon its Property or any part thereof or securing any of its Indebtedness noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Property.

(e) That it will use its best efforts (as long as it is in its best interest and will not materially adversely affect the interests of the holders) to procure and maintain all permits, licenses and other governmental approvals necessary for the operation of its Property and to maintain its qualification for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

(f) That it will take no action or suffer any action to be taken by others which would result in the interest on any Related Bonds issued as tax-exempt bonds becoming subject to federal income taxation.

INSURANCE

Each Member covenants and agrees that it will keep its Property and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are commercially feasible, customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size. The Master Indenture provides that for the purpose of this provision, the term Property shall be deemed to include Excluded Property.

The Obligated Group Representative shall employ an Insurance Consultant at least annually to review the insurance requirements of the Members. If the Insurance Consultant makes recommendations for the increase of any Members' insurance coverage, the Obligated Group Representative shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In lieu of maintaining insurance coverage that the Governing Body of the Obligated Group Representative deems necessary, the Members shall have the right to adopt alternative risk management programs that the Governing Body of the Obligated Group Representative determines to be reasonable and that shall not have a material adverse impact on reimbursement from third party payors; including, without limitation, the right to self-insure in whole or in part individually or in connection with other institutions, 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 Insurance Consultant and reviewed each year thereafter.

The Obligated Group Representative shall cause to be delivered to the Master Trustee on the date the Master Indenture is executed and at least annually, no later than within 120 days following the date audited financial statements are required to be furnished pursuant to the Master Indenture, an Officer's Certificate stating that the Obligated Group is in compliance with this covenant.

FINANCIAL STATEMENTS

As described in the forepart of this Official Statement under the heading, "Financial Reporting," the Obligated Group has agreed to provide certain information to the Required Information Recipients.

LIMITATIONS ON ENCUMBRANCES

Each Member covenants not to create, assume or suffer to exist any Lien upon the Gross Revenues or the Principal Property other than Permitted Encumbrances. Each Member, respectively, further covenants and agrees that if such a Lien is created or assumed by any Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien. Nothing in the Master Indenture is intended to create an equitable or legal lien or interest on or in the Property, though the Deeds of Trust pledge certain Property to the Master Trustee for the benefit of the holders of the Obligations.

LIMITATIONS ON ADDITIONAL INDEBTEDNESS

Each Member, respectively, agrees not to incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, provided that:

(1) the aggregate principal amount of such Long-Term Indebtedness and all other Outstanding Long-Term Indebtedness incurred pursuant to the provisions of the Master Indenture summarized in this paragraph (1) does not exceed 10% of the Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the issuance of such Long-Term Indebtedness (provided that to the extent Long-Term Indebtedness initially incurred pursuant to this clause subsequently complies with any other incurrence requirement, such Long-Term Indebtedness shall, at the option of the Obligated Group Representative, thereafter not be deemed to be incurred pursuant to this clause); or

(2) the Master Trustee receives an Officer's Certificate certifying the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the most recent complete Fiscal Year for which audited financial statements are available, which Long-Term Debt Service Coverage Ratio is not less than 1.20:1; or

(3) the Master Trustee receives: (A) an Officer's Certificate certifying that, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for each of the most recent Fiscal Year for which audited financial statements are available, the Long-Term Debt Service Coverage Ratio is not less than 1.20:1; and (B) either (i) an Officer's Certificate, accompanied by the written report of an Independent Consultant, stating the forecasted Long-Term Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements, the Fiscal Year succeeding the date on which such capital improvements are expected to be in operation or (y) in the case of Long-Term Indebtedness issued for other purposes than are described in (x), the Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.25:1, as shown by forecasted statements of revenues and expenses for such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or (ii) an Officer's Certificate stating the forecasted Long-Term Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements, the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation or (y) in the case of Long-Term Indebtedness issued for other purposes than are described in (x), the two Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.50:1,

as shown by forecasted statements of revenues and expenses for such Fiscal Years, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(4) the Master Trustee receives an Officer's Certificate, accompanied by the written report of an Independent Consultant, stating the forecasted Long-Term Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (A) in the case of Long-Term Indebtedness to finance capital improvements, the Fiscal Year succeeding the date on which such capital improvements are expected to be in operation or (B) in the case of Long-Term Indebtedness issued for other purposes than are described in (A), the Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.50:1, as shown by forecasted statements of revenues and expenses for such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based.

(b) Completion Indebtedness in an amount up to 10% of the principal amount of the Long-Term Indebtedness incurred for the subject project, if there is delivered to the Master Trustee a Construction Consultant's certificate to the effect that the Completion Indebtedness proposed to be incurred is (i) necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time the original Long-Term Indebtedness was incurred, and (ii) necessary to complete the acquisition, construction and/or equipping in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the incurrence of the Long-Term Indebtedness, and (iii) in an amount estimated to be sufficient, together with other identified funds of the relevant Member, to complete the facility within the parameters described in clauses (i) and (ii) above.

(c) Long-Term Indebtedness incurred for the purpose of refunding, refinancing or replacing any Outstanding Long-Term Indebtedness so as to render it no longer Outstanding if the Master Trustee receives an Officer's Certificate to the effect that Maximum Annual Debt Service, taking into account the Long-Term Indebtedness proposed to be incurred, will not be increased by more than 15% as a result of such refunding, refinancing or replacement.

(d) Short-Term Indebtedness provided that: (1) such Short-Term Indebtedness is incurred in compliance with the provisions of the Master Indenture, treating such Short-Term Indebtedness for such purposes only as if it were Long-Term Indebtedness; or (2) (i) the total amount of such Short-Term Indebtedness does not exceed 15% of Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; and (ii) in every Fiscal Year, there shall be at least a 30-day period when the balance of such Short-Term Indebtedness is reduced to an amount which shall not exceed 5% of Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.

(e) Subordinated Indebtedness without limitation.

(f) Balloon Indebtedness or Interim Indebtedness provided that the conditions described in subparagraph (a) above are satisfied with respect to the incurrence of such Balloon Indebtedness or Interim Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service."

(g) Extendable Indebtedness provided that the conditions described in the Master Indenture are satisfied with respect to the incurrence of such Extendable Indebtedness utilizing the assumptions specified in clause (d) of the definition of "Maximum Annual Debt Service."

(h) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit facilities used to secure Indebtedness otherwise permitted under this paragraph.

(i) Indebtedness which is non-recourse to any Member of the Obligated Group.

LIMITATIONS ON GUARANTIES

Each Member covenants and agrees that it will not enter into, or become liable with respect to, any Guaranty except:

(a) Guaranties of Indebtedness of another Member;

(b) Guaranties of Obligations issued under the Master Indenture;

(c) Any other Guaranty provided that the conditions summarized in subsection (a) above under "Limitations on Additional Indebtedness" are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in clause (a) of the definition of "Maximum Annual Debt Service";

(d) Guaranties of up to three loans to provide affordable housing, if the aggregate of all such affording housing loans total no more than \$30,000,000 in principal amount, adjusted for each Fiscal Year from and after the Fiscal Year ending September 30, 2010 by the increase in the Consumer Price Index for all Urban Consumers for the San Francisco-Oakland metropolitan area for the preceding calendar year; or

(e) All Guaranties if the aggregate of all Guaranties permitted under this subsection (e) is less than \$15,000,000 in principal amount, adjusted for each Fiscal Year from and after the Fiscal Year ending September 30, 2010 by the increase in the Consumer Price Index for all Urban Consumers for the San Francisco-Oakland metropolitan area for the preceding calendar year.

RATE COVENANT

Each Member covenants and agrees to operate all of its Principal Property in the aggregate on a revenue-producing basis and to charge such fees and rates for its facilities and services and to exercise such skill and diligence, including obtaining payment for services provided, as to provide income from its facilities together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this paragraph.

Within 150 days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture) the Obligated Group Representative shall compute the Debt Service Coverage Ratio and promptly furnish to the Required Information Recipients a Certificate setting forth the results of such computation.

If the Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.20:1, the Master Trustee shall require the Obligated Group, at the Obligated Group's expense, to retain an Independent Consultant within 30 days following the calculation described in the immediately preceding

paragraph to make recommendations with respect to the rates, fees and charges of the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase such Debt Service Coverage Ratio to at least 1.20:1 for the following Fiscal Year.

For purposes of calculations made pursuant to the previous paragraph, an unrestricted contribution from the Foundation or any other Affiliate of any Member of the Obligated Group may, at the sole discretion of the Obligated Group Representative, be treated as Income Available for Debt Service being earned during the period of such calculation so long as the unrestricted contribution is made prior to the date the applicable Certificate is required to be delivered with respect to such calculation. If the unrestricted contribution is counted in a period prior to the date of such transfer in accordance with the previous sentence, it shall not be included in the calculation for the period in which such contribution was actually made.

If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the ratio calculated pursuant to this heading to be met, then such ratio shall be reduced to 1.00:1 for such Fiscal Year.

A copy of the Independent Consultant's report and recommendations, if any, shall be filed with each of the Required Information Recipients within 60 days of retaining the Independent Consultant. Each Member shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. The provisions of the Master Indenture shall not be construed to prohibit any Member from serving indigent patients to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of the Master Indenture summarized under this heading.

Notwithstanding any other provisions of the Master Indenture, an Event of Default arising from the Debt Service Coverage Ratio shall only occur under the Master Indenture if: (i) the Obligated Group fails to achieve a Debt Service Coverage Ratio of at least 1.20:1 and fails to take all necessary action to comply with the procedures set forth above for preparing a report, adopting a plan, and following all recommendations contained in such report or plan to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law; (ii) the Days Cash on Hand of the Obligated Group and the Foundation is less than 150 at the end of a Fiscal Year in which the Obligated Group fails to achieve a Debt Service Coverage Ratio of at least 1.00:1; or (iii) the Obligated Group fails to achieve a Debt Service Coverage Ratio of at least 1.00:1 for two consecutive Fiscal Years.

SALE, LEASE OR OTHER DISPOSITION OF PROPERTY

Each Member agrees that it will not transfer any Property except as permitted in the provisions of the Master Indenture summarized below.

(a) ABHOW may transfer the assets comprising up to two continuing care retirement community campuses ("CCRCs") if (i) the conditions of the Master Indenture summarized under the headings "THE OBLIGATED GROUP - Withdrawal from the Obligated Group" below are met, treating each CCRC to be transferred, solely for purposes of meeting such conditions, as if the assets were held in a separate corporation which was a separate Member of the Obligated Group, and (ii) such transfer is not reasonably expected at the time of such transfer to result in a rating on Related Bonds of less than "BBB-" (or an equivalent rating) or no rating from all the Rating Agencies.

(b) Each Member may sell, lease or otherwise dispose (including without limitation any involuntary disposition) of Property (either real or personal, including cash and investments) to another Member, except that none of the Property or any other Property financed with the proceeds of any Related Bonds issued as tax-exempt bonds shall be transferred by ABHOW to any other Member unless the Bond Trustee has received an Opinion of Bond Counsel to the effect that such transfer shall not adversely affect the validity of the Related Bonds or any exemption from federal income taxation to which such Related Bonds would otherwise be entitled.

(c) A Member may transfer Property, including cash or cash equivalents, to an Affiliate if the Property sold, leased or otherwise disposed of does not, for any consecutive 12-month period, exceed 3% of the total assets (based on fair market value) of the Obligated Group (as shown on the most recent audited financial statements of the Obligated Group) and the Debt Service Coverage Ratio was not less than 1.25:1 for the last Fiscal Year for which audited financial statements have been delivered to the Master Trustee, provided that (i) in calculating the Debt Service Coverage Ratio for purposes of this payment, the Income Available for Debt Service will be reduced by one year's estimated interest earnings attributable the moneys to be used for the payment using, at the option of the Obligated Group Representative, either (1) the current budgeted investment rate, as certified in an Officer's Certificate, or (2) the actual average investment rate on the transferred funds, as certified in a report of an Independent Consultant; and (ii) as of the end of the last fiscal quarter for which financial statements have been delivered to the Master Trustee as required under the Master Indenture, the Obligated Group had not less than 150 Days Cash on Hand after giving effect to the transaction. If the Debt Service Coverage Ratio is not less than 1.25:1, the foregoing percentage of the total Book Value or Current Value may be increased as follows under the following conditions:

(1) to 5%, if Days Cash on Hand would not be less than 250 after the effect of such sale, lease or disposition of assets; or

(2) to 7.5%, if Days Cash on Hand would not be less than 300 after the effect of such sale, lease or disposition of assets; or

(3) to 10%, if Days Cash on Hand would not be less than 400 after the effect of such sale, lease or disposition of assets;

(d) A Member may transfer Property, including cash or cash equivalents, to a Person other than a Member or an Affiliate without limitation if:

(1) the transfer is: (i) in return for other Property of equal or greater value and usefulness; or (ii) in the ordinary course of business upon fair and reasonable terms; or

(2) prior to such sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of a Member stating that, in the judgment of the signer, such Property has, or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property; or

(3) such Property consists solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on the Obligations.

(e) If any Property to be disposed in accordance with this section is subject to a Lien, the Master Trustee shall, upon the request of the Obligated Group Representative, release such Property from the Lien pursuant to the terms of any documentation creating the Lien.

Nothing in the Master Indenture shall prohibit any Member from making secured or unsecured loans provided that (1) any such loan is evidenced in writing, (2) the Obligated Group Representative reasonably expects such loan to be repaid and (3) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

If the Property to be disposed in accordance with this paragraph is subject to a Deed of Trust, the Master Trustee shall, upon the request of the Obligated Group Representative, release such Property from the applicable Deed of Trust pursuant to the terms of such Deed of Trust.

LIQUIDITY COVENANT

The Obligated Group covenants that it will calculate the Days Cash on Hand of the Obligated Group and of the Foundation as of March 31 and September 30 of each Fiscal Year (each such date being a “Testing Date”). The Obligated Group and the Foundation shall include such calculations in the Officer’s Certificate delivered pursuant to the Master Indenture.

Each Obligated Group Member and the Foundation is required to conduct its business so that on each Testing Date the Obligated Group, as a whole and in aggregate with the Foundation, shall have not less than 150 Days Cash on Hand.

If the amount of Days Cash on Hand as of any Testing Date is less than 150, the Obligated Group Representative shall, within 30 days after receipt of the Officer’s Certificate disclosing such deficiency, deliver an Officer’s Certificate approved by a resolution of the Governing Body of the Obligated Group Representative to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the required level of Days Cash on Hand for future periods.

If the Obligated Group and the Foundation have not achieved 150 Days Cash on Hand by the next Testing Date following delivery of the Officer’s Certificate required in the preceding paragraph, the Obligated Group Representative shall, within 30 days after receipt of the Officer’s Certificate disclosing such deficiency, retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group’s methods of operation and other factors affecting its financial condition in order to increase the Days Cash on Hand to the required level for future periods. A copy of the Independent Consultant’s report and recommendations, if any, shall be filed with each of the Required Information Recipients within 60 days of the date such Independent Consultant is retained. Each Member of the Obligated Group shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group and the Foundation to achieve the required liquidity covenant for any Fiscal Year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

APPROVAL OF CONSULTANTS

(a) If at any time the Members of the Obligated Group are required to engage an Independent Consultant under the provisions of the Master Indenture (other than with respect to the calculations required by the provisions of the Master Indenture summarized under the captions “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitation on Additional Indebtedness” and “ – Sale, Lease or Other Disposition of Property” and any determination of the Projected Rate under the Master Indenture to which the provisions summarized under this caption shall not apply), such Independent Consultant shall be engaged in the manner set forth below in the provisions summarized under this caption.

(b) Upon selecting an Independent Consultant as required under the provisions of the Master Indenture, the Obligated Group Representative will notify the Master Trustee of such selection. The Master Trustee shall, as soon as practicable but in no case longer than five Business Days after receipt of notice, notify the holders of all Obligations outstanding of such selection. Such notice shall (i) include the name of the Independent Consultant and a brief description of the Independent Consultant, (ii) state the reason that the Independent Consultant is being engaged including a description of the covenant(s) of the Master Indenture that require the Independent Consultant to be engaged, and (iii) state that the holder of the Obligation will be deemed to have consented to the selection of the Independent Consultant named in such notice unless such Obligation holder submits an objection to the selected Independent Consultant in writing (in a manner acceptable to the Master Trustee) to the Master Trustee within 15 days of the date that the notice is sent to the Obligation holders. No later than two Business Days after the end of the 15-day objection period, the Master Trustee shall notify the Obligated Group of the number of objections. If two-thirds (66.6%) or more in aggregate principal amount of the holders of the outstanding Obligations have been deemed to have consented to the selection of the Independent Consultant, the Obligated Group Representative may engage the Independent Consultant within five days of receiving notice of that consent. If more than one-third (33.3%) in aggregate principal amount of the owners of the Obligations outstanding have objected to the Independent Consultant selected, the Obligated Group Representative shall select another Independent Consultant within 14 days after receiving notice of such objection which may be engaged upon compliance with the procedures of the provisions summarized under this caption.

The Master Indenture further provides that all Independent Consultant reports required thereunder shall be prepared in accordance with then-effective industry-appropriate standards.

(c) When the Master Trustee notifies the holders of Obligations of such selection, the Master Trustee will also request any Related Bond Trustee send a notice containing the information required by subparagraph (b) above to the owners of all of the Related Bonds outstanding. Such Related Bond Trustee shall, as the owner of an Obligation securing such Related Bonds, consent or object to the selection of the Independent Consultant in accordance with the response of the owners of such Related Bonds. If two-thirds (66.6%) or more in aggregate principal amount of the Related Bonds have been deemed to have consented to the selection of the Independent Consultant, the Bond Trustee shall approve the Independent Consultant within five days of receiving notice of that consent. If more than one-third (33.3%) in aggregate principal amount of the owners of the Related Bonds have objected to the Independent Consultant selected, the Bond Trustee shall reject the Independent Consultant within 14 days after receiving notice of such objection.

The 15-day notice period described in (b) above may be extended by the Master Trustee in order to permit each Related Bond Trustee to give the owners of the Related Bonds 15 days to respond to the notice given by the Related Bond Trustee. By acceptance of an Obligation securing any Related Bonds, the Related Bond Trustee agrees to comply with the provisions of the provisions of the Master Indenture summarized under this caption.

CONSOLIDATION, MERGER, SALE OR CONVEYANCE

Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(1) Any successor corporation to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a Person (other than a natural person) organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument containing the agreement of such successor to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(2) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture;

(3) Assuming that any Indebtedness of any successor or acquiring corporation is Indebtedness of such Member and that the revenues and expenses of the Member for such most recent Fiscal Year include the revenues and expenses of such other corporation (A) immediately after such merger or consolidation, sale or conveyance, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which financial statements that have been reported upon by independent certified public accountants are available, if calculated on a pro forma basis including the effect of such merger or consolidation, sale or conveyance, would have been not less than 1.20:1, or that such pro forma Debt Service Coverage Ratio of the Obligated Group is not less than the Debt Service Coverage Ratio of the Obligated Group was for such Fiscal Year prior to such merger or consolidation, sale or conveyance and (B) immediately after such merger or consolidation, sale or conveyance, the Days Cash on Hand of the Obligated Group as set forth on the most recent quarterly financial statements delivered to the Master Trustee would be not less than 150 or that such calculation of Days Cash on Hand of the Obligated Group is greater than such calculation would be immediately prior to such merger or consolidation, sale or conveyance;

(4) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds; and

(5) If any Related Bonds were rated by a Rating Agency prior to such merger, consolidation, sale or conveyance, written evidence from such Rating Agency that the rating(s) on such Related Bonds will not be reduced below "BBB-" (or an equivalent rating) by all the Rating Agencies or withdrawn by all the Rating Agencies as a result of such merger, consolidation, sale or conveyance.

In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named as such Member. Each successor, assignee, surviving, resulting or transferee corporation of a Member must agree to become, and satisfy the conditions described in the Master Indenture to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name

Obligations and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations, if such predecessor corporation shall have conveyed all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

THE OBLIGATED GROUP

Membership in the Obligated Group. Additional Members may be added to the Obligated Group from time to time, provided that prior to such addition, the Master Trustee receives:

(a) a copy of a resolution of the proposed new Member which authorizes the execution and delivery of the Master Indenture or a Related Supplement and compliance with the terms of the Master Indenture;

(b) a Related Supplement pursuant to which the proposed new Member: (1) agrees to become a Member; (2) agrees to be bound by the terms and restrictions imposed by the Master Indenture and Indebtedness represented by the Obligations; (3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative full power to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations; and (4) designates any or all of its Property as Principal Property consistent with the determination of the Governing Body of the Obligated Group Representative that such Property is Principal Property, pursuant to the Master Indenture;

(c) an opinion of Independent Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(d) a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness which the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(e) an Officer's Certificate (i) (accompanied by a written report of an Independent Consultant if required by the Master Indenture) meeting the requirements of specified portions of the Master Indenture, showing that the Obligated Group could issue at least one dollar of Long-Term Indebtedness immediately following the addition of such Member to the Obligated Group, or (ii) demonstrating that an event of default under the Master Indenture will be cured if the new Member becomes a Member of the Obligated Group; or (iii) to the effect that the Debt Service Coverage Ratio of the Obligated Group for each of the two most recent Fiscal Years would have been equal to or greater than that required in the Master Indenture;

(f) an Opinion of Bond Counsel to the effect that the addition of such Member: (1) under then existing law, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Bond otherwise entitled to such exemption; and (2) will not cause the Master Indenture or the Obligations issued under the Master Indenture to be subject to

registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(g) an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(h) if any Related Bonds were rated by a Rating Agency prior to the proposed new Member becoming a Member of the Obligated Group, written evidence from such Rating Agency that the rating(s) on such Related Bonds will not be reduced below "BBB-" (or an equivalent rating) by all the Rating Agencies or withdrawn by all the Rating Agencies as a result of such proposed new Member becoming a Member; and

(i) such additional documentation as may be required by the Related Supplement.

Withdrawal from the Obligated Group. Any Member may withdraw from the Obligated Group, and be released from further liability or obligation under the provisions of the Master Indenture, provided that prior to such withdrawal, the Master Trustee receives:

(a) an Officer's Certificate stating that immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) an Officer's Certificate stating that such Member is not a party to any Related Loan Documents with respect to Related Bonds which remain outstanding;

(c) an Officer's Certificate (i) (accompanied by a written report of an Independent Consultant if required by the Master Indenture) meeting the requirements of the Master Indenture showing that the Obligated Group could issue at least one dollar of Long-Term Indebtedness immediately following the withdrawal of such Member from the Obligated Group, or (ii) demonstrating that an event of default under the Master Indenture will be cured if the Member withdraws from the Obligated Group, or (iii) to the effect that the Debt Service Coverage Ratio of the Obligated Group for each of the two most recent Fiscal Years would have been equal to or greater than that required;

(d) an Opinion of Bond Counsel to the effect that, under then existing law, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Bond to which such Bond would otherwise be entitled; and

(e) if any Related Bonds were rated by a Rating Agency prior to the Member withdrawing from the Obligated Group, written evidence from such Rating Agency that the rating(s) on such Related Bonds will not be reduced below "BBB-" (or an equivalent rating) by all the Rating Agencies or withdrawn by all the Rating Agencies as a result of such Member withdrawing from the Obligated Group.

INSURANCE AND CONDEMNATION PROCEEDS

Subject to the following paragraph, any insurance proceeds, condemnation award or payment in lieu of condemnation in an amount more than \$1,000,000 shall, at the option of the Obligated Group Representative, be deposited with the Master Trustee to apply to the prepayment or redemption of Obligations outstanding, on a pro rata basis, be applied by the Obligated Group to repair, renovate or rebuild the facilities subject to the payment or, for any other legitimate purpose, be used in the sole discretion of the Obligated Group Representative; provided, however, that notwithstanding the foregoing,

in the case of the destruction of the Obligated Group's facilities or any portion thereof as a result of fire or other casualty, or any damage to such facilities or portion thereof as a result of fire or other casualty, any related proceeds in an amount more than \$1,000,000 shall be applied pursuant to the Deed of Trust and the Master Indenture.

Any Member may make agreements and covenants with the holder of any Indebtedness which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Encumbrance with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Encumbrance.

DESIGNATION OF PRINCIPAL PROPERTY

The Obligated Group Representative (a) shall monitor the Property of the Members at least annually to determine whether such Property meets the qualifications contained in clause (a) of the definition of Principal Property; and (b) shall determine, at the time a Member is added to the Obligated Group, whether any property of the Member (that will constitute Property upon such Member joining the Obligated Group) satisfies the description contained in clause (a) of the definition of Principal Property. Upon such determination, the Governing Body of the Obligated Group Representative shall designate by resolution such Property as Principal Property under the Master Indenture, and, pursuant to the Master Indenture, each Member, upon joining the Obligated Group, shall designate such Property as Principal Property. Any such designation by the Obligated Group Representative is conclusive and binding upon the Members.

ADDITIONS TO EXCLUDED PROPERTY

Exhibit C to the Master Indenture (Description of Excluded Property) may be amended to include additional real property acquired by a Member subsequent to the Closing Date and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith upon the receipt by the Master Trustee of an Officer's Certificate of such Member stating that (1) such Property does not constitute a portion of the Land and (2) the total value of such Property included on Exhibit C does not exceed 10% of the total value of Property of the Obligated Group (calculated on the basis of the Book Value of the assets shown on the asset side of the balance sheet in the combined financial statements of the Obligated Group for the most recent Fiscal Year next preceding the date of such amendment to Exhibit C thereto for which combined financial statements reported on by independent certified public accountants are available or, if the Obligated Group Representative so elects, on the basis of Current Value).

DEFAULTS AND REMEDIES

Events of Default. Each of the following events is an Event of Default under the Master Indenture:

(a) Failure on the part of the Obligated Group to make due and punctual payment of the principal of, redemption premium, if any, or interest on an Obligation.

(b) Failure of any Member to duly observe and perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Obligation) for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group

Representative and the Master Trustee by the holders of 25% in aggregate principal amount of Outstanding Obligations.

(c) Default by any Member in the payment of any Indebtedness for borrowed moneys (other than an Obligation), whether such Indebtedness now exists or shall thereafter be created, and any period of grace with respect thereto shall have expired, or an event of default, as defined in any mortgage, indenture or instrument, under which there may be secured or evidenced any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur; provided, however, that such default shall not constitute an Event of Default within the meaning of this section if within 60 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (1) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(d) Entry by a court having jurisdiction of a decree or order for (1) relief with respect to any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or (2) appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) for any Member or for any substantial part of the property of any Member, or (3) winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days.

(e) Occurrence of the following actions of any Member: (1) commencement of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or thereafter in effect, (2) consent to the entry of an order for relief in an involuntary case under any such law, or (3) consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its property, or (4) making any general assignment for the benefit of creditors, or (5) failure to generally pay its debts as they become due, or (6) taking any corporate action in furtherance of the foregoing.

(f) An event of default shall exist under any related Bond Indenture or under any Deed of Trust.

Acceleration; Annulment of Acceleration. Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may and, upon (1) the written request of the holders of not less than 25% in aggregate principal amount of Outstanding Obligations or of any holder if an Event of Default under the Master Indenture (a) has occurred or (2) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Obligations shall become and be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations.

At any time after the Master Trustee has declared the principal of the Obligations to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of an Event of Default, the Master Trustee may annul such declaration and its consequences if: (1) the Obligated Group has paid or caused to be paid (or deposited with the Master Trustee moneys sufficient to

pay) all payments then due on all Outstanding Obligations (other than the principal or other payments then due only because of such declaration); (2) the Obligated Group has paid (or caused to be paid or deposited with the Master Trustee) moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents; (3) the Obligated Group has paid all other amounts then payable by the Obligated Group thereunder (or a sum sufficient to pay the same shall have been deposited with the Master Trustee); and (4) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) shall have been remedied.

Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of any action, proceeding or the like resulting in the collection of such moneys and payment of the fees, costs, expenses, advances and all other amounts owed to the Master Trustee, shall be applied as follows:

(a) If the Master Trustee has not declared the principal of all Outstanding Obligations due and payable:

First: To the payment of all installments of interest then due on the Obligations in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments due on the same date, then to the payment thereof ratably, according to the amounts of interest due on such date, without any discrimination or preference; and

Second: To the payment of the unpaid installments of principal then due on the Obligations, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments due on the same date, then to the payment thereof ratably, according to the amounts of principal due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the Master Trustee has declared all Outstanding Obligations due and payable (and has not annulled such declaration under the terms of this Article), to the payment of the principal and interest then due and unpaid upon the Obligations and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment over any other installment, or of any Obligation over any other Obligation, according to the amounts due, without any discrimination or preference.

Such moneys shall be applied by the Master Trustee as it shall determine, having due regard for the amount of moneys available for application and the likelihood of additional moneys becoming available in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date. The Master Trustee shall not be required to make payment to the holder of any unpaid Obligation until such Obligation (and all unmatured coupons, if any) is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person shall be entitled thereto, then the balance shall be paid to the Members, their successors, or as a court of competent jurisdiction may direct.

Master Trustee to Represent Holders. The Master Trustee is irrevocably appointed (and the successive respective holders of the Obligations, by taking and holding the same, shall be conclusively deemed to have so appointed the Master Trustee) as trustee and true and lawful attorney-in-fact of the holders of the Obligations for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such holders under the provisions of the Master Indenture, the Obligations and applicable provisions of any other law.

Holdings' Control of Proceedings. If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions hereof or for the appointment of a receiver or any other proceedings under the Master Indenture. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions thereof or, in the sole judgment of the Master Trustee, is unduly prejudicial to the interest of holders not joining in such direction. Nothing in this paragraph shall impair the right of the Master Trustee in its discretion to take any other action authorized by the Master Indenture that it may deem proper and which is not inconsistent with such direction by holders. Nothing in the Master Indenture shall affect or impair the rights of any holder to enforce the payment of principal of, interest on and other amounts due under the Obligation held by such holder or any agreement or instrument secured by such Obligation, by suit or other action available pursuant thereto or in law or in equity.

Termination of Proceedings. In case any proceeding taken by the Master Trustee on account of an Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or to the holders, then the Members, the Master Trustee and the holders shall be restored to their former positions and rights thereunder, and all rights, remedies and powers of the Master Trustee and the holders shall continue as if no such proceeding had been taken.

Waiver of Event of Default. No delay or omission of the Master Trustee or of any holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of or acquiescence to any such Event of Default. Every power and remedy given to the Master Trustee and the holders in the section "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – DEFAULT" may be exercised from time to time and as often as may be deemed expedient by them. The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy thereunder. Notwithstanding anything contained in the Master Indenture to the contrary, upon the written request of the holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, the Master Trustee shall waive any Event of Default and its consequences; provided, however, that, except under the circumstances set forth in the Master Indenture, a default in the payment of the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the holders of all Outstanding Obligations.

Notice of Default. Within ten days after the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail to all holders notice of such Event of Default, unless such Event of Default shall have been cured before the giving of such notice, subject to conditions set forth in the Master Indenture.

RELATED BOND TRUSTEE OR BONDHOLDERS DEEMED TO BE OBLIGATION HOLDERS

For the purposes of the Master Indenture, unless a Related Bond Trustee elects to the contrary or contrary provision is made in a Related Bond Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as trustee. If such a Related Bond Trustee so elects or the Related Bond Indenture so provides, the holders of each series of Related Bonds shall be deemed the holders of the Obligations to the extent of the principal amount of the Obligations to which their Bonds relate.

REMOVAL AND RESIGNATION OF THE MASTER TRUSTEE

The Master Trustee may be removed at any time by an instrument or instruments in writing signed by the holders of not less than a majority of the principal amount of Obligations then Outstanding or, unless an Event of Default has occurred and is then continuing, the Obligated Group Representative.

The Master Trustee may at any time resign by giving written notice of such resignation to the Obligated Group Representative and by giving the holders of all Obligations then Outstanding notice of such resignation by mail at the addresses shown on the registration books maintained by the Master Trustee.

No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created in the Master Indenture. Written notice of removal shall be given to the Members and to each holder at the address then reflected on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the holders of not less than a majority in aggregate principal amount of Obligations Outstanding, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. If a successor Master Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Master Trustee, any Member or any holder may apply to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves (or if the Master Trustee is a subsidiary of such financial institution, the parent institution shall satisfy these requirements) aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to each Member an instrument in writing, accepting such appointment. Upon the delivery of such acceptance, such successor Master Trustee shall, without further action, become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor Master Trustee shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor Master Trustee. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than 10 days after its assumption of the duties under the Master Indenture, shall mail a notice of such assumption to each holder.

SUPPLEMENTS AND AMENDMENTS

Supplements Not Requiring Consent of Holders. The Obligated Group Representative, acting for itself and as agent for each Member, and the Master Trustee may, without the consent of or notice to any of the holders, enter into one or more Related Supplements for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Master Indenture; (b) to correct or supplement any provision of the Master Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising thereunder and which shall not materially and adversely affect the interests of the holders; (c) to grant or confer ratably upon all of the holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; (e) to create and provide for the issuance of an Obligation or Series of Obligations as permitted thereunder; (f) to obligate a successor to any Member as permitted in the Master Indenture; or (g) to add a new Member or have a Member withdraw as permitted in the Master Indenture.

Supplements Requiring Consent of Holders. (a) Other than Related Supplements and subject to the terms and provisions and limitations contained in the Master Indenture, the holders of not less a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative, acting for itself and as agent for each Member, and the Master Trustee of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture. No Related Supplement shall be permitted however, that would: (1) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation without the consent of the holder of such Obligation; (2) modify, alter, amend, add to or rescind any of the terms or provisions so as to affect the right of the holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the holders of all Obligations then Outstanding; or (3) reduce the aggregate principal amount of Obligations then Outstanding (the consent of the holders of which is required to authorize such Related Supplement) without the consent of the holders of all Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement if the Master Trustee receives: (1) a Request of the Obligated Group Representative to enter into such Related Supplement; (2) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement; (3) the proposed Related Supplement; and (4) an instrument or instruments executed by the holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

SATISFACTION AND DISCHARGE OF MASTER INDENTURE.

If (1) the Members shall deliver to the Master Trustee for cancellation all Obligations previously authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in any Related Supplement) and not cancelled, or (2) upon payment of all Obligations not previously cancelled or delivered to the Master Trustee for

cancellation, or (3) the Members shall deposit with the Master Trustee (or with a bank or trust company pursuant to an agreement between a Member and such bank or trust company) as cash or Escrow Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including without limitation principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and if in any case the Members shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members and at the cost and expense of the Members, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. The Members shall cause a report to be prepared by a firm nationally recognized for providing verification services regarding the sufficiency of funds for such discharge and satisfaction, upon which report the Master Trustee may rely.

SUMMARY OF CERTAIN PROVISIONS OF THE DEEDS OF TRUST

The following information summarizes certain provisions of the eight Deeds of Trust, as amended. All eight Deeds of Trust contain substantially similar provisions and therefore have been summarized together. Reference is made to the Deeds of Trust for a full and complete statement of their provisions.

GENERAL

Under the Deeds of Trust, ABHOW granted a lien and security interest on its facilities to Chicago Title, to be held for the benefit of the Master Trustee.

The grants, assignments and transfers made in the Deeds of Trust are given for the purpose of securing, in such order of priority as the Master Trustee may determine:

(a) Payment and performance of each and every obligation, covenant, agreement and undertaking of ABHOW under the ABHOW Agreements;

(b) Payment of such further sums or obligations as ABHOW, or any successor in ownership to the Property or any part thereof, thereafter may incur to the Master Trustee through borrowing or otherwise, when evidenced by another written agreement or instrument reciting it is so secured, payable to the Master Trustee or order, and all renewals, extensions, modifications or amendments of such agreements or instruments;

(c) Payment of all other moneys in the Deeds of Trust agreed or provided to be paid by ABHOW and performance of all other obligations of ABHOW contained in the Deeds of Trust and any amendment, modification or change to the Deeds of Trust; and

(d) Performance of each agreement of ABHOW contained in any other agreement given by ABHOW to the Master Trustee which is for the purpose of further securing any indebtedness or obligation secured by the Deeds of Trust.

REPRESENTATIONS AND WARRANTIES

ABHOW warrants and represents to the Master Trustee that: (i) ABHOW is the sole owner of the entire lessor's interest in the Leases and has not executed any prior assignment of any of ABHOW's interest in the Leases or the rights thereunder; (ii) ABHOW has not done anything which might prevent the Master Trustee from or limit the Master Trustee in operating under any of the provisions of the Deeds

of Trust with respect to the Leases and the Lessees of the Leases thereunder; (iii) without prior written notice to, and prior written consent of the Master Trustee, ABHOW has not accepted and will not accept Rent under the Leases more than one (1) month in advance of its due date (or, if permitted by the Deeds of Trust, an amount in excess of the sum of first and last months' rent plus an appropriate security deposit); (iv) there are no material defaults now existing under any of the Leases and there exists no state of facts which, with the giving of notice or the passing of time, or both, would constitute a material default under any of the Leases; and (v) the Leases are in full force and effect and have not been materially modified, altered, amended, terminated, extended or renewed, nor have any of the material terms and conditions thereof been waived in any manner whatsoever, except as previously disclosed in writing to the Master Trustee.

LIENS

ABHOW shall pay and promptly discharge when due, at ABHOW's cost and expense, all liens, encumbrances and charges upon the Property or any part thereof or interest therein, other than Permitted Liens; provided that the existence of any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right thereto shall not constitute a violation of the provisions of the Deeds of Trust summarized under this heading if payment is not yet due under the contract which is the foundation thereof. ABHOW shall have the right to contest in good faith the validity of any such lien, encumbrance or charge, provided ABHOW shall first deposit with the Master Trustee a bond or other security satisfactory to the Master Trustee in such amounts as the Master Trustee shall reasonably require, but not more than one hundred fifty percent (150%) of the amount of the claim or such higher amount as may be required by applicable law to release such lien, encumbrance or charge; and provided further that ABHOW shall thereafter diligently proceed to cause such lien, encumbrance or charge to be removed and discharged. If ABHOW shall fail either to remove and discharge any such lien, encumbrance or charge or to deposit security in accordance with the preceding sentence, if applicable, then, in addition to any other right or remedy of the Master Trustee under the Deeds of Trust or under any of the other ABHOW Agreements, the Master Trustee may, but shall not be obligated to, discharge the same, without inquiring into the validity of such lien, encumbrance or charge nor into the existence of any defense or offset thereto, either by paying the amount claimed to be due, or by procuring the discharge of such lien, encumbrance or charge by depositing in a court a bond or the amount claimed or otherwise giving security for such claim, or in such manner as is or may be prescribed by law. ABHOW shall, within five days of demand therefor by the Master Trustee, pay to the Master Trustee an amount equal to all costs and expenses incurred by the Master Trustee in connection with the exercise by the Master Trustee of the foregoing right to discharge any such lien, encumbrance or charge, together with interest thereon from the date such amounts are due and payable by ABHOW at the Default Rate, and such sums shall be secured by the Deeds of Trust.

For purposes of the preceding paragraph, "Permitted Liens" are the liens permitted under the Deeds of Trust and consist of the following: (1) Liens securing Direct Note Obligation No. 2 to Bank of America, N.A.; (2) Liens securing the Series 2010 Bonds; (3) Liens arising by reason of good faith deposits by ABHOW in the ordinary course of business (for other than borrowed money), deposits by ABHOW to secure public or statutory obligations or deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; (4) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at: any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable ABHOW to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements; (5) any judgment lien against ABHOW so long as such judgment is being contested in good faith and execution thereon is

stayed; (6) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to: (a) terminate such right, power, franchise, grant, license or permit, provided, that the exercise of such right would not materially impair the use of any Facilities or materially and adversely affect the value thereof, or (b) purchase, condemn, appropriate or recapture, or designate a purchaser of, the Facilities or any portion thereof; (7) liens on any Facilities for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Facilities, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days; (8) easements, fights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Facilities which do not materially impair the use of such Facilities or materially and adversely affect the value thereof; (9) rights reserved to or vested in any municipality or public authority to control or regulate any Facilities or to use such Facilities in any manner, which rights do not materially impair the use of such Facilities or materially and adversely affect the value thereof; (10) to the extent that it affects title to any Facilities; (11) landlord's Liens; (12) Liens on moneys deposited by residents or others with ABHOW as security for or as prepayment for the cost of resident care; (13) Liens on Facilities received by ABHOW through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests or the income thereon; (14) Liens on Facilities due to rights of third-party payors for or recoupment of amounts paid to ABHOW; (15) Liens securing the debt of ABHOW permitted under the credit facility for the Series 2006 Bonds, provided, however, that any such Liens incurred to secure any particular Debt will not secure any portion of any other Debt; (16) purchase money security interests and security interest existing on any Facilities prior to the time of its acquisition through purchase, merger, consolidation or otherwise, or placed upon Facilities to secure a portion of the purchase price thereof, or lessee's interests in leases required to be capitalized in accordance with generally accepted accounting principles; (17) Liens securing any Swap Contract between ABHOW and the Bank or any lender; and (18) any Lien described in the title insurance policies relating the Deeds of Trust; provided, that no such Lien (or the amount of the Debt secured thereby) may be increased, extended, renewed or modified to apply to any Facilities of ABHOW not subject to such Lien as of the Closing Date unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under this Agreement. For purposes of this definition, "Swap Contract" means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, forward exchange contract or strategy, commodity swap, equity or equity index swap, interest rate option, cap, collar or floor transaction, currency swap, cross currency rate swap, currency option or any other similar interest rate or currency hedging transaction (including, the option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing all or any of the foregoing.

MAINTENANCE OF LIEN

ABHOW agrees to execute such documents and take such action as the Master Trustee shall reasonably determine to be necessary or desirable to further evidence, perfect or continue the perfection and/or the priority of the lien and security interest granted by ABHOW under the Deeds of Trust.

EVENT OF DEFAULT

ABHOW shall be in default under the Deeds of Trust upon the occurrence of an Event of Default as defined in the Master Indenture, the Bond Indenture, the Loan Agreement or any other Financing Document to which ABHOW is a party.

REMEDIES

No remedy conferred upon or reserved Chicago Title or the Master Trustee under the Deeds of Trust is intended to be exclusive of any other remedy under the Deeds of Trust, under any of the other ABHOW Agreements or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy provided under the Deeds of Trust or now or hereafter existing at law or in equity or by statute. Every power or remedy given by the Deed of Trust to Chicago Title or the Master Trustee or to which any of them may be otherwise entitled may be exercised concurrently or independently, from time to time and as often as may be deemed expedient by Chicago Title or the Master Trustee, and any of them may pursue inconsistent remedies. Without limiting the foregoing, with respect to the security interest granted under the Deeds of Trust, the Master Trustee shall have all the rights and remedies granted to a secured party under Division 9 of the California Uniform Commercial Code (including, without limitation, the right to conduct a unified sale of all or any portion of the Property).

ACCELERATION AND FORECLOSURE

Upon the occurrence and during the continuance of an Event of Default under the Deeds of Trust, then and in each such event, the Master Trustee may declare all sums secured thereby immediately due and payable either by commencing an action to foreclose the Deeds of Trust as a mortgage, or by the delivery to Chicago Title of a written declaration of default and demand for sale and of written notice of default and of election to cause the Property to be sold, which notice Chicago Title shall cause to be duly filed for record in case of foreclosure by exercise of the power of sale in the Deeds of Trust. Should the Master Trustee elect to foreclose by exercise of the power of sale in the Deeds of Trust, the Master Trustee shall also deposit with Chicago Title the Deeds of Trust and such receipts and evidence of expenditures made and secured by the Deeds of Trust as Chicago Title may require, and notice of sale having been given as then required by law and after lapse of such time as may then be required by law after recordation of such notice of default, Chicago Title, without demand on ABHOW, shall sell the Property at the time and place of sale fixed by it in said notice of sale, either as a whole or in separate parcels, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Chicago Title may postpone sale of all or any portion of the Property by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement. Chicago Title shall deliver to such purchaser its deed or deeds conveying the Property, or any portion thereof, so sold, but without any covenant or warranty, express or implied. The recitals in such deed or deeds of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including ABHOW, Chicago Title or the Master Trustee may purchase at such sale.

CHICAGO TITLE POWERS

At any time, or from time to time, without liability therefor and without notice, upon written request of the Master Trustee and presentation of the Deeds of Trust for endorsement, and without affecting the personal liability of any person for payment of all or any portion of the indebtedness secured by the Deeds of Trust or the effect of the Deeds of Trust upon the remainder of the Property, Chicago Title may (i) reconvey any part of the Property; (ii) consent in writing to the making of any map or plat thereof; (iii) join in granting any easement thereon, or (iv) join in any extension agreement or any agreement subordinating the lien or charge of the Deeds of Trust.

THE MASTER TRUSTEE'S RIGHT TO ENTER, INSPECT AND CURE

The Master Trustee is authorized by itself, its contractors, agents, employees or workmen, to enter at any reasonable time upon any part of the Property for the purpose of inspecting the same, and for the purpose of performing any of the acts it is authorized to perform under the terms of the Deeds of Trust.

RECEIVER

Upon the occurrence and during the continuance of an Event of Default under the Deeds of Trust, the Master Trustee, as a matter of right and without regard to the then value of the Property or the interest of ABHOW therein, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Property or any portion thereof, and ABHOW irrevocably consents in the Master Indenture to such appointment. Any such receiver or receivers shall have all the usual powers and duties of receivers in like or similar cases and all the powers and duties of the Master Trustee in case of entry as provided in the Deeds of Trust and shall continue as such and exercise all such powers until the date of confirmation of sale of the Property unless such receivership is sooner terminated. Without limiting the generality of the foregoing such receiver, or receivers, may: (i) either with or without taking possession of the Property, in its (or their) own name, make demand for, sue or otherwise collect and receive all Rents, including but not limited to those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured under the Master Indenture in such order as the Master Trustee may determine and direct; (ii) enter upon, take possession of, and operate the Property; (iii) make, enforce, modify and accept the surrender of Leases; (iv) obtain and evict Lessees of the Property; (v) fix or modify Rents; and (vi) do any acts which the Master Trustee deems proper to protect the security of the Deeds of Trust until all of the obligations secured by the Deeds of Trust have been fully satisfied.

TRANSFER OF PROPERTY; RIGHT TO DECLARE OBLIGATIONS DUE ON TRANSFER

ABHOW covenants and agrees that except as may be otherwise expressly provided by the terms of the ABHOW Agreements, there shall be no transfer of all or any portion of the Property without the prior written consent of the Master Trustee. Consent to one such transaction shall not be deemed to be a waiver of the Master Trustee's right to require separate written consent to future or successive transactions. The Master Trustee may grant or deny such consent in their sole and absolute discretion; and if such consent is given, any such transfer shall be subject to the Deeds of Trust and the other ABHOW Agreements, and any such transferee shall assume all obligations of the transferee under the Deeds of Trust and under the other ABHOW Agreements and agree to be bound by all provisions contained therein (subject to any exculpation provisions provided therein), and ABHOW and such transferee shall comply in all other aspects with any requirements set forth in the ABHOW Agreements relating to such transfer and shall furnish to the Master Trustee such documentation and opinions of counsel as the Master Trustee may reasonably request in connection with such transfer and assumption. Such assumption shall not, however, release ABHOW or any other party from any liability to the Master Trustee under the Deeds of Trust or under any other ABHOW Agreement or except as otherwise expressly agreed in writing by the Master Trustee.

As used in the Deeds of Trust, a "transfer" of the Property shall include (i) any sale, agreement to sell, transfer or conveyance of the Property, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, or the lease of all or any portion of the Property, other than a Lease entered into by ABHOW in accordance with the terms and conditions of the Deed of Trusts; (ii) except to the extent of any mineral or other subsurface rights presently held by third parties as of the date of the Deeds of Trust, the use of any part of the surface, or subsurface to a depth of 500 feet below the surface, of the Land for the prospecting for, drilling for, production (including injection and other

producing or withdrawal operations), mining, extraction, storing or removal of any oil, gas or other minerals whether from the Land or elsewhere; (iii) any sale, transfer, hypothecation, assignment, pledge or conveyance, of any interest, in whole or in part, whether direct or indirect, voluntary, involuntary, by operation of law or otherwise in ABHOW; (iv) any transfer by way of security, including the placing or the permitting of the placing of any mortgage, deed of trust, assignment of rents or other security device on the Land or Improvements or any part thereof; and (v) any other encumbrance of the Property, except as expressly permitted under the Deeds of Trust or under the other ABHOW Agreements. This covenant shall run with the Land and remain in full force and effect until all of the indebtedness secured under the Deeds of Trust is paid in full, and the Master Trustee may, without notice to ABHOW, deal with any transferees with reference to the indebtedness secured by the Deeds of Trust in the same manner as with ABHOW, without in any way altering or discharging ABHOW's liability under the Deeds of Trust or the indebtedness secured by the Deeds of Trust or the liability of any guarantor with respect thereto. Upon the occurrence of any transfer without the prior written consent of the Master Trustee, the Master Trustee may declare all indebtedness and obligations secured by the Deeds of Trust to be immediately due and payable without any presentment, demand, protest or notice of any kind. In the event that the Master Trustee does not elect to declare such indebtedness and obligations immediately due and payable, then, unless expressly released in writing by the Master Trustee, ABHOW shall nevertheless remain primarily liable for all such indebtedness and obligations. This provision shall apply to each and every sale, transfer, hypothecation, encumbrance, pledge, assignment or conveyance, regardless whether or not the Master Trustee has consented to, or waived, the Master Trustee's rights under the Deeds of Trust, whether by action or non-action in connection with any previous sale, transfer, hypothecation, encumbrance, pledge, assignment or conveyance.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

February __, 2010

California Statewide Communities
Development Authority
Sacramento, California

U.S. Bank National Association,
as bond trustee
San Francisco, California

B.C. Ziegler and Company
Chicago, Illinois

Re: \$106,580,000 California Statewide Communities Development Authority
Revenue Bonds, Series 2010 (American Baptist Homes of the West)

Ladies and Gentlemen:

We have acted as bond counsel to American Baptist Homes of the West, a nonprofit public benefit corporation incorporated under the laws of the State of California (“ABHOW”), in connection with the issuance by the California Statewide Communities Development Authority (the “Authority”) of \$106,580,000 in aggregate principal amount of its Revenue Bonds, Series 2010 (American Baptist Homes of the West) initially dated the date hereof (the “Bonds”). The Bonds are issued under the provisions of the Joint Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California, as amended (the “Act”), and under and pursuant to that certain Bond Trust Indenture dated as of February 1, 2010 (the “Bond Indenture”) between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”).

The proceeds from the sale of the Bonds will be loaned by the Authority to ABHOW under that certain Loan Agreement dated as of February 1, 2010 (the “Loan Agreement”) between the Authority and ABHOW. Such loan will be evidenced by Direct Note Obligation No. 3 dated the date hereof (the “Series 2010 Obligation”) of the Obligated Group issued pursuant to the Master Trust Indenture dated as of February 1, 2010, as supplemented and amended (the “Master Indenture”), among ABHOW, the other members of an obligated group created therein (together with ABHOW, the “Members of the Obligated Group”) and U.S. Bank National Association, as master trustee. Pursuant to the terms of the Loan Agreement and the Series 2010 Obligation, ABHOW is obligated to make payments sufficient to pay the principal of, premium, if any, and interest on the Bonds. Pursuant to the terms of the Master Indenture, ABHOW and any future Members of the Obligated Group agree to be jointly and severally liable on all obligations issued under the Master Indenture, including the Series 2010 Obligation.

The proceeds from the sale of the Bonds will be used, together with certain other moneys, to (i) prepay the four series of Revenue Refunding Certificates of Participation (American Baptist Home of the West Project) evidencing direct, undivided fractional interests of the owners thereof in purchase payments to be made by ABAG from installment payments received from the Corporation, currently outstanding in the aggregate principal amount of \$82,400,000, (ii) finance the acquisition, construction, expansion,

remodeling, renovation, furnishing and equipping of facilities owned and operated in California by ABHOW, (iii) fund a debt service reserve fund, and (iv) pay certain expenses of issuing the Bonds.

ABHOW and American Baptist Homes Foundation of the West, Inc. (the “Foundation”) have informed us that they are organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), that they are exempt from federal income taxes under Section 501(a) and 501(c)(3) of the Code, and that they are not “private foundations” as defined in Section 509(a) of the Code. We note that the tax-exempt status of ABHOW and the Foundation is addressed in the opinion of Holland & Knight LLP, San Francisco, California, financing counsel to ABHOW and the Foundation, dated this date and provided to the addressees hereof, and we express no opinion with respect to such status.

In our capacity as bond counsel, we have examined, among other things, certified proceedings of the members of the Authority authorizing, among other things, the execution and delivery of the Bond Indenture, the Loan Agreement and the issuance of the Bonds, a specimen Bond, a certificate of the Bond Trustee regarding the authentication of the Bonds, executed counterparts of the above-referenced documents, executed opinions of Orrick, Herrington & Sutcliffe, LLC, Sacramento, California, counsel to the Authority, and Holland & Knight LLP, San Francisco, California, financing counsel to ABHOW and the Foundation, each dated this date and such other documents, showings and related matters as we have deemed necessary in order to render this opinion.

Based upon the foregoing and in reliance upon certain documents and showings hereinafter referred to, we are of the opinion that:

1. The Bond Indenture has been duly authorized by the Authority, has been duly executed and delivered by authorized officers of the Authority and, assuming due authorization, execution and delivery thereof by the Bond Trustee, constitutes a valid and binding instrument of the Authority, enforceable against the Authority in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights and by the availability of equitable remedies.

2. The Bonds and the loan by the Authority to ABHOW of the proceeds from the sale thereof as evidenced by the Series 2010 Obligation and secured by the Loan Agreement have been duly authorized by the Authority, the Bonds have been duly executed by authorized officers of the Authority and have been validly issued by the Authority and, assuming due authentication thereof by the Bond Trustee, constitute the valid and binding limited obligations of the Authority payable solely from payments and prepayments received by the Authority upon the Series 2010 Obligation and from other amounts payable under the Loan Agreement and pledged under the Bond Indenture, and the Bonds are enforceable in accordance with their terms and are entitled to the benefit and security of the Bond Indenture, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors’ rights and by the availability of equitable remedies.

3. The Loan Agreement has been duly authorized by the Authority, has been executed and delivered by authorized officers of the Authority and, assuming due authorization, execution and delivery thereof by ABHOW, constitutes a valid and binding instrument of the Authority enforceable against the Authority in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws

affecting creditors' rights and by the availability of equitable remedies. In rendering the foregoing opinion, we have not attempted to verify the correctness of the assumptions made therein regarding the due authorization, execution and delivery of the Loan Agreement by ABHOW, including without limitation whether ABHOW has the power or authority to take such actions or whether such actions violate existing corporate articles of incorporation or bylaws, agreements or court decisions or are the subject of or may be affected by any litigation.

4. Interest on the Bonds is not, under current law, includable in gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. Interest on the Bonds will be taken into account, however, in computing an adjustment used in determining the alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations. The foregoing opinions assume compliance with certain covenants made by the Authority and ABHOW to satisfy pertinent requirements of the Code with respect to the Bonds. Failure to comply with certain of these covenants could cause the interest on the Bonds to be included in gross income and be subject to federal income taxation retroactive to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. We express no opinion regarding any such collateral consequences arising with respect to the Bonds.

Under the laws of the State of California as presently enacted and construed, interest on the Bonds is exempt from the Personal Income Tax Law imposed by the State of California under Sections 17001 through 19802 of the California Revenue and Taxation Code. No opinion is expressed regarding taxation of interest on the Bonds under any other provisions of California law. Ownership of the Bonds may result in other California consequences to certain taxpayers, and no opinion is expressed regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied on the certificates of even date herewith of ABHOW with respect to certain material facts solely within ABHOW's knowledge relating to the property financed and refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]



ABHOW



Printed by: ImageMaster, Inc.