



MARK J. SALADINO
TREASURER AND TAX COLLECTOR

**COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR**

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May 20, 2014

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

The Honorable Board of Directors
Los Angeles County Regional Financing
Authority
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**ISSUANCE AND SALE OF LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY
INSURED REVENUE BONDS, SERIES 2014
(MONTECEDRO, INC. PROJECT)
(FIFTH DISTRICT) (3 VOTES)**

SUBJECT

The Treasurer and Tax Collector is requesting authorization for the issuance and sale of Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014 (the "Bonds") for the benefit of MonteCedro Inc. (the "Borrower"). The Bonds will be sold for the purpose of financing the construction of a continuing care retirement community (CCRC) facility for senior citizens owned and operated by the Borrower. All principal and interest payments on the Bonds will be the responsibility of the Borrower and there will be no recourse to the County for the payment of debt service.

IT IS RECOMMENDED THAT THE BOARD:

Acting as the Board of Supervisors of the County of Los Angeles, adopt the attached Resolution authorizing a) the issuance and sale of the Bonds in an aggregate principal amount not-to-exceed

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

54 May 20, 2014

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

\$160,000,000; and b) the execution and delivery of various legal documents required to issue the Bonds and complete the proposed transaction.

Acting as the Board of Directors of the Los Angeles County Regional Financing Authority, adopt the attached Resolution authorizing a) the issuance and sale of the Bonds in an aggregate principal amount not-to-exceed \$160,000,000; and b) the execution and delivery of various legal documents required to issue the bonds and complete the proposed transaction.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Background

For more than 25 years, the County has assisted with tax-exempt financings to private entities for projects and programs that your Board has determined will provide significant public benefit. Such projects and programs are typically designed to meet the social needs of the County's residents in the areas of health, public safety, employment, housing and education, and to meet the needs of disabled or aged persons.

The process of providing tax-exempt financing to private entities is referred to as "conduit" financing, because the County serves as a conduit between the public capital markets and the private (usually non-profit) borrower. A typical conduit financing transaction involves the issuance and sale of tax-exempt bonds by the County or a County-affiliated entity to investors, with a corresponding loan of the bond proceeds to the private borrower. The debt service on conduit bonds is payable from loan payments or other revenues received from the private borrower, with no recourse to County revenues or assets. Existing County policy requires conduit bonds to be secured by a form of third-party credit enhancement.

During the period between 1997 and 2009, the County executed several conduit transactions through the California Statewide Communities Development Authority (CSCDA). In 2009, however, the County withdrew its membership in CSCDA and instituted new policies surrounding the County's participation in conduit financings. The new policies included:

- The Treasurer and Tax Collector reviews all conduit financing requests, provided that the proposed project is located within an unincorporated area of the County or the project is supported by the governing body of an incorporated city located within the County. In each case the County or one of its affiliated entities can serve as the bond issuer.
- The borrower is required to secure a letter of credit, bond insurance, or some other type of third-party credit enhancement prior to consideration of the conduit financing request.
- If a borrower chooses to pursue financing for facilities in an incorporated city through a non-County JPA, any request for "elected official" approval of the bonds should be referred to the applicable City. The County will have no role in the financing.

The Borrower

The Borrower, MonteCedro Inc., was established as a not-for-profit 501(c)(3) corporation in the state of California in February 2014 to own and operate the MonteCedro Senior Living Retirement Facility. The sole member of MonteCedro Inc. is Episcopal Communities & Services for Seniors ("ECS"), a

California nonprofit public benefit corporation established in 1923. ECS began discussions with the office of the Treasurer and Tax Collector in November 2013 regarding the possibility of executing a conduit bond transaction through the County to finance the construction of a CCRC. ECS fulfilled the County's requirements for the initiation of a conduit transaction in March 2014 by securing third-party credit enhancement in the form of bond insurance from Cal-Mortgage.

The CCRC facility designed by MonteCedro Inc. will be located on 8.26 acres in Altadena, an unincorporated area of the County, at a site formerly occupied by The Scripps Home. MonteCedro Inc. will provide independent and assisted living accommodations for senior citizens, and will access skilled nursing as needed through referral contracts with other nearby providers. The CCRC will include a total of 206 units and will encompass approximately 331,000 square feet, with a below grade parking facility occupying an additional 89,000 square feet of space.

Construction of the CCRC facility is currently underway, with initial pre-finance funding provided by the Sophie Miller Foundation and a short-term construction loan from Bank of America. The funding provided by the Sophie Miller Foundation in the amount of \$20.17 million will remain as an equity contribution to the project. The Bank of America construction loan in the amount of \$15.04 million is expected to be repaid with proceeds generated from the sale of the Bonds. The total construction costs of the CCRC facility is currently estimated to be \$168.23 million, which will be financed with the equity contribution from the Sophie Miller Foundation and \$148.06 million of the Bonds. Construction is expected to be completed in late 2015, with residential occupancy beginning at that time.

Implementation of Strategic Plan Goals

This action supports the County's Strategic Plan Goal #1: Operational Effectiveness through collaborative actions among the County and the public and private sector to provide investment in public and private benefit infrastructure within the County.

FISCAL IMPACT/FINANCING

There will be no fiscal impact to the County budget. The payment of the debt service on the Bonds is a direct and absolute obligation of the Borrower, with no financial recourse to the County.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Legal Background

The County and the Los Angeles County Public Works Financing Authority ("PWFA") formed a joint exercise of powers entity known as the Los Angeles County Regional Financing Authority (the "Authority") by a Joint Powers Agreement dated December 7, 2010 (the "Agreement") pursuant to Articles 1 through 4, Chapter 5, Division 7, Title 1 of the California Government Code (commencing with Section 6500), as amended (the "Act"). The Authority is authorized by the Act to issue bonds, notes or other evidences of indebtedness, or certificates of participation in leases or other agreements, to finance facilities owned and/or leased and operated by organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), which are determined by the Authority to satisfy the criteria set forth in the Act.

The Borrower, a private non-profit entity incorporated under the laws of the State of California and an organization described in Section 501(c)(3) of the Code, has requested the County and the Authority

to approve the issuance and sale of one or more series of insured revenue bonds in an aggregate principal amount not to exceed \$160,000,000. As the elected legislative body of the County and the governing Board of the Authority, your Boards are authorized to approve the issuance of the Bonds under (a) Section 147(f) of the Code, (b) Section 6586.5 of the Act and (c) Section 4.03 of the Agreement.

Pursuant to Section 147(f) of the Code, the County held a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing on May 14, 2014, and has found and determined that it is in the public interest and for the public benefit that the County approve the issuance of the Bonds. Adoption of the attached Resolutions will authorize the execution and delivery of various legal documents required for the issuance of the Bonds on behalf of the Borrower.

The Bonds represent a direct and absolute obligation of the Borrower. The Authority, the County and the PWFA will not have any responsibility or liability with respect to the payment of debt service on the Bonds and for compliance with various reporting and continuing disclosure covenants required of the Borrower.

Bond Structure

The Bonds will be issued pursuant to an Indenture of Trust (the "Indenture") between the Authority and U.S. Bank National Association as trustee (the "Trustee"). The debt service on the Bonds will be payable solely from revenues pledged by the Borrower to the Trustee pursuant to a Loan Agreement (the "Loan Agreement") between the Authority and the Borrower. The proceeds from the Bonds will be used to finance the construction of the CCRC, debt service reserve funds, interest costs incurred during construction of the CCRC, and certain costs related to the issuance of the Bonds.

The Bonds will be secured by a first mortgage on the land and buildings and a pledge of revenues from the MonteCedro Senior Living Retirement Facility. The Bonds will include fixed rate, tax-exempt revenue bonds, structured with a combination of temporary and permanent debt. The permanent debt is currently estimated to total \$55.7 million, which is comprised of serial and term bonds amortized over a 25-year period (2019 through 2044). The temporary debt of approximately \$89.5 million will be comprised of several short-term maturities repaid with up-front resident entrance fees collected after the opening of the CCRC facility. Redemption of the temporary debt is projected to begin on a quarterly basis on August 15, 2016. The temporary debt is expected to be fully repaid by November 15, 2018.

The current estimated par amount of the Bonds guaranteed by Cal-Mortgage insurance is \$148.06 million. In no event will the County issue Bonds with an aggregate par amount in excess of the Cal-Mortgage guarantee. With Cal-Mortgage insurance, the Bonds are expected to receive an investment grade rating of "A". The Borrower and the Treasurer and Tax Collector have selected B.C. Ziegler & Company and Bank of America Merrill Lynch as the underwriters; and Chapman & Cutler as bond counsel.

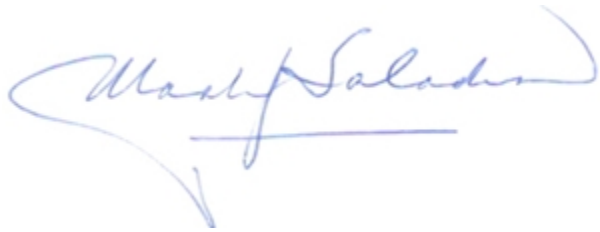
IMPACT ON CURRENT SERVICES (OR PROJECTS)

Not Applicable.

CONCLUSION

Upon approval of the Resolutions, it is requested that the Executive Officer-Clerk of the Board of Supervisors return two originally executed copies of the adopted Resolutions to the Treasurer and Tax Collector (Office of Public Finance).

Respectfully submitted,

A handwritten signature in blue ink, reading "Mark J. Saladino". The signature is written in a cursive style with a horizontal line underneath the name.

MARK J. SALADINO

Treasurer and Tax Collector

MJS:JP:GH:ad

Enclosures

c: Chief Executive Officer
County Counsel
Executive Officer, Board of Supervisors
Auditor-Controller

**RESOLUTION OF THE BOARD OF SUPERVISORS
OF THE COUNTY OF LOS ANGELES
APPROVING THE ISSUANCE OF THE
LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY
INSURED REVENUE BONDS, SERIES 2014 (MONTECEDRO INC. PROJECT)
IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$160,000,000
FOR THE PURPOSES OF FINANCING THE CONSTRUCTION,
EQUIPPING AND FURNISHING OF A CONTINUING CARE FACILITY**

WHEREAS, the County of Los Angeles (the "*County*") and the Los Angeles County Public Works Financing Authority ("*PWFA*") formed a joint exercise of powers entity known as the Los Angeles County Regional Financing Authority (the "*Authority*") by a Joint Powers Agreement dated December 7, 2010 (the "*Agreement*") between the County and PWFA pursuant to Articles 1 through 4, Chapter 5, Division 7, Title 1 of the California Government Code (commencing with Section 6500), as amended (the "*Act*"), for the purpose of the exercise of all powers common to the County and PWFA and all powers provided to the Authority by the Act, and any other law now in effect or hereafter enacted;

WHEREAS, MonteCedro Inc., a nonprofit public benefit corporation incorporated under the laws of the State of California (the "*Corporation*"), has requested that the Authority approve the issuance and sale of one or more series of insured revenue bonds in the maximum aggregate principal amount not to exceed \$160,000,000 (the "*Bonds*"), the proceeds of which will be used, together with certain other moneys, to finance or refinance the costs of constructing, equipping and furnishing a continuing care facility consisting of approximately 186 independent living units and approximately 20 assisted living units and related parking and other facilities owned and operated by the Corporation and located at 2212 El Molino Avenue, Altadena, California, in the County of Los Angeles (the "*Project*");

WHEREAS, pursuant to (a) Section 147(f) of the Internal Revenue Code of 1986 (the "*Code*"), (b) Section 6586.5 of the Act and (c) Section 4.03 of the Agreement, the issuance of the Bonds by the Authority must be approved by a governmental unit having jurisdiction over the area, such as the County, because the Project is located within the territorial limits of the County;

WHEREAS, the Board is the elected legislative body of the County and is the applicable elected representative eligible to approve the issuance of the Bonds under (a) Section 147(f) of the Code, (b) Section 6586.5 of the Act and (c) Section 4.03 of the Agreement;

WHEREAS, the Board understands that its actions in holding the public hearing referenced below and in adopting this Resolution do not obligate the County in any manner for payment of the principal, interest, fees or any other costs associated with the issuance of the Bonds, and the Board expressly conditions its approval of the issuance of the Bonds by the Authority by the adoption of this Resolution on this understanding;

WHEREAS, the Authority has requested that the Board approve the issuance of the Bonds by the Authority in order to satisfy the public approval requirement of the Code and the Act;

WHEREAS, pursuant to the Code and the Act, the Board has, following notice duly given, held a public hearing regarding the issuance of the Bonds at which public hearing all interested persons were given an opportunity to be heard on all matters related to the financing of the Project and the Authority's issuance of the Bonds, and now desires to approve the issuance of the Bonds by the Authority;

WHEREAS, the Corporation has informed the Board that the undertaking of the Project will provide employment benefits in the County and the Authority has determined that it is in the public interest and for the public benefit that the Board approve the issuance of the Bonds by the Authority for the aforesaid purposes;

WHEREAS, neither the faith and credit nor the taxing power of the County, the Authority, or PWFA will be pledged to the payment of the principal of, premium, if any, or the interest on, the Bonds, nor shall the County, the Authority, or PWFA be liable or obligated to pay the principal of, premium, if any, or interest on, the Bonds. The Bonds will be payable solely out of the revenues and other funds pledged and assigned for their payment in accordance with one or more loan agreements, including any supplements or amendments thereto, each between the Corporation and the Authority, and the indentures, including any supplements or amendments thereto, pursuant to which the Bonds will be issued; and

NOW, THEREFORE, the Board of Supervisors of the County of Los Angeles does hereby resolve, determine and order as follows:

Section 1. The Board hereby finds and determines that the foregoing recitals are true and correct.

Section 2. The Board hereby approves the issuance of the Bonds by the Authority for the purposes of financing or refinancing the costs of the Project, which may include paying a portion of the interest on the Bonds, funding a debt service reserve fund and paying the costs of issuing the Bonds. It is the purpose and intent of the Board that this Resolution constitute approval of the issuance of the Bonds by the Authority pursuant to the Code, the Act and the Agreement by the applicable elected representative of the governmental unit having jurisdiction over the area in which Project is located.

Section 3. The execution and delivery of the Bonds shall be subject to approval by the Authority of all financing documents relating thereto to which the Authority is a party. The County shall have no responsibility or liability with respect to the Bonds. The Bonds shall be special limited obligations of the Authority payable solely from revenues of the Corporation.

Section 4. The adoption of this Resolution shall not obligate the County or any department thereof to (i) make any contribution or advance any funds whatsoever to the Authority or (ii) take any further action with respect to the Authority or its membership therein.

Section 5. All proper officers and officials of the County are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all

documents which they deem necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution.

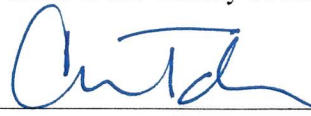
Section 6. This Resolution shall take effect immediately upon its adoption.

Section 7. Neither the faith and credit nor the taxing power of the County, the Authority, or PWFA will be pledged to the payment of the principal of, premium, if any, or the interest on, the Bonds, nor shall the County, the Authority or PWFA be liable or obligated to pay the principal of, premium, if any, or interest on, the Bonds. The Bonds will be payable solely out of the revenues and other funds pledged and assigned for their payment in accordance with one or more loan agreements, including any supplements or amendments thereto, each between the Corporation and the Authority, and the indentures, including any supplements or amendments thereto, pursuant to which the Bonds will be issued.

The foregoing Resolution was on the 20th day of May, 2014, adopted by the Board of Supervisors of the County of Los Angeles and *ex-officio* governing body of all other special assessment and taxing districts, agencies and authorities for which said Board of Supervisors so acts.




SACHI A. HAMAI
Executive Officer - Clerk of the Board of
Supervisors of the County of Los Angeles

By: 
Deputy

Approved as to Form:

JOHN F. KRATTLI
County Counsel

By: 
Principal Deputy County Counsel

LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY

AND

U.S. BANK NATIONAL ASSOCIATION, as Trustee

And
accepted and agreed to by
MonteCedro Inc.

INDENTURE

Dated as of June 1, 2014

Relating to

\$ _____
Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014A
(MonteCedro Inc. Project)

\$ _____
Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-1
(Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____
Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-2
(Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____
Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-3
(Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____
Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-4
(Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____
Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-5
(Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

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INDENTURE

THIS INDENTURE, dated as of June 1, 2014, by and between the LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State of California (the “*Authority*”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under and by virtue of the laws of the United States of America and qualified to accept and administer the trusts hereby created, as trustee (the “*Trustee*”), as accepted and agreed to by MonteCedro, Inc. a California nonprofit public benefit corporation (the “*Corporation*”);

WITNESSETH:

WHEREAS, MonteCedro Inc. (the “*Corporation*”), a California nonprofit public benefit corporation, has requested the assistance of the Authority to facilitate the construction and equipping of its senior living facilities (collectively, the “*Facilities*”), which Facilities are owned and operated by the Corporation;

WHEREAS, the Authority is a joint powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated as of December 1, 2010, by and between the County of Los Angeles, California (the “*County*”) and the County of Los Angeles Public Works Financing Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “*Act*”), and is authorized pursuant to the Act to issue bonds for the purpose of financing the construction and equipping of the Facilities;

WHEREAS, in furtherance of the public purpose for which the Authority was created, the Authority proposes to issue its (a) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project), (b) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), (c) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), (d) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), (e) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project) and (f) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project) (collectively, the “*Bonds*”), pursuant to this Indenture, and to lend the proceeds of the sale of the Bonds to the Corporation pursuant to the Loan Agreement (as hereinafter defined), in order to finance the Project (as hereinafter defined);

WHEREAS, the Authority has duly entered into a loan agreement, dated as of June 1, 2014 (the “*Loan Agreement*”), with the Corporation specifying the terms and conditions of a loan by the Authority to the Corporation of the proceeds of the Bonds to finance and refinance the

Facilities and the payment to the Authority of amounts sufficient for the payment of the principal (or Redemption Price) of and interest on the Bonds and of certain related expenses;

WHEREAS, the Bonds are insured by the Office of Statewide Health Planning and Development of the State of California (the “*Office*”) pursuant to the California Health Facility Construction Loan Insurance Law;

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof, Redemption Price and interest thereon, the Authority has authorized the execution and delivery of this Indenture;

WHEREAS, the Bonds, the Trustee’s certificate of authentication and the assignment to appear thereon, shall be in substantially the form attached hereto as *Exhibit A*, respectively, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture; and

WHEREAS, the Authority has determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid and binding limited obligations of the Authority, and to constitute this Indenture a legal, valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of, Redemption Price and interest on all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the owners thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the respective owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context clearly otherwise requires, all capitalized terms used herein shall have the meanings assigned to such terms in this Section 1.01, in that certain regulatory agreement, dated as of June 1, 2014 (the “*Regulatory Agreement*”), among the Authority, the Office and the Corporation or in the Act.

“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 Payments” means payments so designated and required to be made by the Corporation pursuant to Section 4.2 of the Loan Agreement.

“Authority” means the Los Angeles County Regional Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State, or its successors and assigns.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Authorized Representative” means, (a) with respect to the Corporation, its [**Chief Executive Officer, Chief Operating Officer, Board President, Board Vice President, Board Treasurer or Board Secretary**], or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation signed by its President, and filed with the Trustee; and (b) with respect to the Office, the Director of the Office or the Deputy Director of the Cal Mortgage Loan Insurance Division or any other person designated as an Authorized Representative of the Office by a Statement of the Office signed by its Director or the Deputy Director of the Cal Mortgage Loan Insurance Division and filed with the Trustee.

“Authorized Officer of the Authority” means the Chair or Secretary of the Authority and any other person as may be designated and authorized to sign on behalf of the Authority pursuant to a resolution adopted thereby.

“Bank Loan” means that certain Loan Agreement dated March 14, 2014 between the Corporation and Bank of America, N.A.

“Board of Directors” means, with respect to the Corporation, the Board of Directors of the Corporation.

“Bond Year” means the period of twelve consecutive months ending on November 14 in any year in which Bonds are Outstanding.

“Bonds” means, collectively, the Series 2014A Bonds, the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B -5 Bonds.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Authority, the Office or the Corporation mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by an Authorized Officer of the Authority, or in the name of the Corporation or the Office by an Authorized Representative of the Corporation or the Office, respectively, and delivered to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and

construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

“*Closing Date*” means June __, 2014, the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Original Purchaser.

“*Code*” means the Internal Revenue Code of 1986 and the regulations issued thereunder or any successor thereto. Reference to any particular Code section shall, in the event of such successor Code, be deemed to be reference to the successor to such Code section.

“*Continuing Disclosure Certificate*” means that certain Continuing Disclosure Certificate, dated the date of issuance and delivery of the Bonds, of the Corporation, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“*Corporation*” means MonteCedro Inc., a California nonprofit public benefit corporation, and its successors and assigns.

“*Costs of Issuance*” means all items of expense directly or indirectly payable by or reimbursable to the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to the upfront premium and certification and inspection fees payable to the Office on the Closing Date, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee and the Authority (including legal fees and charges of their respective counsel), legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

“*Costs of Issuance Fund*” means the fund by that name established pursuant to Section 3.03.

“*County*” means the County of Los Angeles, California.

“*Debt Service Reserve Account*” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

[“*Debt Service Reserve Account Requirement*” means (a) with respect to the Series 2014A subaccount of the Debt Service Reserve Account, an amount equal to the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on the Series 2014A Bonds then outstanding, (ii) an amount equal to 10% of the original principal amount or the issue price of the Series 2014A Bonds (as determined under the Code), or (iii) an amount equal to 125% of the average annual debt service with respect to the Series 2014A Bonds (calculated as of the date of the issuance of the Bonds); (b) with respect to the Series 2014B-1 subaccount of the Debt Service Reserve Account, \$_____ ; (c) with respect to the Series 2014B-2 subaccount of the Debt Service Reserve Account, \$_____ ; (d) with respect to the Series 2014B-3 subaccount of the Debt Service

Reserve Account, \$_____ ; (e) with respect to the Series 2014B-4 subaccount of the Debt Service Reserve Account, \$_____ ; and (f) with respect to the Series 2014B-5 subaccount of the Debt Service Reserve Account, \$_____ .]

[“*Defeasance Obligations*” means (a) cash, (b) direct non-callable obligations of the United States of America, (c) securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, (d) Refcorp interest strips, (e) CATS, TIGRS, STRPS, and (f) defeased municipal bonds rated AAA by S&P or Aaa by Moody’s (or any combination of the foregoing).]

“*Deposit Account Control Agreement*” means the deposit account control agreement described in Section 4.3 of the Loan Agreement.

“*Depository*” means The Depository Trust Company and its successors and assigns, or any other Securities Depository selected as set forth in Section 2.09, which agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

“*Dissemination Agent*” means the dissemination agent identified in the Continuing Disclosure Certificate.

“*Entrance Fee Fund*” means the fund created under Section 3.06 hereof.

“*Entrance Fees*” means fees, other than security deposits, monthly rentals or monthly service charges, paid to the Corporation by residents of residential living apartments for the purpose of obtaining the right to reside in those apartments including any refundable or nonrefundable resident deposits described in any lease or similar residency agreements with respect to those residential living apartments, but shall not include any such amounts held in escrow or otherwise set aside pursuant to the requirements of any such agreement prior to the occupancy of the apartment covered by such residency agreement (which amounts shall be included if and when occupancy occurs).

“*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 or chemical waste, materials or substances.

“*Event of Default*” means any of the events specified in Section 7.01.

“*501(c)(3) Organization*” means an organization described in Section 501(c)(3) of the Code.

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

“*Gross Revenue Fund*” means the fund by that name established pursuant to the Loan Agreement.

“*Gross Revenues*” means all revenues, income, receipts and money received in any period by the Corporation, including, but without limiting the generality of the foregoing, the following: (a) gross revenues derived from its operation and possession of and pertaining to its properties; (b) proceeds with respect to, arising from, or relating to its properties and derived from (i) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt), (ii) accounts, including but not limited to, accounts receivable, (iii) securities and other investments, (iv) inventory and intangible property, (v) payment/reimbursement programs and agreements, and (vi) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation; and (c) rentals received from the lease of the Corporation’s properties or space in its facilities, *provided, however*, that there shall be excluded from Gross Revenues (i) any amounts received by the Corporation as a billing agent for another entity, except for fees received for serving as billing agent, (ii) gifts, grants, bequests, donations and contributions to the Corporation heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (iii) any moneys received by the Corporation from prospective residents or commercial tenants in order to pay for customized improvements to those independent living units or other areas of the Corporation’s facilities to be occupied or leased to such residents or tenants, (iv) payments or deposits under a residency agreement that by its terms or applicable law are required to be held in escrow or trust for the benefit of a resident until the conditions for the release of such payment or deposit have been satisfied, and (v) all deposits and/or advance payments made in connection with any residency of the independent living units or other areas of the Corporation’s facilities to be occupied by residents or tenants and received prior to receipt of such certificate and licenses for occupancy of such units.

“*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 Corporation’s facilities or to persons on or about the Corporation’s facilities or (ii) cause the Corporation’s facilities to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“*CERCLA*”), 42 USC §§ 9601 *et seq.*; the Resource Conservation and Recovery Act (“*RCRA*”), 42 USC §§ 6901 *et seq.*; the Hazardous Materials Transportation Act, 49 USC §§ 1801 *et seq.*; the Federal Water Pollution Control Act, 33 USC §§ 1251 *et seq.*; the California Hazardous Waste Control Law (“*HWCL*”), Cal. Health & Safety §§ 25100 *et seq.*; the Hazardous Substance Account Act (“*HSAA*”), Cal. Health & Safety Code §§ 25300 *et seq.*; the

Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 *et seq.*; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 *et seq.*, the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Corporation’s facilities or the owners and/or occupants of property adjacent to or surrounding the Corporation’s facilities, or any other person coming upon the Corporation’s facilities or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“*Information Services*” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>) or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other national information services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“*Initial Entrance Fees*” means Entrance Fees received upon the initial occupancy of any Independent Living Units (including any such fees collected for the purpose of obtaining a parking space) not previously occupied.

“*Insurance and Condemnation Proceeds Fund*” means the fund by that name established pursuant to Section 3.05.

“*Interest Account*” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

“*Interest Payment Date*” means May 15 and November 15 of each year, commencing November __, 2014.

“*Investment Securities*” means any of the following:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (a) such as CATS, TIGRs, Treasury Receipts and Stripped Treasury Coupons;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself)

(i) U.S. Export-Import Bank;

- (ii) Farmers Home Administration;
- (iii) Federal Financing Bank;
- (iv) Federal Housing Administration;
- (v) General Services Administration;
- (vi) Government National Mortgage Association (“GNMA”) (including guaranteed mortgage-backed bonds and guaranteed pass-through obligations);
- (vii) Rural Economic Community Development Administration;
- (viii) Small Business Administration;
- (ix) U.S. Maritime Administration (guaranteed Title XI financing); and
- (x) U.S. Department of Housing and Urban Development (including project notes, local authority bonds, new communities debentures, U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds and U.S. government guaranteed public housing notes and bonds);

(c) Debentures, bonds, notes or other evidence of indebtedness issued or guaranteed by any of the following U.S. government agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself):

- (i) Federal Home Loan Bank System (senior debt obligations);
- (ii) Resolution Funding Corporation (REFCORP) obligations;
- (iii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) senior debt obligations or participation certificates;
- (iv) Federal National Mortgage Association (FNMA or “Fannie Mae”) mortgage-backed securities and senior debt obligations;
- (v) Senior debt obligations of other government sponsored agencies approved by the Office.

(d) Investments in money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G, AAAM or better (including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the

Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee);

(e) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the “*Escrow*”), in the highest rating category of Moody’s or S&P or any successors thereto; or

(ii) (A) which are fully secured as to principal, interest and redemption premium, if any, by an Escrow consisting only of cash or obligations described in paragraph (a) above, which Escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which Escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(f) Repurchase agreements fully secured by collateral security described in clauses (a) (b), (c), or (h) of this definition, which collateral (i) is held by the Trustee or a third party agent during the term of such repurchase agreement, (ii) is not, pursuant to the terms of such agreement, subject to liens or claims of third parties and (iii) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;

(g) Banker’s acceptances or certificates of deposit of, or time deposits in, any bank (including the Trustee or any of its affiliates) or savings and loan association (i) which certificates of deposit or time deposits are fully insured by the Federal Deposit Insurance Corporation or (ii) which certificates of deposit or time deposits are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (a), (b), (c), or (h) of this definition) with a market value (valued at least quarterly) of no less than the original amount of moneys so invested;

(h) Municipal obligations rated “Aaa/AAA” on the basis of insurance or credit enhancement, provided the underlying rating of the municipal obligation must be at least “Baa/BBB,” uninsured or unenhanced municipal obligations rated at least Aa2/AA or general obligations of states with a rating of “A2/A” by Moody’s or S&P;

(i) U.S. dollar denominated deposit accounts, federal funds or bankers acceptances with domestic commercial banks which may include the Trustee and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P (for purposes of rating, ratings on holding companies are not considered as the rating of the bank) and maturing not more than 360 calendar days after the date of purchase;

(j) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;

(k) direct obligations of the State (including obligations issued or held in book-entry form on the books of the Office of the Treasurer of the State) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the State; and

(l) Other forms of investments approved in writing by the Office.

“*Joint Powers Agreement*” means the Joint Exercise of Powers Agreement, dated as of December 1, 2010, relating to the formation of the Authority, between the County and the County of Los Angeles Public Works Financing Authority.

“*Loan Agreement*” means the Loan Agreement dated as of June 1, 2014 between the Authority and the Corporation pursuant to which the proceeds of the Bonds are loaned to the Corporation.

“*Loan Default Event*” means any of the events specified in Section 8.1 of the Loan Agreement.

“*Loan Repayments*” means the payments so designated and required to be made by the Corporation pursuant to Section 4.1 of the Loan Agreement.

“*Mandatory Sinking Account Payment*” means, with respect to Term Bonds of any maturity, the amount required by this Indenture to be paid on any single date for the retirement of Term Bonds of such maturity.

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

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation

shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

“*Opinion of Counsel*” means a written opinion of counsel delivered to the Trustee. If and to the extent required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

“*Optional Redemption Account*” means the account by that name in the Redemption Fund established pursuant to Section 5.05 hereof.

“*Original Purchaser*” means Merrill Lynch, Pierce, Fenner & Smith Incorporated and B.C. Ziegler & Company, the original purchasers of the Bonds.

“*Outstanding*,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.10; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

“*Owner*” or “*Bondowner*,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

“*Parity Debt*” means Long-Term Indebtedness which is incurred by the Corporation in accordance with the provisions of the Regulatory Agreement and secured equally and ratably with the obligations of the Corporation under the Loan Agreement by a lien on and security interest in the Gross Revenues and the Deed of Trust.

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

“*Principal Account*” means the account by that name in the Revenue Fund established pursuant to Section 5.02 hereof.

“*Principal Corporate Trust Office*” means the office of the Trustee at _____ Attention: Corporate Trust Department, or such other or additional offices as may be specified to the Authority by the Trustee except that, with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which at any particular time, its corporate trust agency shall be conducted, or such other office designated by the Trustee from time to time, or at such other or additional offices as may be specified by the Trustee in writing to the Authority.

“*Project*” means the financing of the construction and equipping of the Corporation’s senior living facility located in Altadena, California.

“*Project Fund*” means the fund by that name established pursuant to Section 3.04.

“*Rating Category*” means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“*Rebate Fund*” means the Rebate Fund established in Section 5.07.

“*Record Date*” means the May 1 or November 1 next preceding an Interest Payment Date for the Bonds, whether or not such day is a Business Day.

“*Redemption Fund*” means the fund by that name established pursuant to Section 5.05.

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

“*Regulatory Agreement*” means that certain Regulatory Agreement, dated as of June 1, 2014, among the Authority, the Office and the Corporation, as originally executed and as amended from time to time in accordance with its terms.

“*Revenue Fund*” means the fund by that name established pursuant to Section 5.01 hereof.

“*Revenues*” means all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture, but not including (1) any Additional Payments or (2) any amounts paid to the Authority or the Trustee pursuant to rights of indemnification.

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

“*Securities Depositories*” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“*Serial Bonds*” means the Bonds falling due by their terms in specified years for which no Mandatory Sinking Account Payments are provided. The Serial Bonds include the _____ maturities of the Series 2014A Bonds and each of Series 2014B Bonds.

“*Series 2014A Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project), authorized to be issued under this Indenture.

“*Series 2014B-1 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under this Indenture.

“*Series 2014B-2 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under this Indenture.

“*Series 2014B-3 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under this Indenture.

“*Series 2014B-4 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under this Indenture.

“*Series 2014B-5 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under this Indenture.

“*Sinking Accounts*” means the subaccounts in the Principal Account so designated and established pursuant to Section 5.02.

“*Special Record Date*” means the date established by the Trustee pursuant to Section 2.02 as a record date for the payment of defaulted interest on Bonds.

“*Special Redemption Account*” means the account by that name in the Redemption Fund established pursuant to Section 5.02 hereof.

“*State*” means the State of California.

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

“*Tax Agreement*” means the Tax Exemption Agreement executed and delivered by the Trustee, the Authority and the Corporation, as originally executed and as the same may be amended and supplemented from time to time in accordance with the terms thereof.

“*Term Bonds*” means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“*Trustee*” means U.S. Bank National Association, in its capacity as trustee, and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in this Indenture.

“*Working Capital Fund*” means the fund created under Section 3.07 hereof.

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in this Indenture with respect to compliance with any provision hereof shall include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such Person, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether or not, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the Authority may be based, insofar as it relates to legal, accounting or facility matters, upon a certificate or opinion of or representation by counsel, an Accountant or a Management Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an Accountant or a Management Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority) upon a certificate or opinion of or representation by an officer of the Authority, unless such counsel, Accountant or Management Consultant knows, or in the exercise of reasonable care should have known, that

the certificate or opinion or representation with respect to the matters upon which such Person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority, or the same counsel or Accountant or Management Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Indenture, but different officers, counsel, Accountants or Management Consultants may certify to different matters, respectively.

Section 1.03. Interpretation. (a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE BONDS

Section 2.01. Authorization of Bonds. The Bonds are hereby authorized to be issued hereunder in order to finance the Project. The Bonds are designated as (a) "Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project)"; (b) "Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project)"; (c) "Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project)"; (d) "Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project)"; (e) "Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project)"; and (f) "Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project)." The aggregate principal amount of Bonds which may be Outstanding under this Indenture may not exceed _____ dollars (\$_____). This Indenture constitutes a continuing agreement with the Owners from time to time of the Bonds to secure the full payment of the principal (or Redemption Price) of and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

Section 2.02. Terms of the Bonds. The Bonds shall be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The Bonds shall be dated as of the Closing Date, and interest thereon shall be payable from such date, semiannually on each Interest Payment Date.

The Series 2014A Bonds shall mature on the following dates in the following amounts and shall bear interest at the following rates per annum based on twelve thirty-day months:

MATURITY ([NOVEMBER 15])	PRINCIPAL AMOUNT	INTEREST RATE
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The Series 2014B-1 Bonds shall mature on the following dates in the following amounts and shall bear interest at the following rates per annum based on twelve thirty-day months:

MATURITY ([NOVEMBER 15])	PRINCIPAL AMOUNT	INTEREST RATE
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The Series 2014B-2 Bonds shall mature on the following dates in the following amounts and shall bear interest at the following rates per annum based on twelve thirty-day months:

MATURITY ([NOVEMBER 15])	PRINCIPAL AMOUNT	INTEREST RATE
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The Series 2014B-3 Bonds shall mature on the following dates in the following amounts and shall bear interest at the following rates per annum based on twelve thirty-day months:

MATURITY ([NOVEMBER 15])	PRINCIPAL AMOUNT	INTEREST RATE
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The Series 2014B-4 Bonds shall mature on the following dates in the following amounts and shall bear interest at the following rates per annum based on twelve thirty-day months:

MATURITY ([NOVEMBER 15])	PRINCIPAL AMOUNT	INTEREST RATE
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The Series 2014B-5 Bonds shall mature on the following dates in the following amounts and shall bear interest at the following rates per annum based on twelve thirty-day months:

MATURITY ([NOVEMBER 15])	PRINCIPAL AMOUNT	INTEREST RATE
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The Bonds of each series shall be registered initially in the name of “Cede & Co.,” as nominee of the Depository, and shall be evidenced by one bond for each maturity of the Bonds in the principal amount of the respective maturities of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09 hereof.

The principal or Redemption Price of the Bonds shall be payable in lawful money of the United States of America by check upon surrender or presentation thereof at the Principal Corporate Trust Office. Payment of the interest on any Bond shall be made to the person whose name appears on the bond registration books of the Trustee as the registered owner thereof as of

the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail on each Interest Payment Date to the registered owner at his address as it appears on such registration books; *provided, however*, that at the written request of Owners of Bonds in the aggregate principal amount of \$1,000,000 or more received by the Trustee prior to the Record Date, interest shall be paid by wire transfer to an account within the United States.

The Bonds of each series shall be numbered consecutively, beginning with number R-1, and the Bonds shall bear interest from the Closing Date.

Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Owner on such Record Date and shall be paid to the Person in whose name the Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof being given to Owners by first class mail not less than ten (10) days prior to such Special Record Date.

The Bonds shall be subject to redemption as provided in Article IV.

Section 2.03. Execution of Bonds; Non-Liability of Authority. The Bonds shall be executed in the name and on behalf of the Authority by the manual or facsimile signature of an Authorized Officer of the Authority and attested by the manual or facsimile signature of a second Authorized Officer of the Authority. The Bonds shall then be delivered to the Trustee for authentication by it. In case any officer of the Authority who shall have signed or attested any of the Bonds shall cease to be such officer before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Bond shall be the proper officers of the Authority although at the nominal date of such Bond any such person shall not have been such officer of the Authority.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form hereinbefore recited, manually executed by the Trustee shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

The Bonds shall be limited obligations of the Authority. The Bonds and the interest thereon, and redemption premium, if any, shall not be deemed to constitute or create an indebtedness, liability or obligation of the Authority (except to the extent that the moneys pledged herein are sufficient therefor), the County or any political subdivision or agency thereof within the meaning of any State constitutional provision or statutory limitation or a pledge of the faith and credit or the taxing power of the County or any such political subdivision or agency, including the Authority. The Authority has no taxing power. The Bonds and the interest

thereon are payable solely from and secured by the revenues and other moneys and assets received by the Trustee pursuant to the Loan Agreement.

THE ISSUANCE OF THE BONDS WILL NOT CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY OR THE COUNTY, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY POLITICAL SUBDIVISION THEREOF WILL BE PLEDGED TO THE PAYMENT OF THE BONDS. NEITHER THE AUTHORITY, THE COUNTY, NOR ANY POLITICAL SUBDIVISION THEREOF SHALL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON ANY OF THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT RELATED THERETO EXCEPT TO THE EXTENT THAT THE MONEYS PLEDGED HEREIN ARE SUFFICIENT THEREFOR. NO OWNER OF ANY BONDS HAS THE RIGHT TO COMPEL ANY EXERCISE OF TAXING POWER OF THE COUNTY OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE BONDS OR THE INTEREST HEREON, AND THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE AUTHORITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISIONS THEREOF, OR A LOAN OF CREDIT OF ANY OF THE FOREGOING WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE AUTHORITY HAS NO TAXING POWER.

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

Section 2.04. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and make available for delivery a new Bond or Bonds of authorized denomination or denominations, of the same series, maturity, interest rate and aggregate principal amount. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost

of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the Corporation.

No Bond may be transferred (i) following its selection for redemption pursuant to Article IV, (ii) within the 15-day period preceding the date of selection of Bonds for redemption, or (iii) during the period between a Record Date and the next succeeding Interest Payment Date.

Section 2.05. Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office, for a like aggregate principal amount of Bonds of other authorized denominations of the same series, maturity and interest rate. The Trustee shall require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the Corporation.

No Bond may be exchanged (i) following its selection for redemption pursuant to Article IV or (ii) within the 15-day period preceding the date of selection of Bonds for redemption.

Section 2.06. Bond Register. The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, sufficient books for the registration and transfer of the Bonds, which shall at all times upon reasonable prior notice be open to inspection by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

Section 2.07. Reserved.

Section 2.08. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Authority. If any Bond shall be alleged to be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to it shall be given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. If any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of the aforementioned indemnity. The Trustee may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under this Section 2.08 and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section 2.08 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be determined at any

time to be enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 2.09. Use of Depository. Notwithstanding any provision of the Indenture to the contrary:

(a) The Bonds shall be initially issued in book-entry form as provided in Section 2.02. The Bonds will be initially registered in the name of Cede & Co., as nominee of the Depository. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of the Depository or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a) (a “*substitute depository*”); *provided* that any successor of the Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) To any substitute depository designated by the Authority (at the direction of the Corporation) and not objected to by the Trustee, upon (1) the resignation of the Depository or its successor (or any substitute depository or its successor) from its functions as depository or (2) a determination by the Authority (with the concurrence of the Corporation) that the Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; *provided* that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of the Depository or its successor (or any substitute depository or its successor) from its functions as depository; *provided* that no substitute depository which is not objected to by the Trustee can be obtained or (2) a determination by the Authority that it is in the best interests of the Authority to remove the Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Authority to the Trustee, a single new Bond for each maturity of Bonds then outstanding shall be authenticated and delivered in the aggregate principal amount of the Bonds of each such respective maturity then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Authority. In the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, new Bonds shall be authenticated and delivered in such denominations numbered in consecutive order and registered in the names of such persons as are requested in such a Certificate of the Authority, subject to the limitations of Section 2.02

hereof, provided the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the Authority.

(c) In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal.

(d) The Authority, the Corporation and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and neither the Authority, the Corporation nor the Trustee shall have any responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including the Depository or its successor (or any substitute depository or its successor), except for the Owner of any Bond.

(e) So long as the outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the Authority and the Trustee shall cooperate with Cede & Co., as sole registered Owner, and its registered assigns in effecting payment of the principal of, Redemption Price and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Section 2.10. CUSIP Numbers. Neither the Trustee nor the Authority shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Owners and that neither the Trustee nor the Authority shall be liable for any inaccuracies in such numbers.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the Bonds. At any time after the execution of this Indenture, the Authority may execute and the Trustee shall, upon Request of the Authority, authenticate and deliver Bonds in the aggregate principal amount of _____ dollars (\$_____).

Section 3.02. Application of Proceeds of the Bonds and Other Moneys. (a) The proceeds received from the sale of the Bonds in the amount of \$_____ (consisting of the par amount

of the Bonds of \$_____, plus original issue premium of \$_____ less an underwriter's discount of \$_____ and less the amount of \$_____ payable to the Office representing payment of the Insurance Premium and other fees of the Office due upon issuance of the Bonds, which amount, for ease of administration and at the request of the Corporation, will be wired directly to the Office by the underwriter), shall be deposited in trust with the Trustee, who shall forthwith deposit or apply such amount as follows:

(i) The Trustee shall deposit in the Costs of Issuance Fund the sum of \$_____;

(ii) **[The Trustee shall deposit in the Series 2014A subaccount of the Interest Account the sum of \$_____, which represents capitalized interest on the Series 2014A Bonds from the Closing Date to _____, ____;]**

(iii) [The Trustee shall deposit in the Series 2014A subaccount of the Debt Service Reserve Account the sum of \$_____, which is equal to the Debt Service Reserve Account Requirement for the Series 2014A Bonds;]

(iv) [The Trustee shall deposit in the Series 2014B-1 subaccount of the Debt Service Reserve Account the sum of \$_____, which is equal to the Debt Service Reserve Account Requirement for the Series 2014B-1 Bonds;]

(v) [The Trustee shall deposit in the Series 2014B-2 subaccount of the Debt Service Reserve Account the sum of \$_____, which is equal to the Debt Service Reserve Account Requirement for the Series 2014B-2 Bonds;]

(vi) [The Trustee shall deposit in the Series 2014B-3 subaccount of the Debt Service Reserve Account the sum of \$_____, which is equal to the Debt Service Reserve Account Requirement for the Series 2014B-3 Bonds;]

(vii) [The Trustee shall deposit in the Series 2014B-4 subaccount of the Debt Service Reserve Account the sum of \$_____, which is equal to the Debt Service Reserve Account Requirement for the Series 2014B-4 Bonds;]

(viii) [The Trustee shall deposit in the Series 2014B-5 subaccount of the Debt Service Reserve Account the sum of \$_____, which is equal to the Debt Service Reserve Account Requirement for the Series 2014B-5 Bonds;]

(ix) The Trustee shall deposit in the Project Fund the sum of \$_____;
and

(x) The Trustee shall transfer \$_____ to _____ to prepay the Bank Loan.

[(b) On or prior to the Closing Date, the Trustee shall receive from the Corporation the amount of \$_____ and shall deposit such amount as follows:

(i) The Trustee shall deposit in the Costs of Issuance Fund the sum of \$_____; and

(ii) The Trustee shall deposit in the Project Fund the sum of \$_____.]

(c) The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such deposits and transfers.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon receipt by the Trustee of (i) a Requisition of the Corporation stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund and including payment instructions for the Person to whom payment is to be made and (ii) an executed form OSH-CM-134 (or such other form as may be adopted by the Office for such purpose) of the Office stating that such disbursements are authorized and the amounts so authorized. Each such Requisition of the Corporation shall be sufficient evidence to the Trustee of the facts stated therein, and the Trustee shall have no duty to confirm the accuracy of such facts. On the one hundred eightieth (180th) day following the initial issuance of the Bonds, or upon receipt by the Trustee of a Certificate of the Corporation stating that all Costs of Issuance have been paid, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund or the Revenue Fund and the Costs of Issuance Fund shall be closed.

Section 3.04. Establishment and Application of Project Fund. (a) The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Project Fund.” The moneys in the Project Fund shall be used and withdrawn by the Trustee, as directed by Requisitions of the Corporation, to pay the costs of the Project.

(b) Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Trustee:

(i) a Requisition of the Corporation stating (A) the item number of such payment; (B) the name of the Person to whom each such payment is due, which may be the Corporation in the case of reimbursement for costs of the Project theretofore paid by the Corporation; (C) the respective amounts to be paid; (D) the purpose by general classification for which each obligation to be paid was incurred; (E) that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid therefrom; (F) that there has not been filed with or served upon the Corporation notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen’s or mechanics’ liens accruing by mere operation of law; and (G) that the balance remaining in the Project Fund after

payment of such amounts, together with any investment income reasonably anticipated to be deposited in the Project Fund pursuant to this Indenture and any other funds reasonably anticipated to be available therefor, will be sufficient to pay the costs of completing the Project;

(ii) an executed form OSH-CM-134 (or such other form(s) as may be adopted by the Office for such purpose) of the Office stating that such disbursements are authorized and the amounts so authorized; and

(iii) unless amounts previously deposited in the Project Fund by the Corporation are available for such purpose, a check or checks payable to the Trustee for the portion of each such payment to be paid by the Corporation, as specified in said form OSH-CM-134 (or other form(s) adopted by the Office for such purpose).

Upon receipt of each such document, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Trustee may conclusively rely on the representations of the Corporation in any Requisitions delivered by the Corporation pursuant to this Section 3.04. The Trustee shall not make any such payment if, prior to making such payment, it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

(c) When the Project shall have been completed, the following shall be delivered to the Trustee and the Office by the Corporation:

(i) a Statement of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved and the Corporation has provided a Requisition for payment of such remaining amounts);

(ii) for portions of the Project involving installation or construction, an architect's certificate stating the fact and date of such completion;

(iii) an endorsed copy of the recorded notice of completion relating to the Project;

(iv) a final audit of the Project in form acceptable and approved by the Office; and

(v) an authorization to close the Project Fund shall be issued by the Office.

Subject to Section 6.07, the Corporation shall direct the Trustee by said Statement of the Corporation to transfer (upon the receipt of items (i) through (v) of this Section 3.04(c)) any

remaining balance in the Project Fund, less the amount of any such retention, to the Revenue Fund and the Project Fund shall be closed.

Section 3.05. Establishment and Application of Insurance and Condemnation Proceeds Fund. The Trustee shall establish, maintain and hold in trust when deposits thereto are required a separate fund designated as the “Insurance and Condemnation Proceeds Fund,” and administer said fund as set forth in Section XIX of the Regulatory Agreement.

Section 3.06. Entrance Fee Fund. The Trustee shall establish and maintain a separate fund to be known as the “Entrance Fee Fund.” All moneys received by the Trustee and held in the Entrance Fee Fund pursuant to this Section shall be trust funds under the terms of this Indenture for the benefit of all of the Bonds outstanding hereunder (except as otherwise provided) and shall not be subject to lien or attachment of any creditor of the Corporation. Such moneys shall be held in trust and applied in accordance with the provisions of this Indenture, but are not Bond proceeds (within the meaning of the Code), and are not, except as specifically described in this Section, pledged to payment of principal and interest on the Bonds.

The Corporation has agreed in the Loan Agreement that all Initial Entrance Fees received by the Corporation shall be transferred to the Trustee within five Business Days of the receipt thereof for deposit into the Entrance Fee Fund. Moneys in the Entrance Fee Fund on the first Business Day of each month shall be disbursed by the Trustee as follows:

FIRST: To the Corporation to pay refunds of Entrance Fees as required by residency agreements with respect to the residential living apartments in the Project. Such disbursements shall be made upon receipt by the Trustee of a written certificate of an Authorized Representative of the Corporation certifying that the Corporation is required by a residency agreement to pay refunds within the next 15 days, and the amount of such refunds;

SECOND: To the Working Capital Fund established by Section 3.7 hereof, until the total principal amount deposited into the Working Capital Fund equals \$_____. The Trustee shall not replenish funds withdrawn from the Working Capital Fund;

THIRD: If the amount remaining in the Entrance Fee Fund is equal to \$100,000 or more, into the Redemption Fund for optional redemption of Series 2014B-5 Bonds. If the amount remaining in the Entrance Fee Fund is less than \$100,000, the Trustee shall retain such amounts in the Entrance Fee Fund until the next month;

FOURTH: After all the Series 2014B-5 Bonds have been redeemed, and if the amount remaining in the Entrance Fee Fund is equal to \$100,000 or more, into the Redemption Fund for optional redemption of Series 2014B-4 Bonds;

FIFTH: After all the Series 2014B-4 Bonds have been redeemed, and if the amount remaining in the Entrance Fee Fund is equal to \$100,000 or more, into the Redemption Fund for optional redemption of Series 2014B-3 Bonds;

SIXTH: After all the Series 2014B-3 Bonds have been redeemed, and if the amount remaining in the Entrance Fee Fund is equal to \$100,000 or more, into the Redemption Fund for optional redemption of Series 2014B-2 Bonds; and

SEVENTH: After all the Series 2014B-2 Bonds have been redeemed, and if the amount remaining in the Entrance Fee Fund is equal to \$100,000 or more, into the Redemption Fund for optional redemption of Series 2014B-1 Bonds.

After the Series 2014B-5 Bonds, the Series 2014B-4 Bonds, the Series 2014B-3 Bonds, the Series 2014B-2 Bonds and the Series 2014B-1 Bonds have been redeemed, the Corporation need not deposit any Entrance Fees into the Entrance Fee Fund. Upon the satisfaction of such conditions, any amounts on deposit in the Entrance Fee Fund shall be remitted to the Corporation and the Entrance Fee Fund shall be closed.

Section 3.07. Working Capital Fund. The Trustee shall establish and maintain a separate account to be known as the “Working Capital Fund.” All moneys received by the Trustee and held in the Working Capital Fund shall be trust funds under the terms of this Indenture for the benefit of all of the Bonds outstanding hereunder (except as otherwise provided) and shall not be subject to lien or attachment of any creditor of the Corporation. Such moneys shall be held in trust and applied in accordance with the provisions of this Indenture.

Moneys in the Working Capital Fund shall be (i) disbursed by the Trustee to or for the account of the Corporation within seven days after receipt by the Trustee of a written Request to the Trustee certifying that the withdrawal is made to pay (A) operating expenses of the Corporation, (B) the costs of needed repairs to the Corporation’s Facilities, (C) routine capital expenditures of the Corporation, (D) judgments against the Corporation, (E) refunds of any Entrance Fees as required by residency agreements with respect to residential living apartments in the Project, (F) amounts required to restore funds on deposit in the subaccounts of the Debt Service Reserve Account to the required levels, or (G) amounts due under the Loan Agreement (other than optional prepayment or redemption of the Bonds), other than funds advanced by an Affiliate of the Corporation, (ii) such moneys have been expended or are anticipated to be expended in the calendar month following the month in which such Request is submitted, together with a budget describing the uses for which such moneys are needed and the amount needed for each such use, and (iii) no other funds are available or will reasonably be available to make such payments.

All amounts on deposit in the Working Capital Fund shall be released to the Corporation, and the Working Capital Fund shall be closed when all the Series 2014B-5 Bonds, the Series 2014B-4 Bonds, the Series 2014B-3 Bonds, the Series 2014B-2 Bonds and the Series 2014B-1 Bonds have been redeemed, if no Event of Default has occurred and is continuing under the Loan Agreement or this Indenture.

Section 3.08. Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Loan Agreement. The recital contained in the Bonds that the same are issued pursuant to the Act and the Constitution and laws

of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Terms of Redemption. (a) The Bonds are subject to redemption prior to their respective stated maturities at the direction and option of the Corporation in whole or in part on any date (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) upon at least forty-five (45) days prior written notice to the Trustee from the Corporation, or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from certain moneys derived from insurance or condemnation proceeds received with respect to the facilities of the Corporation required to be deposited in the Special Redemption Account pursuant to Section XIX of the Regulatory Agreement at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

(b) Except as provided in paragraph (a) above, the Series 2014A Bonds maturing on or before **[November 15]**, 20__, are not subject to optional redemption prior to maturity. The Series 2014A Bonds maturing on or after **[November 15]**, 20__, are subject to optional redemption prior to their stated maturity, on or after **[November 15]**, 20__, at the direction and option of the Corporation, in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

(c) The Series 2014B-1 Bonds are subject to optional redemption prior to their stated maturity, on or after **[November 15]**, 20__, at the direction and option of the Corporation, in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

(d) The Series 2014B-2 Bonds are subject to optional redemption prior to their stated maturity, on or after **[November 15]**, 20__, at the direction and option of the Corporation, in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on

any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

(e) The Series 2014B-3 Bonds are subject to optional redemption prior to their stated maturity, on or after **[November 15]**, 20__, at the direction and option of the Corporation, in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

(f) The Series 2014B-4 Bonds are subject to optional redemption prior to their stated maturity, on or after **[November 15]**, 20__, at the direction and option of the Corporation, in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

(g) The Series 2014B-5 Bonds are subject to optional redemption prior to their stated maturity, on or after **[November 15]**, 20__, at the direction and option of the Corporation, in whole or in part by lot (in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity) on any date, upon at least forty-five (45) days prior written notice to the Trustee from the Corporation or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee, such notice for the convenience of the Trustee, from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

(h) The Series 2014A Bonds maturing on **[November 15]**, 20__ are also subject to redemption prior to their stated maturity in part by lot from Mandatory Sinking Account Payments established in Section 5.04(c) on any **[November 15]** on or after **[November 15]**, 20__ at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

(i) The Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B-5 Bonds are not subject to mandatory sinking account redemption.

Section 4.02. Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot, but from the maturities selected by the Corporation in accordance with Section 4.01; *provided, however,* that no redemption of less than all of the Bonds at the time outstanding will be made unless the aggregate principal amount of the Bonds to be redeemed is equal to an Authorized Denomination of \$5,000 or more, and the aggregate principal amount of the Bonds outstanding after the redemption is an Authorized Denomination. The Trustee shall promptly notify the Authority and the Corporation in writing of the Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. Notice of redemption shall be mailed by first class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to (i) the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, and (ii) the Authority and one or more Information Services. Notice of redemption shall also be given by telecopy, certified, registered, electronic or overnight mail to the Securities Depositories. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, the date of issue of the Bonds, the CUSIP number (if any) of the maturity or maturities and, if less than all of any such maturity, the distinctive numbers (or inclusive ranges of distinctive numbers) of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a fully registered Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

Notwithstanding the foregoing, in the case of any optional redemption of the Bonds pursuant to Section 4.01(b) through Section 4.01(g) hereof, the notice of redemption shall state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Bonds on the anticipated redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Bonds have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the Bonds to be optionally redeemed, such event shall not constitute an Event of Default, the Trustee shall send written notice to the Owners, to the Securities Depositories and to one or more of the Information Services to the effect that the redemption did not occur as anticipated, and the Bonds for which notice of optional redemption was given shall remain Outstanding for all purposes of this Indenture.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Corporation.

Failure of the Trustee to give notice to an Owner or any defect in such notice shall not affect the validity of the redemption of any other Bonds. Failure of the Trustee to give notice pursuant to this Section 4.03 to any one or more of the Information Services or Securities Depositories, or the insufficiency of such notices, shall not affect the sufficiency of the proceedings for redemption.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and make available for delivery to the registered owner thereof, at the expense of the Corporation, a new Bond or Bonds of authorized denominations, and of the same series and maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled upon surrender thereof and delivered to or upon the Order of the Authority.

ARTICLE V

REVENUES

Section 5.01. Pledge and Assignment. (a) Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged to secure the payment of the principal of, Redemption Price and interest on the Bonds in accordance with their terms and the provisions of this Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds), held in any fund or account established pursuant to this Indenture (other than the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(b) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues

and other assets pledged in subsection (a) of this Section 5.01 and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) its rights to give consent or approval thereunder, (ii) the right to receive, in all cases to the extent payable to the Authority or the Trustee, any amounts paid by the Corporation pursuant to Sections 4.2, 7.2, 7.3 and 8.4 of the Loan Agreement, and (iii) the right of the Authority to indemnification, to receive notices, to consent to amendments and to receive the Certificate of the Corporation required by Section 5.10 of the Loan Agreement). The Trustee shall be entitled to and shall collect and receive all of the Revenues. The Trustee also shall be entitled to, subject to the provisions of this Indenture, take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement.

(c) All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund," which the Trustee shall establish, maintain and hold in trust, except as otherwise provided in Sections 5.05 and 5.07 and except that all moneys received by the Trustee and required by Section 4.6 of the Loan Agreement to be deposited in the Redemption Fund shall be promptly deposited in the Redemption Fund, which the Trustee shall establish, maintain and hold in trust, that all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Debt Service Reserve Account shall be promptly deposited in the Debt Service Reserve Account and that all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Entrance Fee Fund shall be promptly deposited in the Entrance Fee Fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture.

(d) If by the fifteenth (15th) day of any month the Trustee has not received Revenues sufficient to make the transfers required in such month by Section 5.02, the Trustee shall immediately notify the Authority, Corporation and the Office of such insufficiency by telephone or facsimile and confirm such notification by written notice.

(e) If thirty (30) calendar days prior to an Interest Payment Date or maturity date for a particular series of Bonds, there are insufficient amounts in the Revenue Fund, other than the related subaccount of the Debt Service Reserve Account, to pay the interest or principal becoming due on such series of Bonds on such date, the Trustee shall immediately notify the Authority, the Corporation and the Office by telephone or telegram and in writing. Such notice shall state:

(i) that available moneys held by the Trustee (other than in the Debt Service Reserve Account) will be insufficient to pay in full the next succeeding payment of principal and/or interest on the series of Bonds; and

(ii) the amount by which the obligation to make such payment exceeds the amount available therefor (the "*Shortfall*").

Said notice shall request the Office to deposit an amount equal to the Shortfall into the related subaccount of the Principal Account and/or related subaccount of the Interest Account at least three (3) Business Days prior to the date on which said payment is due. Said deposit may

be made from the related subaccount of the Debt Service Reserve Account upon notice to the Trustee by the Office by telegram or telex or other telecommunication device producing a written notice, or from the Health Facility Construction Loan Insurance Fund maintained by the Office, as provided in Section XXI.C. of the Regulatory Agreement.

(f) If the Office is required to make any payment by reason of nonpayment by the Corporation, the Office shall have the right to direct the investment of any such payments. Any amounts received from the investment of payments made by the Office or from payments subsequently made by the Corporation shall be remitted to the Office.

Other than with respect to enforcement of the provision of and the Corporation's obligations set forth in Sections 4.2, 5.10, 5.12, 7.2, 7.3, 8.2, 8.4, 9.3 and 9.9 of the Loan Agreement, and the Authority's right to receive notices and to give consents to amendments and approvals hereunder, the Authority retains no right of enforcement under the Loan Agreement nor shall any such right revert to the Authority.

Section 5.02. Allocation of Revenues. On or before the tenth (10th) day of each month, commencing _____ 10, 2014, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts and subaccounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

FIRST: To each respective subaccount of the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable during the next succeeding six months on all Bonds of the related series then Outstanding, until the balance in said subaccount is equal to said aggregate amount of interest; *provided, however*, that from the date of delivery of the Bonds until the first interest payment date with respect to the Bonds (if less than six months), transfers to each respective subaccount of the Interest Account shall be sufficient on a monthly pro rata basis to pay the interest becoming due and payable on said interest payment date on the related series of Bonds;

SECOND: To each respective subaccount of the Principal Account, one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds of the related series plus one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds of the related series, in each case during the next ensuing twelve months, until the balance in said subaccount of the Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments for the related series of Bonds; *provided, however*, that from the date of delivery of the Bonds until the first principal payment date with respect to the Bonds (if less than twelve months), transfers to each respective subaccount of the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said principal payment date on the related series of Bonds;

THIRD: To each respective subaccount of the Debt Service Reserve Account, (i) one-twelfth of the aggregate amount of each prior withdrawal from such subaccount of the Debt Service Reserve Account for the purpose of making up a deficiency in the related subaccounts of the Interest Account or the Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), *provided* that no deposit need be made into such subaccount of Debt Service Reserve Account if the balance in said subaccount is at least equal to the Debt Service Reserve Account Requirement for the related series of Bonds, and (ii) in the event the balance in said subaccount of the Debt Service Reserve Account shall be less than 90% of the Debt Service Reserve Account Requirement for the related series of Bonds due to valuation of the Investment Securities deposited therein in accordance with Section 5.08, the amount necessary to increase the balance in said subaccount of the Debt Service Reserve Account to an amount at least equal to the Debt Service Reserve Account Requirement for the related series of Bonds (until deposits on account of such valuation deficiency are sufficient to increase the balance in said subaccount of the Debt Service Reserve Account to said amount); and

FOURTH: To the Rebate Fund, such amounts as are required to be deposited therein by this Indenture (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred first to the Office to the extent necessary to repay insurance advances made by the Office, including interest thereon as specified in the Regulatory Agreement, as certified to the Trustee by the Office, and thereafter to the Corporation.

Section 5.03. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

Section 5.04. Application of Principal Account. (a) All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds when due and payable, as provided herein.

(b) The Trustee shall establish and maintain within the Series 2014A subaccount of the Principal Account a separate subaccount for the Series 2014A Bonds designated as the “_____ Sinking Account,” inserting therein the maturity (if more than one such account is established) designation of such Series 2014A Bonds. On the tenth (10th) day of each month, the Trustee shall transfer the amount deposited in the Series 2014A subaccount of the Principal Account in that month pursuant to Section 5.02 hereof for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month) from the Series 2014A subaccount of the Principal Account to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for the Sinking Account, the Trustee shall transfer the amount deposited in the applicable Sinking Account pursuant to Section 5.02 for the purpose of applying the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term

Bonds, upon the notice and in the manner provided in Article IV; *provided* that, at any time prior to giving such notice of such redemption, the Trustee shall apply such moneys to the purchase of Term Bonds at public or private sale, as and when and at such prices (excluding brokerage and other charges, but excluding accrued interest, which is payable from the Series 2014A subaccount of the Interest Account) as the Corporation may direct, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Term Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Term Bonds with the Trustee, or Term Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment in such order as the Corporation elects in writing to the Trustee, or if no election is made, in the inverse order thereof. The Corporation shall provide the Trustee with a revised Mandatory Sinking Account payment schedule in the event of any redemption of Term Bonds pursuant to Section 4.01(a) or 4.01(b) hereof. All Bonds purchased or deposited pursuant to this subsection shall be delivered to the Trustee and canceled. Any amounts remaining in the Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund.

(c) Subject to the terms and conditions set forth in this Section 5.04 and in Section 4.01(h), the Series 2014A Bonds maturing on **[November 15]**, 20__ shall be redeemed (or paid at maturity as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

MANDATORY SINKING ACCOUNT PAYMENT DATES ([NOVEMBER 15])	MANDATORY SINKING ACCOUNT PAYMENTS
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*

* Maturity

Section 5.05. Application of Redemption Fund. The Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account for each series of Bonds. The Trustee shall accept all moneys deposited for redemption of the related series of Bonds and shall deposit such moneys into the related Optional Redemption Account or the related Special Redemption Account, as applicable. All amounts deposited in the related Optional Redemption Account and in the related Special Redemption Account shall be accepted and used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of the related series, in the manner and upon the terms and

conditions specified in Article IV, at the next succeeding date of redemption for which notice has been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; *provided* that, at any time prior to giving such notice of redemption, the Trustee shall, upon written direction of the Corporation with the consent of the Office, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the related subaccount of the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and *provided further* that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments designated in a Certificate of the Corporation (or if the Corporation fails to deliver such a Certificate to the Trustee, in inverse order of their payment dates).

Section 5.06. Funding and Application of Debt Service Reserve Account. (a) The Trustee shall keep the Debt Service Reserve Account separate and apart from all other funds and accounts held by it and shall be applied in accordance with this Section 5.06.

(b) All amounts in the subaccounts of the Debt Service Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the related subaccount of the Interest Account or the related subaccount of the Principal Account (but, in each case, only with the consent of the Office, provided the Office is not in default of its obligations under the Contract of Insurance) or (together with any other moneys available therefor) for the payment or redemption of all Bonds of the related series then Outstanding. Within five (5) days of any drawing on a subaccount of the Debt Service Reserve Account which causes the balance therein to be less than the Debt Service Reserve Account Requirement for the related series of Bonds, the Trustee shall so notify the Authority in writing.

(c) All Investment Securities in the Debt Service Reserve Account shall be valued by the Trustee on or before each January 1 and July 1, commencing January 1, 2015. On the fifth day of the month in which a valuation is made pursuant to this Section 5.06(c), any amount in a subaccount of the Debt Service Reserve Account in excess of the Debt Service Reserve Account Requirement for the related series of Bonds shall be transferred to the related subaccount of the Interest Account. To the extent that amounts in a subaccount of the Debt Service Reserve Account are less than 100% of the Debt Service Reserve Account Requirement for the related series of Bonds, the Corporation shall pay to the Trustee amounts, if any, required by Section 5.02. The Trustee may engage an independent consultant, at the expense of the Corporation, to make this valuation.

Section 5.07. Rebate Fund. (a) The Trustee shall establish and maintain, when required, a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be

necessary to comply with instructions of the Corporation given pursuant to the terms and conditions of the Tax Agreement. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Corporation nor the Owner of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section 5.07, by Section 6.07 and by the Tax Agreement (which is incorporated herein by reference, but the provisions of which the Trustee shall not be deemed to have knowledge). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Corporation including supplying all necessary information in the manner provided in the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Corporation with the terms of the Tax Agreement or any other tax covenants contained herein. The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Trustee shall have no independent duty to review such calculations or enforce the compliance by the Corporation with such rebate requirements. The Trustee shall have no duty or obligation to determine the applicability of the Code and shall only be obligated to act in accordance with written instructions provided by the Corporation.

(b) Upon the Corporation's written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Corporation, if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Corporation in accordance with the Tax Agreement. The Trustee shall supply to the Corporation and/or the Authority all necessary information in the manner requested to the extent such information is reasonably available to the Trustee.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section 5.07, other than from moneys held in the funds and accounts created under this Indenture or from other moneys provided to it by the Corporation.

(d) At the written direction of the Corporation, the Trustee shall invest all amounts held in the Rebate Fund in Investment Securities, which direction of the Corporation shall take into account the restrictions set forth in the Tax Agreement. Moneys shall not be transferred from the Rebate Fund except as provided in paragraph (e) below. The Trustee shall not be liable for any consequences arising from such investment.

(e) Upon receipt of the Corporation's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Corporation so directs, the Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds as directed by the Corporation's written directions; *provided, however*, only moneys in excess of the Rebate Requirement may, at the written direction of the Corporation, be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Fund after each five year remission to the United States of America, redemption and payment of all of the Bonds and payment and satisfaction of any

Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Corporation.

(f) Notwithstanding any other provision of this Indenture, including in particular Article X, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section 5.07, Section 6.07 and the Tax Agreement shall survive the defeasance or payment in full of the Bonds.

Section 5.08. Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to this Indenture shall be invested by, and in the name of, the Trustee, upon the written direction of the Corporation, solely in Investment Securities. The Trustee shall acquire such Investment Securities upon the written direction of the Corporation at such prices and on such terms as directed by the Corporation. In the absence of written investment directions from the Corporation, the Trustee shall hold funds hereunder uninvested. All Investment Securities shall be acquired subject to the limitations set forth in Section 6.07, the limitations as to maturities hereinafter in this Section 5.08 set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. The Corporation shall not direct the Trustee to invest in anything other than Investment Securities.

Moneys in all funds and accounts (other than the Debt Service Reserve Account and the Rebate Fund) shall be invested in Investment Securities maturing not later than the date on which it is estimated by the Corporation that such moneys will be required for the purposes specified in this Indenture. Moneys in the subaccounts of the Debt Service Reserve Account shall be invested in Investment Securities maturing prior to the final maturity of the related series of Bonds but in no event longer than five (5) years from the date of investment therein; *provided, however,* moneys in the subaccounts of the Debt Service Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five (5) years as long as said Investment Securities by their terms, as determined solely by the Office, allow the Trustee to obtain (at any time the Trustee is required to draw on such subaccount of the Debt Service Reserve Account hereunder) the corpus thereto at no less than the purchase price thereof without any loss in value. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Revenue Fund, the Costs of Issuance Fund, the Rebate Fund, the Project Fund, the Interest Account and the Principal Account, (i) prior to completion of the Project (determined by the delivery of a Statement of the Corporation in accordance with Section 3.04(c)), shall be deposited when received in the Project Fund, and thereafter (ii) shall be transferred when received to the Revenue Fund. All interest, profits and other income received from the investment of moneys in the Debt Service Reserve Account shall be retained therein. If the balance in any subaccount of the Debt Service Reserve Account exceeds the Debt Service Reserve Account Requirement for the related series of Bonds, such excess shall be transferred to the related subaccount of the Interest Account. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment

Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under this Indenture shall be credited to such fund or account. The Trustee may commingle any of the funds or accounts established pursuant to this Indenture (other than the Rebate Fund) into a separate fund or funds for investment purposes only, *provided* that all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Indenture. The Trustee or any of its affiliates may act as principal or agent in the making or disposing of any investment. The Trustee may sell in any commercially reasonable manner, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of Section 8.03, the Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with provisions of this Section 5.08. The Trustee shall be entitled to assume, absent receipt by the Trustee of written notice to the contrary, that any investment which at the time of purchase is an Investment Security remains an Investment Security.

The Authority and the Corporation (by their signing of the Loan Agreement) acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the Corporation the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the Authority and the Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the Corporation with periodic account statements as provided herein which include detail for all investment transactions made by the Trustee hereunder.

For the purpose of determining the amount in any fund, all Investment Securities credited to such fund shall be valued at fair market value determined by the Trustee based on accepted industry standards and from accepted industry providers (including as set forth in the last sentence of Section 5.06(b) and/or Section 5.10 hereof), as to certificates of deposit and bankers' acceptances, the face amount thereof.

Section 5.09. Investment of Moneys in the Entrance Fee Fund and Working Capital Fund. The moneys deposited by the Corporation into the Entrance Fee Fund and the Working Capital Fund are equity, not Bond proceeds (within the meaning of the Code). Any moneys held by the Trustee in the Entrance Fee Fund and the Working Capital Fund shall be invested by the Trustee, upon the written direction of the Corporation, in Investment Securities. 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. The Trustee, when authorized by the Corporation, may purchase or sell securities herein authorized through itself or a related subsidiary as principal or agent, in the purchase and sale of securities for such investments. The Trustee shall not be liable or responsible for any loss resulting from any such investments. Any investment income or other gain from any investment of moneys on deposit in the Entrance Fee Fund and the Working Capital Fund shall be retained

in such funds. Any investment management fees or any loss resulting from such investments shall be charged to the Entrance Fee Fund or the Working Capital Fund, as the case may be.

All investments shall constitute a part of the fund or account from which the moneys used to acquire such investments have come. The Trustee shall sell and reduce to cash a sufficient amount of investments in a fund or account whenever the cash balance therein is insufficient to pay the amounts required to be paid therefrom. The Trustee may transfer investments from any fund or account to any other fund or account in lieu of cash when a transfer is required or permitted by the provisions of this Indenture.

The Authority and the Corporation, by their execution of the Loan Agreement, acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation (and the Authority to the extent requested by the Authority) periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Section 5.10. Prohibition of Forward Purchase Agreements. Notwithstanding any other provision in this Indenture, the Corporation shall not enter into or instruct the Trustee to enter into any agreement, including, without limitation, any investment or sale agreement involving the sale of future interest income or forward delivery agreement or forward purchase contract or forward purchase supply contract, which provides for an upfront payment to the Corporation, in connection with the investment of any of the funds or accounts established under this Indenture and held by the Trustee.

Section 5.11. Acquisition, Disposition and Valuation of Investments. Notwithstanding anything to the contrary herein, in determining the value of any investments held by it hereunder, the Trustee may utilize and rely upon pricing services as may be available to it, including those within its regular accounting system. Investments (other than those on deposit in the Debt Service Reserve Account, which shall be valued as described in Section 5.06(c) hereof) shall be valued by the Trustee not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored by the Corporation not later than the succeeding valuation date.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The Trustee shall, on behalf of the Authority, punctually pay or cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture,

according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in this Indenture.

Section 6.02. Extension of Payment of Bonds. Absent the consent of the Owners in accordance with Section 9.01, the Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section 6.02 shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 6.03. Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Section 6.04. Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under this Indenture in the manner and to the extent provided in this Indenture. The Authority has duly authorized the execution and delivery of the Bonds and the Indenture under the terms and provisions of the Act and a resolution adopted by the Authority and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability of the Bonds and the Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Bonds and the Indenture the valid, legal and binding limited obligations of the Authority.

Section 6.05. Accounting Records and Financial Statements. (a) The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts, in which complete and accurate entries shall be made of all transactions made by the Trustee relating to the proceeds of Bonds, the Revenues, the Loan Agreement and all funds and accounts established pursuant to this Indenture. Such books of record and account shall be available for inspection by the Authority, the Office and any Owner, or his agent or representative duly authorized in writing, upon reasonable notice, at reasonable hours and under reasonable circumstances.

(b) The Trustee shall file and furnish to the Authority (upon request of the Authority), the Corporation and the Office on or before the 15th day of each month, a complete financial

accounting statement (which need not be audited and may be in the form of its customary account statements) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to this Indenture for the preceding month.

Section 6.06. Other Covenants. (a) The Trustee shall promptly collect all amounts due from the Corporation pursuant to the Loan Agreement, and subject to the provisions of this Indenture, shall exercise all rights assigned to it pursuant to the Loan Agreement and shall enforce, and take all steps, actions and proceedings reasonably necessary, as directed by the Authority, for the enforcement of all of the rights of the Authority and all of the obligations of the Corporation.

(b) The Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the written consent of the Office. The Authority shall not amend, modify or terminate the Loan Agreement in any manner adverse to the interests of the Trustee without the written consent of the Trustee.

(c) The Trustee shall take all actions required by the terms of the Contract of Insurance to maintain, and, subject to the provisions of this Indenture, may enforce by appropriate legal action, for the benefit of the Owners, the Contract of Insurance.

(d) If (i) a Loan Default Event has occurred and is continuing under the Loan Agreement or (ii) debentures have been issued by the Treasurer of the State in satisfaction of the Office's obligations under the Contract of Insurance, and the Office is not in default of its obligations under the Contract of Insurance, the Trustee shall, within three Business Days of receipt of a Request of the Office, transfer to the Office all of the Trustee's right, title and interest in the Loan Agreement and the Regulatory Agreement other than the right of the Trustee to receive payments under Section 4.2 and the indemnity under Section 7.2 and 7.3 of the Loan Agreement.

Section 6.07. Tax Covenants. The Authority acknowledges that the Corporation has, pursuant to the Loan Agreement, assumed all obligations of the Authority in this Section 6.07.

(a) *Federal Guarantee Prohibition.* Neither the Authority nor the Corporation shall take any action or knowingly permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(b) *No Arbitrage.* Neither the Authority nor the Corporation shall take, or knowingly permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

(c) *Prohibited Facilities.* No portion of the proceeds of the Bonds shall be used to provide any airplane, skybox or other private luxury box, health club facility, facility primarily

used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises. No portion of the proceeds of the Bonds shall be used for an office unless the office is located on the premises of the facilities constituting the Corporation's facilities and unless not more than a *de minimis* amount of the functions to be performed at such office is not related to the day-to-day operations of the Corporation's facilities.

(d) *Use Covenant.* The Authority shall not use or knowingly permit the Corporation to use of any proceeds of Bonds or any other funds of the Corporation, directly or indirectly, in any manner, and shall not take or knowingly permit to be taken any other action or actions, which would result in any of the Bonds being treated as an obligation not described in section 145 of the Code by reason of such Bond not meeting the requirements of section 145 of the Code.

(e) *Maintenance of Tax-Exemption.* The Authority shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

(f) *Limitation on Costs of Issuance.* By obtaining the covenant of the Corporation, the Authority shall assure that, from the proceeds of the Bonds received from the original purchaser thereof on the Closing Date and investment earnings thereon, an amount not in excess of two percent (2%) of the face amount of the Bonds shall be used to pay for, or provide for the payment of, Costs of Issuance. For this purpose, if the fees of such original purchaser are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

(g) *Limitation of Expenditure of Proceeds.* By obtaining the covenant of the Corporation, the Authority shall assure that not less than 97 percent of the face amount of the Bonds, plus premium (if any) paid on the purchase of the Bonds by the original purchaser thereof from the Authority, less original discount, are used for uses other than costs of issuance.

(h) *Rebate of Excess Investment Earnings to United States.* Pursuant to the Tax Agreement and the Loan Agreement, the Authority has caused the Corporation to covenant to calculate or cause to be calculated excess investment earnings to the extent required by section 148(f) of the Code and the Corporation shall cause payment of an amount equal to excess investment earnings to the United States in accordance with the Regulations, in each case at the sole expense of the Corporation.

In order to provide for the administration of this Section 6.07(h), the Authority may provide, at the Corporation's expense, for the employment of independent attorneys (including Bond Counsel), accountants and consultants compensated on such reasonable basis as the Authority may deem appropriate, and in addition to and without limitation of the provisions of Section 8.02, the Trustee may rely conclusively upon and shall be fully protected from all liability in relying upon the opinions, calculations, determinations, directions and advice of such attorneys, accountants and consultants employed by the Authority under this Section 6.07(h).

The Authority has agreed to the foregoing covenants in reliance upon the agreement by the Corporation, pursuant to the Loan Agreement and the Tax Agreement, to assume all obligations of the Authority in this Section 6.07.

[*Section 6.08. Waiver of Laws.* The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.]

Section 6.09. Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

Section 6.10. Continuing Disclosure. Pursuant to Section 5.14 of the Loan Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and none of the Authority, the Trustee or the Dissemination Agent shall have any liability to the Owners of the Bonds or any other person with respect to S.E.C. Rule 15c2-12. The Trustee hereby covenants and agrees that it will comply with and carry out all of the provisions of Section 5.14 of the Loan Agreement applicable to it. Notwithstanding any other provision of this Indenture, failure of the Corporation or the Dissemination Agent to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall at the request of the Owners of at least 25% aggregate principal amount of Outstanding Bonds, to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys, or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under Section 5.13 of the Loan Agreement or to cause the Trustee to comply with its obligations under this Section 6.10. For purposes of this Section 6.10, "*Beneficial Owner*" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default:

- (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

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

(c) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Trustee or the Office, or to the Authority, the Corporation and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(d) a Loan Default Event.

Section 7.02. Acceleration of Maturities. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may and, upon receipt of instructions from the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding or the Office, shall, upon notice in writing to the Authority, the Office and the Corporation, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding; *provided, however,* that no such declaration may be made unless (i) the Trustee is required to make such declaration pursuant to Section 7.03 hereof or (ii) the Office consents to such acceleration and agrees to pay an amount equal to the full principal amount of Bonds then Outstanding and interest thereon at the stated interest rates on the Bonds to the date of acceleration.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Office or the Corporation shall deposit with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable fees, charges and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee may, if such declaration was made by the Trustee without instruction from the Owners, and the Trustee shall, upon receipt of written notice by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which written notice shall also be delivered to the Authority, the Office and the Corporation, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. Notwithstanding the foregoing, the Trustee shall waive any Event of Default which is caused solely by a default under the Regulatory Agreement if the Office waives such default in writing.

Section 7.03. Collection Upon Insurance. Upon the occurrence and continuance of an Event of Default, the Trustee shall proceed to take such steps as are necessary, in the reasonable judgment of the Trustee, to collect upon the insurance required by the Insurance Law. If the Office and the Treasurer of the State have notified the Trustee in writing that they elect to pay such insurance by means of debentures of the Office's Health Facility Construction Loan Insurance Fund, the Trustee shall as soon as practicable provide notice to each Owner of the exchange of such debentures for the Bonds then Outstanding in the same manner as for notice of redemption pursuant to Article IV, and shall deliver to each Owner, as soon as practicable after surrender of such Owner's Bonds, debentures received from the Office in a principal amount equal to the principal amount of such Bonds plus accrued interest thereon and having maturities the same as such Bonds, bearing interest at such rate or rates equal to the rates on the respective Bonds. Bonds not delivered for exchange are no longer entitled to payment and become evidence of only the right to receive the related debenture, Bonds shall be delivered to the Office as required by the Act, and upon redelivery to the Trustee by the Office in accordance with the provisions of the Contract of Insurance, Bonds shall be cancelled and destroyed by the Trustee.

Section 7.04. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture (subject to Section 11.10) shall be applied by the Trustee as follows and in the following order:

(a) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture (including Section 6.02), as follows:

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

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

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

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

(b) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds hereunder and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred, with the consent of the Office, in and about the performance of its powers and duties under this Indenture; and

(c) To the Office to the extent necessary to repay insurance advances, if any, made by the Office as such amounts are certified to the Trustee.

Section 7.05. Trustee to Represent Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Owners, the Trustee in its discretion may, and upon the written request of the Office or the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding (*provided, however*, that if more than one such request is received by the Trustee from the Owners, the Trustee shall follow the request executed by the Owners of the greater percentage of Bonds then Outstanding in excess of 25%), and upon being indemnified to its satisfaction therefor, shall, with the written consent of the Office and, except in the case of an Event of Default arising under Section 7.01 hereof or a Loan Default Event arising under Section 8.1 of the Loan Agreement, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in this Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under this Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under this Indenture, pending such proceedings. All rights of action under this Indenture or the Bonds or

otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture (including Section 6.02). Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Notwithstanding anything contained herein or in the Deed of Trust to the contrary, upon the occurrence and continuance of an Event of Default, before taking any foreclosure action or any action which may subject the Trustee to liability under any Environmental Regulation, the Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability) and expenses which may result from such foreclosure or other action. The Trustee shall not be required to take any foreclosure action if the approval of a government regulator shall be a condition precedent to taking such action, and such approval cannot be obtained.

Section 7.06. Office and Owners' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Office, or the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, in each case where the Owners seek to direct proceedings with the written consent of the Office shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, *provided* that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that, unless the Office is the Owner of all Bonds or has caused all Bonds to be paid in full, the Trustee shall have the right to decline to follow any such direction (i) that in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction, it being understood that the Trustee shall have no duty to ascertain whether or not such actions are unduly prejudicial to such Owners, (ii) if the party tendering such direction to the Trustee has not furnished the Trustee with indemnity reasonably satisfactory to the Trustee against any and all liability, damage, loss, cost or expense (including reasonable attorneys' fees and expenses) arising directly or indirectly from the Trustee's compliance with such direction (collectively, "*Indemnified Liabilities*") or (iii) if it may involve the Trustee in personal liability.

Anything in this Indenture to the contrary notwithstanding, in the event that any of the following has occurred and is continuing:

- (a) the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in

writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Facilities;

(b) a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(c) under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of the Facilities, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control;

then, the Office shall have the right to vote in the place and stead of all Owners with respect to any plan of reorganization, on any agreement for composition of creditors, and on any assignment for the benefit of the creditors and any reorganization or liquidation plan with respect to the Corporation, must be acceptable to the Office.

The Office shall represent Bondholders in all bankruptcy proceedings and may take such action or consent to any agreement on behalf of Bondholders, *provided* that any such action or consent shall in no way impair the rights and benefits due Bondholders under the Contract of Insurance.

Section 7.07. Limitation on Owners' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding (or if more than one such request is received, the written request executed by the Owners of the greatest percentage of Bonds then Outstanding in excess of 25%) shall have made written request upon the Trustee to exercise the powers granted by this Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Office consents in writing.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under this Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or

prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under this Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act or any other applicable law with respect to the Bonds, except in the manner provided in this Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in this Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

Section 7.08. Absolute Obligation of Authority. Nothing in Section 7.07 or in any other provision of this Indenture, or in the Bonds, contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds. The Corporation has, under the Loan Agreement, covenanted and agreed to make Loan Repayments with respect to the Bonds.

Section 7.09. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Owners, then in every such case the Authority, the Trustee and the Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Owners shall continue as though no such proceedings had been taken.

Section 7.10. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.11. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Section 7.12. Control Rights of Office. Notwithstanding anything herein to the contrary, so long as the Contract of Insurance is in effect and the Office is not in default thereunder:

- (a) The Office shall be deemed to be the Owner of all of the Bonds for purposes of (i) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (ii) granting any consent, direction or

approval or taking any action permitted by or required under this Indenture or the Loan Agreement, as the case may be, to be granted or taken by the Owners of such Bonds.

(b) Anything in this Indenture or the Loan Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Office shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners.

(c) The rights granted to the Office under this Indenture and/or the Loan Agreement to request, consent to or direct any action are rights granted to the Office in consideration of its issuance of its insurance for the Bonds. Any exercise by the Office of such rights is merely an exercise of the Office's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the Office, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Office.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee. (a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee hereunder. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) The Authority may, and upon the written request of the Corporation, shall, remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section 8.01, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing subject to the approval of the Office.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the Owners notice of such resignation by mail at the addresses

shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing subject to the approval of the Office. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the retiring Trustee or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture, shall signify its acceptance of such appointment by executing and delivering to the Corporation and the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Corporation and the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the Bonds and to the Owners at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Corporation.

(e) Any Trustee appointed under the provisions of this Section 8.01 in succession to the Trustee shall be a corporation, national banking association, trust company or bank having trust powers, having a combined capital and surplus (or the parent holding company of which has a combined capital and surplus) of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such corporation, national banking association, bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such corporation, national banking association, bank or trust (or holding) company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this

subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section 8.01.

Section 8.02. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Trustee. (a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Corporation and the Authority, and the Trustee shall assume no responsibility for the correctness of the same, or make any representations as to the legality, validity or sufficiency of this Indenture or of the Bonds or the Loan Agreement, the Regulatory Agreement, the Contract of Insurance or the Deed of Trust, any amendment to any said documents, or insuring the Corporation's facilities or collecting any insurance proceeds, nor shall it incur any responsibility in respect thereof. Except as required by the provisions of this Indenture, the Trustee shall not incur any responsibility or duty with respect to the delivery of the Bonds for value or the application of any proceeds thereof or any Revenues. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the owner of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts. Permissive rights of the Trustee shall not be construed as duties.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or other percentage provided for herein) in aggregate principal amount of the Bonds at the time Outstanding or the Office, as applicable, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture, the Loan Agreement or the Regulatory Agreement at the request, order or direction of any of the Owners or the Office pursuant to the provisions of this Indenture unless such Owners or the Office shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the fees, costs, expenses and liabilities (including reasonable attorneys' fees and expenses) which may be incurred therein or thereby. The Trustee has no

obligation or liability to the Owners for the payment of principal of, Redemption Price or interest on the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties hereunder.

(e) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture unless it shall be proved that the Trustee was negligent in so acting.

(f) Whether or not therein expressly so provided, every provision of this Indenture, the Loan Agreement, the Deed of Trust, the Regulatory Agreement or other documents relating to the issuance of the Bonds, relating to the conduct or affecting the liability of or affording protection to the Trustee, shall be subject to the provisions of this Article.

(g) Subject to the other provisions of this Section 8.03 and the provisions of Sections 8.01 and 8.04 hereof, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, requisition, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Trustee, in its discretion, may make such further investigation or inquiry into such facts or matters as it may deem fit, and, if the Trustee shall determine to make such further inquiry or investigation, the Authority shall assure that the Trustee shall be entitled to examine the books, records and premises of the Corporation, personally or by agent or attorney.

(h) The Trustee shall not be deemed to have knowledge of any Event of Default or any Loan Default Event, except pursuant to Section 8.1(a) of the Loan Agreement, unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Principal Corporate Trust Office; as used herein, the term "actual knowledge" means the actual fact or statement of knowing, without any duty to make any investigation with regard thereto. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default thereunder.

(i) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, co-trustees or attorneys and shall not be liable for the same if selected with due care.

(j) The Trustee shall have no duty to review, verify or analyze any financial statements furnished to it by the Corporation, and shall hold such financial statements solely as a repository for the Owners. The Trustee shall not be deemed to have notice of any information contained therein or any default or Event of Default that may be disclosed therein in any manner.

(k) The Trustee shall have no responsibility, opinion, liability or duty with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(l) Anything to the contrary notwithstanding, the Trustee shall not be required to enter, take possession of, or take any other action whatsoever with respect to the Corporation's facilities, and shall not be required to initiate foreclosure proceedings with respect to the Corporation's facilities and the Deed of Trust unless the Trustee is satisfied that the Trustee will not be subject to any liability (i) under any Environmental Regulations, or (ii) from any circumstances present at the Corporation's facilities relating to the presence, use, management, disposal of or contamination by any Hazardous Substance.

(m) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to its satisfaction.

(n) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, *provided, however*, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or the Corporation elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the Corporation agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(o) The Trustee shall be compensated and indemnified by the Corporation as set forth in the Loan Agreement.

(p) The Trustee shall not be responsible for or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(q) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

Section 8.04. Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, facsimile, bond, statement, requisition or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Before the Trustee acts or refrains from acting, it may consult with counsel, who may be counsel of or to the Authority, with regard to

legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, the Corporation, the Office and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted. (a) This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Office and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; *provided* that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this Section 9.01. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in this Indenture for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture, or deprive the Owners of the Bonds of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture and the Loan Agreement), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance

thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the addresses shown on the bond registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) This Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into without the consent of any Owners, but only with the consent of the Corporation and the Office, if the Trustee has been furnished an Opinion of Counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners, including, without limitation, for any one or more of the following purposes:

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

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

(iii) to make such additions, deletions or modifications as may be necessary to assure compliance with Sections 145 or 148 of the Code, or otherwise to assure the exclusion from gross income under federal tax law of interest on the Bonds;

(iv) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(v) to modify, amend or supplement the provisions relating to the giving of notices of redemption in such manner as to comply with Securities and Exchange Commission guidelines on the giving of such notices.

The Trustee shall give notice of any such modification or amendment to the Owners of all Bonds then Outstanding at the addresses shown on the registration books maintained by the Trustee provided the Trustee shall incur no liability for failure to do so.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Prior to entering into any Supplemental Indenture, the Trustee may require the Authority to file with it an opinion of Bond Counsel to the effect that the execution and delivery of such Supplemental Indenture by the Trustee and the Authority (i) is in compliance with the terms and conditions hereof and (ii) will not cause interest on any Bonds Outstanding to become includable in gross income for federal income tax purposes.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding and the other parties granted rights hereunder shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his Bond for the purpose at the Principal Corporate Trust Office or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Principal Corporate Trust Office, without cost to any Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

Section 9.04. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him or her, *provided* that due notation thereof is made on such Bonds.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. Bonds may be paid by the Authority in any of the following ways; *provided* that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority and related to the Bonds:

- (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds then Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall pay all Bonds then Outstanding and shall also pay or cause to be paid all other sums payable hereunder, then and in that case, upon receipt by the Trustee of a Certificate of the Corporation, signifying the intention of the Corporation to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of the Corporation and the Authority under this Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in Section 10.02 and 8.06. In such event, upon Request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable, prepared by or on behalf of the Authority or the Corporation, to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to this Indenture (other than amounts held in the Rebate Fund) which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption or for the payment of any fees or expenses owing to the Trustee or the Authority.

Section 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), *provided* that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Owner thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, *provided further*, however, that the provisions of Section 10.04 shall apply in all events.

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

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be

deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture (exclusive of the Rebate Fund) and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) [Investment Securities described in clause (a) of the definition thereof in Section 1.01] (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due will provide money sufficient, as verified by an independent certified public accountant, to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, *provided* that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Section 10.04. Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid (without liability for interest) to the Corporation or to the Office, if received from the Office, free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however*, that before the repayment of such moneys, the Trustee may (upon the request of and at the cost of the Corporation) first mail to the Owners of all Bonds which have not been paid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation or to the Office of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal of, Redemption Price or interest on Bonds, whether at redemption, acceleration or maturity, shall be held in trust for the account of the Owners thereof and the Trustee shall not be required to pay Owners, the Authority, the Office or the Corporation any interest on, or be liable to owners or any other person for any interest earned on, moneys so held.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Limited Liability of Authority. Notwithstanding anything contained in this Indenture or in the Bonds, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

None of the Authority, any Authority member, officer, employee, agent or any person executing the Bonds is liable personally on the Bonds or subject to any personal liability or accountability by reason of their issuance. The Bonds are limited obligations of the Authority, payable solely from and secured by the pledge of the Revenues. Neither the Authority, its members, the State, nor any of its political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on the Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment (except to the extent expressly provided through the Contract of Insurance). The Bonds are not a pledge of the faith and credit of the Authority, its members, the County or any of its political subdivisions nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation (except to the extent expressly provided through the Contract of Insurance). The Authority has no taxing power.

The Authority shall not be liable for payment of the principal of, Redemption Price or interest on the Bonds or any other costs, expenses, losses, damages, claims or actions of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Indenture, the Bonds or any other documents, except only to the extent amounts are received for the payment thereof from the Corporation under the Loan Agreement.

Section 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Corporation, the Authority or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Corporation, the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03. Limitation of Rights to Parties, the Corporation, the Office and the Owners. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the Corporation, the Office and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the Corporation, the Office and the Owners of the Bonds.

Section 11.04. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.05. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee shall in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Authority, if the Authority shall so require), and deliver a certificate of such destruction to the Authority if requested.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Trustee, the Corporation and the Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. All notices, requests or communications required or permitted to be given in this Indenture shall be in writing and mailed or delivered to the party whom notice is to be given either (i) by personal delivery (in which case such notice shall be deemed to have been duly given on the date of delivery if delivered was before 4:00 p.m., Pacific time, and if after 4:00 p.m., Pacific time, it shall be deemed to have been duly given on the next business day after delivery of the notice), (ii) by Federal Express or other similar air courier service (in which case notice shall be deemed to have been duly given on the next business day after delivery of the notice to the air courier service), or (iii) by United States mail, first class, postage prepaid, registered or certified (in which case such notice shall be deemed to have been duly given on the third (3rd) business day following the date of mailing), and properly addressed as follows:

If to the Authority:

Los Angeles County Regional Financing Authority
c/o County of Los Angeles
500 West Temple Street, Room 432
Los Angeles, California 90012
Attention: Assistant Treasurer and Tax Collector

If to the Corporation:

MonteCedro Inc.
1111 South Arroyo Parkway, Suite 230
Pasadena, California 91105
Attention: Chief Executive Officer

If to the Trustee:

U.S. Bank National Association

Attention: Corporate Trust Department

To the Office:

Office of Statewide Health Planning and Development
400 R Street, Suite 470
Sacramento, California 95811
Attention: Deputy Director, Cal-Mortgage Loan Insurance Division
cminsure@oshpd.ca.gov

Section 11.08. Evidence of Rights of Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section 11.08.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of registered Bonds shall be proved by the bond registration books held by the Trustee.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Section 11.09. Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held on the registration books of the Trustee by or for the account of the Authority or the Corporation, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Corporation or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination; except that in determining whether the Trustee shall be protected in relying upon any such demand, request, direction, consent or waiver of an Owner, only Bonds which the Trustee actually knows to be so owned or held shall be disregarded unless all Bonds are so owned or held, in which case such Bonds shall be considered outstanding for the purpose of such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 11.09 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Corporation or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Authority and the Corporation shall specify to the Trustee those Bonds disqualified pursuant to this Section 11.09.

Section 11.10. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held uninvested in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

Section 11.11. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of Section 6.07 and for the protection of the security of the Bonds and the rights of every owner thereof. Notwithstanding any other provision of this Indenture, the Trustee shall only be required to open any fund or account when it receives, or is notified that it will receive, moneys to be deposited and maintained in such fund or account.

Section 11.12. Waiver of Personal Liability. No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

Section 11.13. Payments Due on Days Other Than Business Days. If a payment day or the day for performing any act is not a Business Day, then payment may be made or such act performed on the next Business Day and no interest shall accrue for the intervening period.

Section 11.14. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.15. Governing Law; Venue. This Indenture shall be construed in accordance with and governed by the laws of the State of California applicable to contracts made and performed in the State of California. This Indenture shall be enforceable in the State of California, and any action arising hereunder shall (unless waived by the Authority in writing) be filed and maintained in a court of competent jurisdiction in the State.

Section 11.16. Indenture Represents Complete Agreement. This Indenture represents the entire contract between the parties.

Section 11.17. Authority's Non-Obligation to Enforce Assigned Rights Under this Indenture. Notwithstanding anything to the contrary in this Indenture, the Authority shall have no obligation to and instead the Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than the rights described in Section 5.01(b) hereof) under this Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Corporation under the Loan Agreement.

IN WITNESS WHEREOF, the LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY has caused this Indenture to be signed in its name by its Chairman, and U.S. BANK NATIONAL ASSOCIATION, as Trustee, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by one of its authorized officers, all as of the day and year first above written.

LOS ANGELES COUNTY REGIONAL
FINANCING AUTHORITY

By _____
Chairman

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By _____
Vice President

AGREEMENT AND ACCEPTANCE

MonteCedro Inc, a California nonprofit public benefit corporation (the “Corporation”), does hereby acknowledge, accept and agree to comply with the terms and provisions of this Indenture to the extent that the provisions hereof relate to the Corporation. The Corporation agrees that, whenever this Indenture by its terms imposes a duty or obligation upon the Corporation, such duty or obligation shall be binding upon the Corporation and agrees to take any and all actions required to be taken by it under the terms of this Indenture.

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

MONTECEDRO INC.

By: _____
[title]

LOAN AGREEMENT

Dated as of June 1, 2014

by and between the

LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY

and

MONTECEDRO INC.

Relating To:

\$ _____

Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014A
(MonteCedro Inc. Project)

\$ _____

Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-1
(Tax- Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____

Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-2
(Tax- Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____

Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-3
(Tax- Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____

Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-4
(Tax- Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

\$ _____

Los Angeles County Regional Financing Authority
Insured Revenue Bonds, Series 2014B-5
(Tax- Exempt Mandatory Paydown Securities (TEMPS- __SM))
(MonteCedro Inc. Project)

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EXHIBIT A — Loan Repayment Schedule

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "*Loan Agreement*"), dated as of June 1, 2014, between the LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California (the "*Authority*"), and MONTECEDRO INC., a California nonprofit public benefit corporation (the "*Corporation*"),

WITNESSETH:

WHEREAS, the Corporation has applied for assistance from the Authority in the financing of the construction and equipping of its senior living facility (collectively, the "*Facility*"), which Facilities are owned and operated by the Corporation; and

WHEREAS, the Authority is a joint powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated as of December 1, 2010, by and between the County of Los Angeles, California (the "*County*") and the County of Los Angeles Public Works Financing Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "*Act*"), and is authorized pursuant to the Act to issue bonds for the purpose of financing the construction and equipping of the Facility;

WHEREAS, in furtherance of the public purpose for which the Authority was created, the Authority proposes to issue its (a) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project), (b) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), (c) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), (d) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), (e) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project) and (f) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project) (collectively, the "*Bonds*");

WHEREAS, the proceeds of the Bonds will be loaned to the Corporation pursuant to this Loan Agreement;

WHEREAS, the Bonds will be payable out of the payments to be made by the Corporation under this Loan Agreement;

WHEREAS, the Authority and the Corporation each has duly authorized the execution, delivery and performance of this Loan Agreement;

NOW, THEREFORE, for and in consideration of the premises and the material covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless otherwise defined herein and unless the context clearly otherwise requires, the capitalized terms in this Loan Agreement shall have the meanings set forth in that certain Indenture, dated as of June 1, 2014, by and between the Authority and U.S. Bank National Association, as trustee (the “*Trustee*”), as originally executed or as it may from time to time be supplemented, modified or amended as provided therein or in that certain Regulatory Agreement, dated as of June 1, 2014, among the Authority, the Office of Statewide Health Planning and Development of the State of California (the “*Office*”) and the Corporation (the “*Regulatory Agreement*”).

Section 1.2. Interpretation. (a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 1.3. Content of Certificates and Opinions. Every certificate or opinion provided for in this Loan Agreement with respect to compliance with any provision hereof shall include (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; and (4) a statement as to whether or not, in the opinion of such person, such provision has been satisfied.

Any such certificate or opinion made or given by an officer of the Authority or the Corporation may be based, insofar as it relates to legal, accounting or health facility matters, upon a certificate or opinion of or representation by counsel, an Accountant or a Management Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion

made or given by counsel, an Accountant or a Management Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority or the Corporation, as the case may be) upon a certificate or opinion of or representation by an officer of the Authority or the Corporation, unless such counsel, Accountant or Management Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority or the Corporation, or the same counsel or Accountant or Management Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Loan Agreement, but different officers, counsel, Accountants or Management Consultants may certify to different matters, respectively.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations by the Authority. The Authority represents and warrants as follows:

(a) The Authority is a joint exercise of powers authority created and existing under and pursuant to the Act and the Joint Powers Agreement and is authorized by the Act and the Joint Powers Agreement to execute and to enter into this Agreement and to undertake the transactions contemplated herein and to carry out its obligations hereunder.

(b) The Authority has all requisite power, authority and legal right to execute and deliver this Agreement, the Indenture, the Tax Agreement, the Regulatory Agreement and the Contract of Insurance (collectively, the "*Authority Documents*") and all other instruments and documents to be executed and delivered by the Authority pursuant thereto, to perform and observe the provisions thereof and to carry out the transactions contemplated thereby. All corporate action on the part of the Authority which is required for the execution, delivery, performance and observance by the Authority of the Authority Documents has been duly authorized and effectively taken, and such execution, delivery, performance and observation by the Authority do not contravene applicable law or any contractual restriction binding on or affecting the Authority.

(c) The Authority has duly approved the issuance of the Bonds and the loan to the Corporation of the proceeds thereof; no other authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required as a condition to the performance by the Authority of its obligations under any Authority Documents.

(d) This Agreement is, and each other Authority Document when delivered will be, legal, valid and binding special limited obligations of the Authority enforceable against the Authority in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by the application of equitable principals, regardless of whether enforcement is sought in a proceeding at law or in equity, or by public policy.

(e) There is no default of the Authority in the payment of the principal of or interest on any of its indebtedness for borrowed money or under any instrument or instruments or agreements under and subject to which any indebtedness for borrowed money has been incurred which does or could affect the validity and enforceability of the Authority Documents or the ability of the Authority to perform its obligations thereunder, and, to the knowledge of the Authority, no event has occurred and is continuing under the provisions of any such instrument or agreement which constitutes or, with the lapse of time or the giving of notice, or both, would constitute such a default.

(f) With respect to the Bonds, there are no other obligations of the Authority that have been, are being or will be (i) sold at substantially the same time, (ii) sold pursuant to the same plan of financing and (iii) reasonably expected to be paid from substantially the same source of funds.

(g) There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending in which service of process has been completed on the Authority, or, to the best knowledge of the Authority, threatened against or affecting the Authority wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by, or the validity or enforceability of, the Bonds, the Indenture or this Agreement.

(h) In connection with the authorization, issuance and sale of the Bonds, the Authority has complied with all provisions of the Constitution and laws of the State, including the Act.

(i) The Authority has not assigned or pledged and will not assign or pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture. The Bonds constitute the only bonds or other obligations of the Authority in any manner payable from the revenues to be derived from this Agreement, and except for the Bonds, no bonds or other obligations have been or will be issued on the basis of this Agreement.

(j) To the best knowledge of the Authority, the Authority is not in default under any of the provisions of the laws of the State, where any such default would materially adversely affect the issuance, validity or enforceability of the Bonds or the transactions contemplated by this Agreement or the Indenture.

(k) No representation is made herein as to compliance with the securities or “blue sky” laws of any jurisdiction. The Authority shall not be required to consent to service of process in any jurisdiction or be required to submit to the general jurisdiction of any state.

Section 2.2. Representations and Warranties of the Corporation. The Corporation represents and warrants to the Authority that, as of the date of execution of this Loan Agreement and as of the date of delivery of the Bonds to the initial purchasers thereof (such representations and warranties to remain operative and in full force and effect regardless of the issuance of the Bonds or any investigations by or on behalf of the Authority or the results thereof):

(a) *Organization/Authority.* The Corporation is a nonprofit, public benefit corporation duly organized and in good standing under the laws of the State and has full legal right, power and authority to enter into this Loan Agreement, the Tax Agreement, the Regulatory Agreement, the Deed of Trust, the Deposit Account Control Agreement and the Contract of Insurance (collectively, the “*Corporation Agreements*”), and to carry out all of its obligations under and consummate all transactions contemplated by the Corporation Agreements, and by proper corporate action has duly authorized the execution, delivery and performance of the Corporation Agreements.

The officers of the Corporation executing the Corporation Agreements are duly and properly in office and fully authorized to execute the same.

(b) *Execution/Delivery.* The Corporation Agreements have been duly authorized, executed and delivered by the Corporation.

(c) *Enforceability.* This Loan Agreement, when assigned to the Trustee pursuant to the Indenture, and the other Corporation Agreements will constitute the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their terms for the benefit of the Owners of the Bonds, and any rights of the Authority and obligations of the Corporation not so assigned to the Trustee constitute the legal, valid, and binding agreements of the Corporation enforceable against the Corporation in accordance with their terms; except in each case as enforcement may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally, by the application of equitable principles regardless of whether enforcement is sought in a proceeding at law or in equity and by public policy.

(d) *No Conflicts.* The execution and delivery of the Corporation Agreements, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under the articles of incorporation of the Corporation, its bylaws, any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which the Corporation is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Corporation Agreements, or the financial condition, assets, properties or operations of the Corporation.

(e) *No Other Consents.* No consent or approval of any trustee or holder of any indebtedness of the Corporation or any guarantor of indebtedness of or other provider of credit or liquidity to the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except with respect to any state securities or “blue sky” laws) is necessary in connection with the execution and delivery of the Corporation Agreements, or the consummation of any transaction herein or therein contemplated, or the

fulfillment of or compliance with the terms and conditions hereof or thereof, except as have been obtained or made and as are in full force and effect.

(f) *The Project.* The Project is of the type permitted by the Act, and the Project is substantially the same in all material respects to that described in the notice of public hearing published on May 14, 2014. The Project will be located wholly within the County of Los Angeles.

(g) *No Litigation.* 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 the Corporation, after reasonable investigation, threatened, against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of, the Corporation Agreements, or upon the financial condition, assets, properties or operations of the Corporation.

(h) *Taxes.* All tax returns (federal, state and local) required to be filed by or on behalf of the Corporation 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 the Corporation 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. The Corporation enjoys the peaceful and undisturbed possession of all of the premises upon which it is operating its Facilities.

(i) *Disclosures Accurate.* No written information, exhibit or report furnished to the Authority by the Corporation in connection with the negotiation of the Corporation Agreements, and no official statement or other offering document in connection with the issuance of the Bonds, if any, as of its date or as of the date hereof, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) *Financial Condition.* The Corporation's audited balance sheets at June 30, 2013 and June 30, 2012, and the related statements of income and statements of cash flows for the years ended June 30, 2013 and June 30, 2012 (copies of which have been furnished to the Authority) fairly present the financial position of the Corporation at such date and the results of operations for the year ended on such date, and since such date there has been no material adverse change in the financial condition or results of operations of the Corporation. **[6/30/13 financials are SMF - refer to unaudited ML financials? Delete?]**

(k) *Title to Property.* The Corporation has good and marketable title to the Facility free and clear from all encumbrances other than Permitted Encumbrances.

(l) *No Defaults.* The Corporation 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) (1) under this Loan Agreement, or (2) 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 be expected to have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Corporation Agreements or the Indenture, or the financial condition, assets, properties or operations of the Corporation.

(m) *All Necessary Approvals.* All material certificates, approvals, permits and authorizations of applicable local governmental agencies, and agencies of the State and the federal government have been or will be obtained with respect to the existing Facilities and the construction and installation of the Project, and the Project will be constructed and installed and the Facility will be operated pursuant to and in accordance with such certificates, approvals, permits and authorizations.

(n) *No Reliance on Authority for Advice.* The Corporation acknowledges, represents and warrants that it understands the nature and structure of the transactions relating to the financing of the Project; that it is familiar with the provisions of all of the documents and instruments relating to such financing to which the Corporation is a party or of which it is a beneficiary, including the Indenture; that it understands the risks inherent in such transactions; and that it has not relied on the Authority or its legal counsel for any guidance or expertise in analyzing the financial or other consequences of the transactions contemplated by the Indenture or otherwise relied on the Authority for any advice.

(o) *Nonprofit Status of Corporation.* The Corporation is an organization described in Section 501(c)(3) of the Code and is exempt from federal income tax under Section 501(a) of the Code, except for unrelated business taxable income under Section 511 of the Code, and is not a private foundation as described in Section 509(a) of the Code.

(p) *Compliance with Environmental Regulations.* The Corporation complies in all material respects with all applicable Environmental Regulations.

(q) *No Environmental Investigations.* Neither the Corporation nor the Facility are the subject of a federal, state or local investigation evaluating whether any remedial action is needed to respond to any alleged violation of or condition regulated by Environmental Regulations or to respond to a release of any Hazardous Substances into the environment.

(r) *No Environmental Liabilities.* The Corporation does not have any material contingent liability in connection with any release of any Hazardous Substances into the environment.

ARTICLE III

ISSUANCE OF BONDS; LOAN OF PROCEEDS; INVESTMENT OF MONEYS

Section 3.1. The Bonds. The Authority has authorized the issuance of the Bonds pursuant to the Indenture in the aggregate principal amount of _____ dollars (\$_____). The Authority hereby lends and advances to the Corporation and the Corporation hereby borrows and accepts from the Authority (solely from the proceeds from the

sale of the Bonds) said principal amount to be applied solely in accordance with the provisions of the Indenture. The Corporation hereby approves the Indenture, the assignment under the Indenture to the Trustee of the right, title and interest of the Authority (except the Authority's right to indemnification, fees and expenses pursuant to Sections 4.2, 7.2, 7.3 and 8.4 hereof, to receive notices and the right to give approvals, and to consent to amendments and to receive the Certificate of the Corporation required by Section 5.10 hereof) in this Loan Agreement, the Regulatory Agreement, the Contract of Insurance and the Deed of Trust.

Section 3.2. Investment of Moneys. Upon written direction of the Corporation, any moneys in any fund or account held by the Trustee under the Indenture shall be invested or reinvested by the Trustee in Investment Securities as provided in the Indenture, and the Corporation hereby approves such provisions of the Indenture and directs the Trustee to make such investments, subject to the covenants of Section 5.11 hereof. The Trustee shall have no liability if it follows any such written direction of the Corporation.

ARTICLE IV

REPAYMENT OF LOAN

Section 4.1. Payment of Loan Repayments. (a) In consideration of the loan of the proceeds of the Bonds to the Corporation, the Corporation agrees that, on or before the tenth day of each month and as long as any of the Bonds remain Outstanding, commencing _____ 10, 2014, it shall pay to the Trustee for deposit in the Revenue Fund such amount as is required by the Trustee to make the transfers and deposits required on or before the tenth (10th) day of such month by Section 5.02 of the Indenture, including, without limitation, amounts required to replenish [each subaccount] of the Debt Service Reserve Account to the Debt Service Reserve Account Requirement [for the related series of Bonds] in the event of deficiencies therein. Notwithstanding the foregoing, if five (5) Business Days prior to any interest or principal payment date with respect to the Bonds, the aggregate amount in the Revenue Fund (other than the Debt Service Reserve Account) is for any reason insufficient or unavailable to make the required payments of principal (or Redemption Price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), the Corporation shall forthwith pay the amount of any such deficiency to the Trustee. Each payment by the Corporation to the Trustee hereunder (the "*Loan Repayments*") shall be in lawful money of the United States of America and paid to the Trustee at its Trust Office, and shall be held, invested, disbursed and applied as provided in the Indenture. The Loan Repayments set forth in *Exhibit A* attached hereto represent the amounts required to pay debt service on the Bonds.

(b) Except as otherwise expressly provided herein, all amounts payable hereunder by the Corporation to the Authority shall be paid directly to the Trustee as assignee of the Authority, and this Loan Agreement and all right, title and interest of the Authority in any such payments are hereby assigned and pledged to the Trustee so long as any Bonds remain Outstanding.

Section 4.2. Additional Payments. In addition to the Loan Repayments, the Corporation shall also pay to the Authority or to the Trustee, as the case may be, "Additional Payments," as follows:

(a) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; *provided, however,* that the Corporation shall have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments assessed or levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority, the Trustee or the Owners;

(b) All reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture and all amounts referred to in Section 11.13 of the Indenture, as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Loan Agreement, the other Corporation Agreements or the Indenture;

(d) The reasonable fees and expenses of the Authority or any agent or attorney selected by the Authority to act on its behalf in connection with this Loan Agreement, the other Corporation Agreements, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving this Loan Agreement, the other Corporation Agreements, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of this Loan Agreement, the other Corporation Agreements or the Indenture; and

(e) Any amounts due and payable by the Corporation as arbitrage rebate under Section 148 of the Code, pursuant to the Corporation's covenants and agreements with respect thereto in this Loan Agreement.

Such Additional Payments shall be billed to the Corporation by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority or the Trustee for one or more of the above items. After such a demand, amounts so billed shall be paid by the Corporation within thirty (30) days after the date of invoice.

Section 4.3. Gross Revenue Fund. (a) The Corporation agrees that, so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues of the Corporation shall be deposited as soon as practicable upon receipt in a fund designated as the “Gross Revenue Fund” which the Corporation shall establish and maintain, subject to the provisions of subsection (b) of this Section 4.3, in an account or accounts at such banking or financial institution or institutions as the Corporation shall from time to time designate in writing to the Trustee and to the Office for such purpose (the “*Depository Bank(s)*”). Subject only to the provisions of this Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation hereby pledges and, to the extent permitted by law, grants a security interest to the Authority and to the Trustee as assignee of the Authority and to the Office in the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the payment of Loan Repayments and the performance by the Corporation of its other obligations under this Loan Agreement, the Regulatory Agreement and the Contract of Insurance and with respect to Parity Debt. The Corporation shall execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, shall execute a deposit account control agreement with the Depository Bank with respect to the security interest granted hereunder and shall execute and deliver such other documents (including, but not limited to, control agreements and continuation statements) as may be necessary or reasonably requested by the Authority, the Office or the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof. The Trustee is hereby authorized to execute such deposit account control agreement if requested. Notwithstanding the foregoing, the Corporation’s obligation to deliver a deposit account control agreement on the Closing Date may be extended to a later date in the discretion of the Office. In the event that an extension of such deadline is granted by the Office, the Trustee is hereby authorized to proceed with the issuance of the Bonds on the Closing Date.

(b) Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as hereinafter provided. In the event that the Corporation is delinquent for more than one Business Day in the payment of any Loan Repayment or any payment required with respect to Parity Debt, the Trustee shall notify the Authority, the Corporation, the Office and the Depository Bank(s) of such delinquency, and, unless such Loan Repayment or payment with respect to Parity Debt is paid within ten days after receipt of such notice, upon request of the Trustee shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, but only with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder). All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Fund as provided in subsection (a) of this Section 4.3 but to the name and credit of the Trustee until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Loan Repayments and payments with respect to Parity Debt in default and all other Loan Default Events and events of default with respect to Parity Debt actually known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use the withdrawn amounts in said fund from time to time

to make Loan Repayments, Additional Payments, and the other payments required of the Corporation under this Loan Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Repayments, Additional Payments and Debt Service on such Parity Debt ratably, according to the amounts due respectively for Loan Repayments and such Debt Service, without any discrimination or preference, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the holders of the Bonds and such Parity Debt, without discrimination or preference, or as directed by the Office or the Owners of a majority in aggregate principal amount of the Bonds. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues of the Corporation unless and to the extent that the Trustee, at its sole discretion (or as directed by the Office), so directs for the payment of current or past due operating expenses of the Corporation. The Corporation agrees to execute and deliver all instruments as may be required to implement this Section 4.3. The Corporation further agrees that a failure to comply with the terms of this Section 4.3 shall cause irreparable harm to the holders from time to time of the Bonds and of Parity Debt, and shall entitle the Trustee, with or without notice to the Corporation but with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder), to take immediate action to compel the specific performance of the obligations of the Corporation as provided in this Section 4.3.

Section 4.4. Security for Corporation's Obligations. In consideration of the issuance of the Bonds and the loan of the proceeds thereof to the Corporation hereunder and to secure the payment of Loan Repayments and the performance of the other obligations of the Corporation hereunder, the Corporation hereby pledges and grants a security interest (subject to Permitted Encumbrances) to the Office and the Authority in the Facility. The Corporation has entered into the Deed of Trust to further secure the Corporation's obligations hereunder. The Corporation agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, and to execute and deliver such other documents (including, but not limited to, subordination agreements and continuation statements) as the Authority or the Office may reasonably require in order to perfect or maintain as perfected such security interest or give public notice thereof. The Deed of Trust, pursuant to its terms, may be amended and property released therefrom upon written notice to the Trustee with the consent of the Office without the necessity of obtaining the consent of the Authority, the Trustee or the Bondowners.

Section 4.5. Obligations of the Corporation Unconditional; Net Contract. The obligations of the Corporation to make the Loan Repayments and Additional Payments required hereunder and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, setoff, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Bonds remain Outstanding or any Additional Payments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of

or damage to the Facility, commercial frustration of purpose, any changes in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement or the Indenture. This Loan Agreement shall be deemed and constructed to be a “net contract,” and the Corporation shall pay absolutely net the Loan Repayments, Additional Payments and all other payments required hereunder, regardless of any rights of setoff, recoupment, abatement or counterclaim that the Corporation might otherwise have against the Authority or the Trustee or any other party or parties.

Section 4.6. Prepayment. The Corporation shall have the right at any time or from time to time to prepay all or any part of the Loan Repayments and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered by the Corporation. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund established pursuant to Section 5.01 of the Indenture and used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture.

ARTICLE V

PARTICULAR COVENANTS

Section 5.1. Operation and Maintenance of the Facility. The Corporation shall operate each Facility as a “health facility” as defined in the Act and shall maintain or cause to be maintained, throughout the term of this Loan Agreement, the Facility as specified in Section IV of the Regulatory Agreement.

Section 5.2. Maintenance of Corporate Existence; Affiliation, Merger, Consolidation, Sale or Transfer. (a) The Corporation shall maintain its existence as a nonprofit public benefit corporation of the State meeting the requirements of Section 501(c)(3) of the Code and shall not dissolve, sell or otherwise dispose of all or substantially all of its assets or affiliate with, consolidate with or merge into another Person or permit one or more other Persons to affiliate with, consolidate with or merge into it; *provided*, that the Corporation may, without violating the covenants contained in this Section 5.2, affiliate with, consolidate with or merge into another Person, or permit one or more other Persons to affiliate with, consolidate with or merge into it, or sell or otherwise transfer to another Person such assets, if:

(i) the Corporation obtains the written consent of the Office to such transaction and a Statement of the Office to the effect that the Contract of Insurance remains in full force and effect after such transaction;

(ii) The Office, the Authority and the Trustee shall have received an Opinion of Bond Counsel to the effect that such affiliation, merger, consolidation, sale or other

transfer will not cause the interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code;

(iii) The surviving, resulting or transferee Person:

(A) assumes in writing all of the obligations of the Corporation under this Loan Agreement, the Contract of Insurance and the Regulatory Agreement, and agrees to fulfill and comply with the terms, covenants and conditions thereof and further consents to the terms of the Indenture;

(B) certifies in writing that it is not, after such transaction, otherwise in default under any provision of this Loan Agreement, the Indenture, the Contract of Insurance or the Regulatory Agreement;

(C) certifies in writing that it is an organization meeting the requirements of Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect; and

(D) certifies in writing that it shall have fund balances at least equal to the fund balances of the Corporation prior to such transaction;

(iv) The Trustee, the Authority and the Office shall have received the report of a Management Consultant to the effect that Net Income Available for Debt Service of the surviving, resulting or transferee Person (after giving effect to such merger, consolidation, sale or other transfer) for each of the first two full Fiscal Years following such merger, consolidation, sale or other transfer is projected to be not less than Net Income Available for Debt Service of the Corporation for each of the two most recent Fiscal Years for which audited financial statements are available, as certified by an Accountant;

(v) The Trustee, the Authority and the Office shall have received a report of an Accountant to the effect that the net worth of the surviving, resulting or transferee Person, after giving effect to such merger, consolidation, sale or other transfer, is at least equal to 100 percent of the net worth of the Corporation immediately prior to such merger, consolidation, sale or other transfer; and

(vi) The Trustee, the Authority and the Office shall have received an Opinion of Counsel to the effect that this Loan Agreement, the Contract of Insurance and the Regulatory Agreement constitute the legal, valid and binding obligations of the surviving, resulting or transferee Person, as the case may be, enforceable against such Person in accordance with their respective terms.

(b) Notwithstanding the foregoing, the Corporation may, without complying with the provisions of subsection (a) of this Section 5.2, transfer substantially all of its assets to an Affiliate provided that:

(i) the Corporation obtains the written consent of the Office to such transaction and a Statement of the Office to the effect that the Contract of Insurance remains in full force and effect after such transaction;

(ii) The Office, the Authority and the Trustee shall have received an Opinion of Bond Counsel to the effect that such proposed transfer(s) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code;

(iii) Such Affiliate agrees in writing to become a co-obligor and jointly and severally liable with the Corporation under the Regulatory Agreement and this Loan Agreement; and

(iv) After such transaction, the Corporation and the Affiliate are in compliance with the provisions of the Regulatory Agreement and this Loan Agreement, as shall be evidenced by an Officer's Certificate of the Corporation.

In the event of such a transfer to an Affiliate, references in this Loan Agreement to indebtedness of the Corporation shall apply to the combined indebtedness of the Corporation and the Affiliate, and references to the financial condition or forecasted results of operations of the Corporation shall apply to the consolidated financial condition or results of operations of the Corporation and the Affiliate.

(c) If an affiliation, merger, consolidation, sale or other transfer is effected, as provided in this Section 5.2, the provisions of this Section 5.2 shall continue in full force and effect, and no further affiliation, merger, consolidation, sale or transfer shall be effected except in subsequent accordance with the provisions of this Section 5.2.

Section 5.3. Rates and Charges; Debt Coverage. The Corporation shall operate the Facility as revenue producing health facilities, as defined in Insurance Law Section 129010. Commencing with the Fiscal Year ending June 30, 2016, the Corporation shall fix, charge and collect, or cause to be fixed, charged or collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year.

Section 5.4. Limitation on Encumbrances. The Corporation shall not create, adopt, assume or suffer to exist and shall immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facility or the Gross Revenues; *provided, however,* that notwithstanding the foregoing provision, the Corporation may create, adopt, assume or suffer to exist Permitted Encumbrances.

Section 5.5. Limitation on Indebtedness. The Corporation shall not incur any indebtedness or financial obligations, including without limitation, by borrowing money, by

assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, except in accordance with Section IX of the Regulatory Agreement.

Section 5.6. Limitations on Disposition of Property.

(a) *Disposition of Cash.* The Corporation shall not dispose of any cash or cash equivalents except in accordance with Section X of the Regulatory Agreement.

(b) *Disposition of Real Property.* So long as the Contract of Insurance is in effect, the Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the real property described in *Exhibit A* to the Regulatory Agreement, including the buildings and structures thereon and fixtures and improvements of such real property, without the prior written consent of the Office.

(c) *Disposition of Personal Property.* The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facility not included in the preceding subsections (a) and (b), other than in the “ordinary course of business,” unless, so long as the Contract of Insurance is in effect, the Office gives its prior written consent to such disposition. “Ordinary course of business” shall be defined during the term of the Regulatory Agreement by the Office in the exercise of its sound and reasonable discretion, by the Office giving written notice thereof to the Corporation, which determination will become effective on receipt of such notice by the Corporation.

Except as provided in Section VI of the Regulatory Agreement concerning a disposition of substantially all of the Corporation’s assets, in no event shall the Corporation dispose of any part or parts of its Facilities in any Fiscal Year aggregating in excess of two and one-half percent (2-1/2%) of the Corporation’s net property, plant and equipment (as shown on the Corporation’s most recent audited financial statements), unless, so long as the Contract of Insurance is in effect, the Office gives its prior written consent to such disposition.

(d) *Execution of Releases.* In connection with a disposal of property, including cash, permitted by this Section 5.6, upon receipt of such consent by the Office, so long as the Contract of Insurance is in effect, the Office, the Authority and the Trustee shall execute and deliver releases from security interests or other documents reasonably requested by the Corporation.

Section 5.7. Limitation on Acquisition of Properties. The Corporation shall not acquire additional property, plant and equipment (except (1) in the ordinary course of business, (2) with the proceeds of indebtedness permitted by Section 5.5, or (3) as part of a merger or consolidation permitted by Section 5.2) by gift (other than gifts of cash or personal property or gifts of real property if either [(i) its use is residential] or (ii) it is subject of a phase I environmental report indicating no contaminants), purchase, construction, merger or consolidation, unless, so long as the Contract of Insurance is in effect, the Office gives its prior written consent to such acquisition.

Section 5.8. Accounting Records, Financial Statements and Budget. (a) The Corporation shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the Corporation. Such books of record and account shall be available for inspection by the Authority, the Office and the Trustee at reasonable hours and under reasonable circumstances, all in accordance with Section XXIII of the Regulatory Agreement.

(b) The Corporation shall furnish to the Authority, the Office and the Trustee the financial statements and other documents required by Section XXIV of the Regulatory Agreement.

(c) The Corporation also shall deliver to the Office within thirty (30) days of receipt by the Corporation, one copy of any management letter submitted to the Corporation by an Accountant in connection with each annual or interim audit of accounts of the Corporation made by such Accountant. The Corporation shall also provide the Office with copies of all action letters prepared in response to any auditors' management letters.

Section 5.9. Licensing. The Corporation shall maintain all permits, licenses and other governmental approvals necessary for the operation of the Facility.

Section 5.10. Compliance with United States and California Constitutions. The Corporation shall not restrict, nor grant preferences in, admissions to its Facilities on racial or religious grounds. In each year on the date the Corporation is required to provide the Corporation's audited financial statements in accordance with Section [XXIV] of the Regulatory Agreement, the Corporation will furnish to the Office and the Trustee a Certificate of the Corporation stating that (i) no facility, place or building financed or refinanced with any portion of the proceeds of the Bonds has been used primarily for sectarian instruction or study or is a place for devotional activities or religious worship and (ii) the Corporation does not restrict or grant preferences in the use of the Facility on racial or religious grounds. This covenant shall survive the payment in full or defeasance of the Bonds.

Section 5.11. Tax-Exempt Status of Bonds. The Corporation shall at all times do and perform all acts and things permitted by law and this Loan Agreement and the Indenture which are necessary or desirable in order to ensure that interest paid on the Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the Corporation agrees that it will comply with the provisions of the Tax Agreement which are incorporated herein. This covenant shall survive termination of this Loan Agreement and the defeasance or redemption of the Bonds.

Section 5.12. Prohibited Uses. (a) No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used primarily for sectarian instruction or study or as a place for devotional activities or religious worship, and the Corporation will not use the facilities financed or refinanced with the proceeds of the Bonds,

during the useful life thereof (irrespective of whether the Bonds are at the time Outstanding) for any such purposes.

(b) No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used by a Person that is not a 501(c)(3) Organization or a Governmental Unit or by a 501(c)(3) Organization (including the Corporation) in an “unrelated trade or business” (as set forth in Section 513(a) of the Code), in such manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

Section 5.13. [reserved].

Section 5.14. Continuing Disclosure. The Corporation hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Certificate shall not be considered a Loan Default Event; however, the Trustee shall, at the request of the Holders of at least 25% aggregate principal amount in Outstanding Bonds, to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys, or any Bondowner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with its obligations under this Section 5.14. For purposes of this Section 5.14, “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Section 5.15. Compliance with the Indenture. The Corporation hereby covenants and agrees that it will comply with and carry out all of the provisions of the Indenture to be performed by the Corporation.

Section 5.16. Acquisition, Construction and Installation of the Project. The Corporation shall acquire, construct and install the Project or cause such Project to be acquired, constructed and installed and shall proceed with due diligence and use its best efforts to cause the construction and installation of the Project to be completed by the third anniversary of the date of delivery of the Bonds, delays beyond the reasonable control of the Corporation only excepted. The Corporation has entered or will enter into purchase commitments and agreements which provide, in the aggregate, for the acquisition, installation and construction of the Project in accordance with the Project Plans by such date and at a price which will permit completion of the Project for an amount not to exceed the amount of money deposited in the Project Fund and other available funds. The Corporation hereby grants to the Authority, until completion of the Project, all rights of access necessary for the Authority to carry out its obligations and to enforce its rights hereunder. It is expressly understood and agreed that the Authority and the Trustee shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project or any expense incurred in connection with the Project and that all such costs and expenses shall be paid by the Corporation. The acquisition, installation and construction of the Project shall be in accordance with all applicable zoning, environmental, planning and building

regulations, and the Corporation shall obtain all necessary governmental permits, licenses, certificates, authorizations and approvals necessary to be obtained for the acquisition, installation, construction and operation of the Project.

Section 5.17. Disbursements from the Project Fund. Disbursements will be made from the Project Fund to pay the costs of the Project and subject to the terms and conditions set forth in the Indenture. In the event that amounts in the Project Fund are not sufficient to pay the costs of the Project in full, the Corporation nevertheless shall complete or cause the completion of the Project and shall pay at its own expense all such costs of completing the Project in excess of amounts available in the Project Fund, from its own funds, without any diminution or postponement of any Loan Repayment or Additional Payment and without any right of reimbursement from the Authority or the Trustee. The Authority does not make any warranty or representation (either express or implied) that the moneys deposited in the Project Fund and available for payment of the costs of the Project will be sufficient to pay all of the costs of the Project or that the Project will be suitable for the purposes of the Corporation.

Section 5.18. Project Plans. The Corporation shall keep the Project Plans open to inspection by the Authority and the Trustee at the administrative offices of the Corporation during normal business hours. The Corporation may revise the Project Plans from time to time, *provided* that, if such revisions change the scope of the Project or if any such revision shall increase the cost of the Project by more than five hundred thousand dollars (\$500,000), the Corporation shall first file with the Trustee and the Authority a Certificate describing the proposed revision and certifying that such revision (i) will not result in the completion of the Project after the third anniversary of the date of delivery of the Bonds (unless such revision is necessary for reasons beyond the reasonable control of the Corporation), and (ii) does not increase the estimated unpaid costs of the Project beyond the amount then on deposit in the Project Fund together with other funds available therefor.

Section 5.19. Initial Entrance Fees. The Corporation hereby agrees that all Entrance Fees received by the Corporation shall be transferred to the Trustee within five Business Days of the receipt thereof for deposit into the Entrance Fee Fund created by Section 3.06 of the Indenture to be used as described therein.

ARTICLE VI

MAINTENANCE, TAXES, INSURANCE AND CONDEMNATION

Section 6.1. Maintenance and Operation of the Facility. The Corporation shall operate and maintain the Facility in accordance with all governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the Corporation. The Corporation shall maintain and operate the Facility 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 hereafter at any time constituting part of the Facility in good repair, working order and condition, and the Corporation shall from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements; in

each case to the extent necessary so that the efficiency and value of the Facility shall not be impaired.

Section 6.2. Taxes, Assessments, Other Governmental Charges and Utility Charges. The Corporation shall pay and discharge all 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 Facility, the Gross Revenues or the interest therein of the Trustee (as assignee of the Authority) or of the Holders of the Bonds, 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 Facility or any part thereof, and, upon request, will furnish to the Authority receipts for all such payments, or other evidences satisfactory to the Authority; *provided, however*, that the Corporation shall not be required to pay any tax, assessment, rate or charge as herein provided as long as it shall in good faith contest the validity thereof, *provided* that the Corporation shall have set aside adequate reserves with respect thereto.

Section 6.3. Insurance Required. The Corporation agrees to insure the Facility during the term of this Loan Agreement for such amounts and for such occurrences as are customary for similar facilities within the State of California, or as may be required by the Office pursuant to the Regulatory Agreement, by means of policies issued by reputable insurance companies qualified to do business in the State of California. The Corporation agrees to deliver, upon request, to the Authority, the Office and the Trustee memorandum copies of the insurance policies or certificates of insurance covering the Facility, and a certification by an insurance consultant that the insurance on the Facility meets the above requirements.

ARTICLE VII

NONLIABILITY OF AUTHORITY; EXPENSES; INDEMNIFICATION

Section 7.1. Nonliability of Authority. The Authority shall not be obligated to pay the principal of, Redemption Price and interest on the Bonds, including any prepayments, except from Revenues and other moneys and assets received by the Trustee pursuant to this Loan Agreement. Except to the extent expressly provided through the Insurance Program, neither the faith and credit nor the taxing power of the State or any political subdivision thereof (including the County), nor the faith and credit of the Authority or any member of the Authority is pledged to the payment of the principal of, Redemption Price or interest on the Bonds. Neither the Authority nor its members, officers, directors, agents or employees, or their successors and assigns, shall be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Loan Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Corporation under this Loan Agreement.

The Corporation hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation pursuant to this Loan Agreement (and, if required, the Deed of Trust), together with investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the

payments to be made hereunder shall ever prove insufficient to pay all principal of, Redemption Price or interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, Redemption Price or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Corporation, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

Section 7.2. Expenses. The Corporation agrees to pay the Trustee its fees as set forth in a separate fee schedule. The Corporation covenants and agrees to pay and to indemnify the Authority, the County and the Trustee against all reasonable costs, fees and charges, including reasonable fees and expenses of attorneys, accountants, consultants and other experts, incurred in good faith or arising out of or in connection with this Loan Agreement, the Indenture, the Regulatory Agreement, the Contract of Insurance or the Deed of Trust. These obligations and the obligations in Section 7.3 hereof shall remain valid and in effect notwithstanding repayment of the Bonds or the loan made hereunder or the termination of this Loan Agreement or the termination or defeasance of the Indenture and, with regard to the Trustee, the resignation and removal of the Trustee.

Section 7.3. Indemnification. (a) To the fullest extent permitted by law, the Corporation agrees to indemnify, hold harmless and defend the Authority, the County, the Trustee and each of their respective past, present and future officers, members, 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 and expenses, 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 Bonds, the Indenture, the Loan Agreement, the Tax Agreement, the Regulatory Agreement, the Contract of Insurance or the Deed of Trust or the execution or amendment hereof or thereof or in connection with transactions contemplated hereby or thereby, including the issuance, sale or resale of the Bonds;

(ii) any act or omission of the Corporation or any of its agents, contractors, servants, employees, tenants or licensees in connection with the Project or the Facility, the operation of the Project or the Facility, 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 Facility or any part thereof;

(iii) any lien or charge upon payments by the Corporation to the Authority and the Trustee hereunder, or any taxes (including, without limitation, all *ad valorem* taxes

and sales taxes), assessments, impositions and other charges imposed on the Authority or the Trustee in respect of any portion of the Project or the Facility;

(iv) any violation of any Environmental Regulation with respect to, or the release of any Hazardous Substance from, the Project or the Facility of the Corporation or any part thereof;

(v) the defeasance and/or redemption, in whole or in part, of the 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 Bonds or any of the documents relating to the Bonds, or any omission or alleged omission from any offering statement or disclosure or continuing disclosure document for the 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 Bonds, or allegations that interest on the Bonds is taxable or any regulatory audit or inquiry regarding whether interest on the Bonds is taxable;

(viii) the Trustee's acceptance or administration of the trust of the Indenture, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Bonds to which it is a party;

except (A) in the case of the foregoing indemnification of the Trustee or any of its respective officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the breach of contract, the negligence or willful misconduct of such Indemnified Party; or (B) in the case of the foregoing indemnification of the Authority or the County or any of its 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 hereunder, the Corporation, 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 the Corporation 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 the Corporation 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 Indemnified Party to indemnity hereunder and rights to payment of fees and reimbursement of expenses pursuant to Section 4.2, Section 7.2, this Section 7.3 and Section 8.4 shall survive the final payment or defeasance of the Bonds, the termination of this Loan Agreement or the termination or defeasance of the Indenture and in the case of the Trustee any resignation or removal. The Trustee's rights to compensation, reimbursement and indemnification as set forth in Sections 4.2, 7.2 and 7.3 hereof shall survive the resignation or removal of the Trustee and the termination of this Loan Agreement.

Section 7.4. Waiver of Personal Liability. No member, officer, agent or employee of the County or the Authority or any director, officer, agent or employee of the Corporation shall be individually or personally liable for the payment of any principal (or Redemption Price) of or interest on the Bonds or any sum hereunder or under the Indenture or be subject to any personal liability or accountability by reason of the execution and delivery of this Loan Agreement; but nothing herein contained shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by this Loan Agreement.

ARTICLE VIII

LOAN DEFAULT EVENTS AND REMEDIES

Section 8.1. Loan Default Events. The following events shall be "Loan Default Events":

(a) Failure by the Corporation to pay in full any payment required hereunder when due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms hereof;

(b) If any material representation or warranty made by the Corporation herein or in any document, instrument or certificate furnished to the Trustee or the Authority in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made;

(c) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in this Loan Agreement, the Regulatory Agreement or the Tax Agreement on its part to be observed or performed, other than as referred to in subsection (a) or (b) of this Section 8.1 for a period of thirty (30) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority, the Office or the Trustee; except that, if such failure or breach can be remedied but not within such thirty (30) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such thirty (30) day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Office;

(d) If the Corporation shall abandon the Facility, or any substantial part thereof and such abandonment shall continue for a period of thirty (30) days after written notice thereof shall have been given to the Corporation by the Authority or the Trustee;

(e) If any default shall exist under any agreement respecting Long-Term Indebtedness (other than Parity Debt) and if, as a result thereof, Long-Term Indebtedness in an aggregate principal amount in excess of ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues shall be declared immediately due and payable or a proceeding is brought for enforcement thereof; *provided, however*, that a Loan Default Event shall not exist under this clause (e) if the Corporation establishes cash reserves acceptable to the Office for the payment of such Long-Term Indebtedness which, in the opinion of the Office, are adequate;

(f) If any default shall exist under any instrument pursuant to which Parity Debt was issued and is Outstanding, and such default shall continue after the applicable grace period;

(g) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Facility;

(h) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Facility, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(i) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of the Facility, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(j) If any Event of Default under the Indenture shall occur.

Upon having actual knowledge (as defined in the Indenture) of the existence of a Loan Default Event, the Trustee shall give written notice thereof to the Corporation unless the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered by the Corporation to the Trustee or filed by the Corporation in any court.

Section 8.2. Remedies on Default. If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Authority or the Trustee, to the extent the Trustee has actual knowledge (as defined in the Indenture) of such Loan Default Event, may, subject to its rights and protections under the Indenture, with the consent of the Office provided that such consent shall otherwise be required only so long as the Contract of Insurance is in effect and the Office is not in default of its obligations thereunder, take any one or more of the following remedial steps:

(a) The Authority or the Trustee may, upon notice in writing to the Corporation, declare all installments of Loan Repayments and Additional Payments payable for the remainder of the term of this Loan Agreement to be immediately due and payable, whereupon the same shall be immediately due and payable, anything in this Loan Agreement to the contrary notwithstanding; “all installments” as used in this subsection shall mean an amount equal to the entire principal amount of the then Outstanding Bonds, together with all interest accrued or to accrue on and prior to the next succeeding redemption date or dates on which the Bonds can be redeemed after giving notice to the Holders thereof as required by the Indenture.

(b) The Authority or the Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Loan Repayments, Additional Payments and any other payments then due and thereafter to become due under this Loan Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in this Loan Agreement to be observed or performed by the Corporation.

(c) The Authority and the Trustee as its assignee shall have all the rights and remedies of a secured party or creditor under the Uniform Commercial Code of the State, and the general laws of the State, with respect to the enforcement of the security interests granted or reserved hereunder, including without limitation to the extent permitted by law the right to require that all or a portion of the personal property portion of the Facility be assembled and delivered to the Trustee and the Trustee may, to the extent permitted by law, impound books and records evidencing the Corporation’s accounts, accounts receivable and other similar claims for the payment of money and take possession of all notes and other documents which evidence such accounts, accounts receivable and claims for money and give notice to obligors thereunder of its interest therein and make direct collections on such accounts, accounts receivable and claims for money.

(d) The Authority or the Trustee may take whatever legal action may appear necessary or desirable to enforce their rights and the rights of the Holders of the Bonds under the Deed of Trust.

Section 8.3. Remedies Not Exclusive; No Waiver of Rights. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity or otherwise. In order to entitle the Authority or the

Trustee to exercise any remedy, to the extent permitted by law, reserved to it contained in this Loan Agreement, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given to the Authority hereunder shall also extend to the Trustee, and the Trustee may exercise any rights of the Authority under this Loan Agreement, and the Trustee and the Holders of the Bonds shall be deemed third party beneficiaries of all covenants and conditions herein contained.

No delay in exercising or omitting to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.4. Expenses on Default. In the event the Corporation should default under any of the provisions of this Loan Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due hereunder, the Corporation agrees that it will on demand therefor pay to the Authority or the Trustee the reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred by the Authority or the Trustee.

Section 8.5. Notice of Default. The Corporation agrees that, as soon as is practicable, and in any event within ten (10) days of a Loan Event Default, the Corporation will furnish the Trustee notice of any event which is a Loan Default Event pursuant to Section 8.1 hereof which has occurred and is continuing on the date of such notice, which notice shall set forth the nature of such event and the action which the Corporation proposes to take with respect thereto.

Section 8.6. Assignment by Authority or Trustee. This Loan Agreement, including the right to receive payments required to be made by the Corporation hereunder and to compel or otherwise enforce performance by the Corporation of its other obligations hereunder and thereunder, may be assigned and reassigned in whole or in part to one or more assignees or subassignees by the Authority or the Trustee or the Office at any time subsequent to its execution without the necessity of obtaining the consent of the Corporation. The Authority expressly acknowledges that all right, title and interest of the Authority in and to this Loan Agreement (excluding the Authority's right to indemnification, fees and expenses, and to receive notices and its rights to give approvals, and to consent to amendments) have been assigned to the Trustee, as security for the Bonds under and as provided in the Indenture, and that if any Loan Event Default shall occur, the Trustee shall be entitled to act hereunder in the place and stead of the Authority.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Further Assurances. The Corporation agrees that it will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Authority or the Trustee to carry out the intention or to facilitate the performance of this Loan Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created.

Section 9.2. Notices. All notices, requests or communications required or permitted to be given in this Loan Agreement shall be in writing and mailed or delivered to the party whom notice is to be given either (i) by personal delivery (in which case such notice shall be deemed to have been duly given on the date of delivery if delivered before 4:00 p.m., and if after 4:00 p.m., it shall be deemed to have been duly given on the next business day after delivery of the notice), (ii) by Federal Express or other similar air courier service (in which case notice shall be deemed to have been duly given on the next business day after delivery of the notice to the air courier service), or (iii) by United States mail, first class, postage prepaid, registered or certified (in which case such notice shall be deemed to have been duly given on the third (3rd) business day following the date of mailing), and properly addressed as follows:

If to the Authority:

Los Angeles County Regional Financing Authority
c/o County of Los Angeles
500 West Temple Street, Room 437
Los Angeles, California 90012
Attention: Treasurer and Tax Collector

If to the Corporation:

MonteCedro Inc.
1111 South Arroyo Parkway, Suite 230
Pasadena, California 91105
Attention: Chief Executive Officer

If to the Trustee:

U.S. Bank National Association

Attention: Corporate Trust Department

To the Office:

Office of Statewide Health Planning and Development
400 R Street, Suite 470
Sacramento, California 95811
Attention: Deputy Director, Cal-Mortgage Loan
Insurance Division
cminsure@oshpd.ca.gov

Section 9.3. Governing Law. This Loan Agreement shall be construed in accordance with and governed by the laws of the State of California applicable to contracts made and performed in the State of California. This Loan Agreement shall be enforceable in the State of

California, and any action arising hereunder shall (unless waived by the Authority in writing) be filed and maintained in [any court of competent jurisdiction within the State].

Section 9.4. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Authority, the Corporation and their respective successors and assigns, subject, however, to the limitations contained herein.

Section 9.5. Severability of Invalid Provisions. If any one or more of the provisions contained in this Loan Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Loan Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of this Loan Agreement, and this Loan Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the Corporation each hereby declares that it would have entered into this Loan Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Loan Agreement may be held illegal, invalid or unenforceable.

Section 9.6. Loan Agreement Represents Complete Agreement; Amendments. This Loan Agreement represents the entire contract between the parties as to the Corporation's obligation to repay the loan made pursuant to this Loan Agreement. This Loan Agreement may not be effectively amended, changed, modified, altered or terminated except by the written agreement of the Corporation and the Authority and the concurring written consent of the Trustee and the Office, given in accordance with the provisions of the Indenture.

Section 9.7. Community Service Obligation. The parties acknowledge the existence of the Corporation's Certification and Agreement Regarding Community Service Obligation. The Corporation agrees that, pursuant to Section 15438.5 of the California Government Code, all or part of the savings experienced by the Corporation as a result of this tax-exempt revenue bond funding will be passed on to the consuming public through lower charges or containment of the rate of increase in rates.

Section 9.8. Execution of Counterparts. This Loan Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 9.9. Term of Loan Agreement. Except as otherwise provided herein, this Loan Agreement shall remain in full force and effect from the date of execution hereof until no Bonds remain Outstanding under the Indenture.

Section 9.10. Waiver of Personal Liability. No member, officer, agent or employee of the Authority or any director, officer, agent or employee of the Corporation shall be individually or personally liable for the payment of any principal (or Redemption Price) and interest on the Bonds or any other sum hereunder or be subject to any personal liability or accountability by reason of the execution and delivery of this Loan Agreement; but nothing herein contained shall

relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by this Loan Agreement.

Section 9.11. Control by Office. All provisions of this Loan Agreement regarding the consent or approval of, direction, appointment, request or control of proceedings by, or the giving of notices, reports or opinions to the Office shall be in effect for so long as, and only during such time as (a) the Bonds are Outstanding; (b) the Contract of Insurance is in full force and effect; and (c) the Office is not in default of its obligations under the Contract of Insurance.

IN WITNESS WHEREOF, the Authority and the Corporation have caused this Loan Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

LOS ANGELES COUNTY REGIONAL FINANCING
AUTHORITY

By: _____
Chairman

MONTECEDRO INC.

By: _____
[title]

EXHIBIT A

LOAN REPAYMENT SCHEDULE

[to come]

\$[_____]*
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$[_____]* Series 2014A	\$[_____]* Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	\$[_____]* Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	\$[_____]* Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	\$[_____]* Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	\$[_____]* Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
(MONTECEDRO INC. PROJECT)					

BOND PURCHASE CONTRACT

June __, 2014

Los Angeles County Regional Financing Authority
500 W. Temple Street, Room 432
Los Angeles, California 90012
Attention: [Chair]

MonteCedro Inc.
1111 S. Arroyo Parkway, Suite 230
Pasadena, California 91105
Attn: Chief Executive Officer

Ladies and Gentlemen:

The undersigned (the “Representative”) B.C. Ziegler and Company, acting on behalf of itself and on behalf of the other underwriters named in the list attached hereto as EXHIBIT F (the Representative and such other underwriters as finally determined being collectively called the “Underwriters”), offers to enter into the following agreement (this “Purchase Contract”) with the Los Angeles County Regional Financing Authority (the “Authority”), and MonteCedro Inc., a California nonprofit public benefit corporation (the “Corporation”), which, upon the acceptance by each of you of this offer, will be binding upon each of you and upon the Underwriters. Terms not otherwise defined herein shall have the same meanings assigned to such terms in the Official Statement as defined herein.

This offer is made subject to your mutual acceptance on or before 2:00 P.M., California time, on June __, 2014, and is subject to the following provisions:

1. Purchase and Sale of the Bonds.

(a) Upon the terms and conditions and upon the basis of the respective representations, warranties and covenants herein, the Underwriters hereby agree to purchase from the Authority for offering to the public, and the Authority hereby agrees to sell to the Underwriters for such purpose, the Authority's its \$[_____]* Senior Living Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project) (the "Series 2014A Bonds"), its \$[_____]* Senior Living Insured Revenue Bonds, Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85SM)) (MonteCedro Inc. Project) (the "Series 2014B-1 Bonds"), its \$[_____]* Senior Living Insured Revenue Bonds, Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75SM)) (MonteCedro Inc. Project) (the "Series 2014B-2 Bonds"), its \$[_____]* Senior Living Insured Revenue Bonds, Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65SM)) (MonteCedro Inc. Project) (the "Series 2014B-3 Bonds"), its \$[_____]* Senior Living Insured Revenue Bonds, Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55SM)) (MonteCedro Inc. Project) (the "Series 2014B-4 Bonds") and its \$[_____]* Senior Living Insured Revenue Bonds, Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45SM)) (MonteCedro Inc. Project) (the "Series 2014B-5 Bonds" and, together with the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014 B-3 Bonds and the Series 2014B-4 Bonds, the "Series 2014B Bonds"). The Series 2014A Bonds and the Series 2014B Bonds are collectively referred to herein as the "Bonds." The Bonds bearing interest and maturing on the dates and in the amounts, and with the provisions for redemption prior to maturity, as set forth in EXHIBIT A hereto, at an aggregate purchase price of \$_____ (which reflects \$_____ of Underwriter's discount and \$_____ of [net] original issue [premium]/[discount]). Such payment to the Authority shall be made by wire-transferring, as directed by the Authority, such funds to or for the account of the Authority. The Authority's obligations hereunder are conditioned in all respects on the payment by the Underwriters of the amount specified above. The obligations of the Authority to sell, and of the Underwriters to purchase, hereunder relate to all (but not less than all) of the Bonds.

(b) The Bonds shall be as described in the Official Statement, described below, and in the Indenture, dated as of June 1, 2014 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), as acknowledged by the Corporation, authorizing the issuance of the Bonds, and shall be issued and secured under and pursuant to the Indenture. The Authority will lend the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of June 1, 2014 (the "Loan Agreement"), by and between the Authority and the Corporation. The Corporation will use the proceeds from the sale of the Bonds and other available funds to (i) finance the cost of the construction, renovation and equipping of the Corporation's senior living facility located in Altadena, California (the "Project"), (2) repay a taxable loan to the Corporation from Bank of America, N.A., the proceeds of which were used to construct a portion of the Project, (3) pay a portion of the capitalized interest on the Bonds, (4) fund a Debt Service Reserve Account for the benefit of the Bonds, and (5) pay certain expenses incurred in connection with the issuance of the Bonds.

(c) The Office of Statewide Planning and Development of the State of California (the "Office") will insure the Bonds pursuant to the Contract of Insurance, dated as of June 1, 2014

(the “Contract of Insurance”), among the Corporation, the Authority and the Office, and the Regulatory Agreement, dated as of June 1, 2014 (the “Regulatory Agreement”), among the Corporation, the Authority and the Office.

(d) To secure its obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt (as defined in the Indenture), the Corporation will execute and deliver that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of June 1, 2014 (the “Deed of Trust”), in favor of the Deed Trustee, as defined therein, for the benefit of the Office and the Trustee, as beneficiaries.

(e) To further secure its obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt (as defined in the Indenture), the Corporation will grant a security interest to the Office, the Authority and the Trustee (as assignee of the Authority) in the Gross Revenues (as defined in the Regulatory Agreement) of the Corporation. To evidence the Office’s control over the Corporation’s Gross Revenues, the Corporation will enter into that certain Deposit Account Control Agreement, dated as of June 1, 2014 (the “Deposit Account Control Agreement”), with the Office and the depository bank listed therein.

(f) The Corporation will undertake, pursuant to the Loan Agreement and a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), to be dated the date of Closing (as hereinafter defined) to provide annual and certain quarterly reports and notices of certain events relating to the Bonds. A description of this undertaking is set forth in the Preliminary Official Statement and the Official Statement (as each term is defined below).

2. Public Offering of the Bonds.

The Underwriters agree, jointly and severally, to make a *bona fide* public offering of all the Bonds at the initial public offering price(s) as set forth on the cover page of the Official Statement. Subsequent to such initial public offering the Underwriters reserve the right to change the initial public offering price(s) or yield(s) as they may deem necessary in connection with the marketing of the Bonds, may offer and sell the Bonds to certain dealers, unit investment trusts and money market funds, certain of which may be sponsored or managed by one or more of the Underwriters at prices lower than the public offering prices or yields greater than the yields set forth in the Official Statement, and to over-allot or effect transactions that stabilize or maintain the market prices or yields of the Bonds at levels above those that might otherwise prevail in the open market and discontinue such stabilizing, if commenced, at any time.

The Authority and the Corporation acknowledge and agree that: (i) the transaction contemplated by this Purchase Contract is an arm’s length, commercial transaction between the Authority and the Corporation on one side and the Underwriters on the other side in which each Underwriter is acting solely as a principal and is not acting as a municipal advisor, financial advisor or fiduciary to the Authority or the Corporation; (ii) neither Underwriter has assumed any advisory or fiduciary responsibility to the Authority or the Corporation with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether either Underwriter or its affiliates have provided other services or is currently providing other services to the Authority or the Corporation on other matters); (iii) the only obligations the Underwriters have to the Authority and the Corporation with respect

to the transaction contemplated hereby are expressly set forth in this Purchase Contract and the Underwriters have financial and other interests that differ from those of the Authority and the Corporation; and (iv) the Authority and the Corporation have each, to the extent it has deemed appropriate, consulted its own respective legal, accounting, tax, financial and other advisors, as applicable.

3. Approval of Official Statement and Other Documents.

The Authority and the Corporation will deliver or cause to be delivered to the Underwriters copies of the final Official Statement executed by the Corporation in substantially the form of the Preliminary Official Statement dated June 1, 2014 (the "Preliminary Official Statement") with only such changes therein as shall have been approved by the Authority, the Corporation and the Underwriters (which Official Statement, including the front cover page and all summary statements, exhibits, appendices, reports and statements included with or attached to it and any amendments and supplements that may be authorized by the Authority and the Corporation, and to which the Underwriters do not reasonably object, for use with respect to the Bonds, is hereafter called the "Official Statement"), executed on behalf of the Corporation by a duly authorized officer of the Corporation. It is acknowledged by the Authority and the Corporation that the Underwriters may delivery the Preliminary Official Statement and a final Official Statement electronically over the internet and in printed paper form. For purposes of this Purchase Agreement, the printed paper form of the Preliminary Official Statement and the Official Statement are deemed controlling. For purposes of this Purchase Agreement, the printed paper form of the Preliminary Official Statement and the Official Statement are deemed controlling. The Corporation has deemed the Preliminary Official Statement final as of its date and as of the date hereof for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("SEC Rule 15c2-12"), except for any information which is permitted to be omitted therefrom in accordance with paragraph (b)(1) thereof.

Within seven Business Days after the date hereof, and in any event not later than two business days before the Closing , the Authority and the Corporation shall deliver, or cause to be delivered, to the Underwriters, executed copies of the Official Statement relating to the Bonds dated the date hereof. The Authority and the Corporation shall execute the Official Statement by an authorized officer of the Authority and the Corporation, respectively. The Official Statement shall be provided for distribution, at the expense of the Corporation, in such quantity as shall be reasonably requested by the Underwriters in order to permit each participating underwriter to comply with the provisions of SEC Rule 15c2-12 and the applicable rules of the Municipal Securities Rulemaking Board with respect to distribution to each potential customer, upon request, and to each customer of a copy of the final Official Statement. The Underwriters agree to file a copy of the Official Statement, including any amendments or supplements thereto prepared by the Authority and the Corporation with the MSRB on its Electronic Municipal Markets Access ("EMMA") system.

The Corporation approves and authorizes the Official Statement and the Corporation consents to the use of the Preliminary Official Statement and Official Statement by the Underwriters and has authorized or approved or will authorize or approve the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deposit Account

Control Agreement, the Environmental Indemnity Agreement, dated as of June 1, 2014 (the “Environmental Indemnity Agreement”), of the Corporation, the Deed of Trust and the Tax Exemption Agreement, dated the date of Closing (the “Tax Exemption Agreement”), among the Corporation, the Authority and the Trustee, each with only such subsequent changes as may be approved by the Authority, the Underwriters and the Corporation.

4. Representations and Agreements of the Authority.

The Authority represents to and agrees with the Underwriters and the Corporation that:

(a) The Authority is duly organized and existing under the Constitution and the laws of the State of California, has and will have at the Closing the power and authority to issue and perform its obligations under the Bonds, enter into and perform its obligations under the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Tax Exemption Agreement and this Purchase Contract (collectively, the “Authority Documents”), to adopt the resolution authorizing the Authority Documents and the transactions contemplated hereunder and thereunder (the “Bond Resolution”), to deliver and sell the Bonds to the Underwriters, and when executed and delivered by the respective parties thereto, the Authority Documents will constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors’ rights generally and by the application of equitable principles if equitable remedies are sought, by the exercise of judicial discretion, and by the limitation on legal remedies against agencies of the State of California (the “State”).

(b) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Bonds and the Authority Documents.

(c) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the approval or adoption, as applicable, of the Authority Documents, the issuance of the Bonds or the due performance by the Authority of its obligations under the Authority Documents and the Bonds, have been duly obtained.

(d) The Authority is not in breach of or in default under any applicable constitutional provision, law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets is otherwise subject, which breach or default would have a material adverse effect on the Authority’s ability to perform its obligations under the Bonds or the Authority Documents and no event has occurred and is continuing which constitutes, or with the passage of time or the giving of notice or both would constitute, a breach of or a default or an event of default under

any such instrument, which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Bonds or the Authority Documents.

(e) The Authority Documents, the Bond Resolution and the Bonds do not and will not conflict with or create a breach or default under any existing law, regulation, order or agreement to which the Authority is subject or by which it is bound.

(f) 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, public board or body in which service of process has been completed on the Authority, or pending or threatened against or affecting the Authority or affecting the existence of the Authority, the titles of its officers to their respective offices or the boundaries of the Authority, or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or in any way contesting or affecting the transactions contemplated hereby or the validity or enforceability of the Bonds, the Bond Resolution or the Authority Documents, the adoption of the Bond Resolution or the execution and the delivery of the Authority Documents or contesting in any way the completeness or accuracy of the Official Statement or the existence or powers of the Authority relating to the sale of the Bonds.

(g) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has approved and authorized the distribution of the Preliminary Official Statement and the Official Statement and the consummation by the Authority of the transactions contemplated thereby.

(h) The statements and information contained in the Official Statement under the captions "THE AUTHORITY" and "LITIGATION – Authority" are true and correct in all material respects, and the information contained under the captions "THE AUTHORITY" and "LITIGATION – Authority" in the Official Statement does not contain an untrue statement of a material fact or omit any statement or information concerning the Authority which is necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading in any material respect.

(i) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters, at the expense of the Underwriters or the Corporation as the Underwriters may reasonably request in endeavoring (i) to qualify the Bonds for offer and sale under the "Blue Sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the Authority be required to take any action that would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject.

(j) If before the "end of the underwriting period" (as defined in SEC Rule 15c2-12), an event occurs, of which the Authority has knowledge, which might or would cause the information contained in the Official Statement under the headings "THE AUTHORITY" or "LITIGATION – Authority" as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make such information therein, in

the light of the circumstances under which it was presented, not misleading, or if the Authority is notified by the Corporation pursuant to the provisions of this Purchase Contract or otherwise requested to amend, supplement or otherwise change the Official Statement, the Authority will notify the Underwriters and the Corporation, and if in the opinion of the Representative such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will cooperate with the Corporation and the Underwriters to amend or supplement the Official Statement in a form and in a manner approved by the Underwriters, provided all expenses thereby incurred will be paid by the Corporation.

(k) During the period described in the preceding paragraph, (i) the Authority will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Corporation or the Underwriters shall reasonably object in writing or which shall be disapproved by any of their respective counsel and (ii) if any event relating to or affecting the Authority shall occur as a result of which it is necessary, in the opinions of counsel for the Underwriters, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Authority will cooperate with the Corporation and the Underwriters to prepare and furnish to the Underwriters and the Corporation (at the expense of the Corporation) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriters) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.

(l) The execution and delivery of this Purchase Contract by the Authority shall constitute a representation by the Authority to the Underwriters that the representations and agreements contained in this Section are true as of the date hereof; provided, however, that as to information furnished by the Corporation pursuant to this Purchase Contract or otherwise, the Authority is relying solely on such information in making the Authority's representations and agreements, and as to all matters of law the Authority is relying on the advice of bond counsel; and provided, further, that no member, officer, agent or employee of the governing body of the Authority shall be individually liable for the breach of any representation, warranty or agreement contained herein.

5. Representations, Warranties and Covenants of the Corporation.

In order (i) to induce the Underwriters to enter into this Purchase Contract and (ii) to induce the Authority to enter into the Indenture, the Loan Agreement, the Tax Exemption Agreement, the Contract of Insurance, the Regulatory Agreement and this Purchase Contract and to issue the Bonds for the purposes stated above, with full acknowledgment and appreciation that the investment value of the Bonds and the ability of the Authority to sell and the Underwriters to resell the Bonds are dependent upon the credit standing of the Corporation, and in consideration of the foregoing and of the execution and delivery of this Purchase Contract by the other parties hereto, the Corporation represents and warrants to and covenants with the Authority and the Underwriters that:

(a) The Corporation is a nonprofit public benefit corporation duly incorporated and validly existing under the laws of the State, and has (or, if not presently required for conduct of its business as described in the Official Statement, will timely obtain and maintain) all necessary licenses and permits required to carry on its business and to operate all of its property. The Corporation has not received any notice of an alleged violation and, to the best of its knowledge, is not in violation of any zoning, land use or other similar law or regulation applicable to any of its property which would materially adversely affect its operations or financial condition. The Corporation has full right, power and authority to approve and, as applicable, enter into and deliver the Official Statement, the Indenture, the Loan Agreement, the Environmental Indemnity Agreement, the Tax Exemption Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Deposit Account Control Agreement, the Continuing Disclosure Agreement and this Purchase Contract and to perform other acts and things as provided for in and as described in the Official Statement.

(b) The execution and delivery by the Corporation of the Official Statement, the Loan Agreement, the Tax Exemption Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Deposit Account Control Agreement, the Environmental Indemnity Agreement, the Continuing Disclosure Agreement and this Purchase Contract and the other documents contemplated herein and therein and the compliance with the provisions of any and all of the foregoing documents and the application of the proceeds of the Bonds, together with certain other moneys, for the purposes described in the Official Statement, do not and will not conflict with or result in the breach of any of the terms, conditions or provisions of, or constitute a default under, the Articles of Incorporation or the By-Laws of the Corporation or any other material agreement, indenture, mortgage, lease or instrument by which the Corporation or any of its property is or may be bound or any existing law or court or administrative regulation, decree or order which is applicable to the Corporation or any of its property.

(c) No default, event of default or event which, with notice or lapse of time, or both, would constitute a default or an event of default under the Loan Agreement, the Environmental Indemnity Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Deposit Account Control Agreement, the Continuing Disclosure Agreement, the Tax Exemption Agreement or under this Purchase Contract (collectively, the “Corporation Documents”) or any other material agreement or material instrument to which the Corporation is a party or by which the Corporation is or may be bound or to which any property of the Corporation is or may be subject has occurred and is continuing.

(d) The Corporation has duly authorized all necessary action to be taken by it for: (i) the issuance and sale of the Bonds by the Authority upon the terms and conditions set forth herein, in the Official Statement and in the Indenture, (ii) the execution and delivery of the Official Statement and the Corporation Documents and any and all such other agreements and documents as may be required to be executed or delivered by the Corporation in order to carry out, effectuate and consummate the transactions contemplated herein and therein.

(e) The Corporation has, and will have at the date of Closing, good and marketable fee simple title to the real property described in the Deed of Trust and has, and will have at the date of Closing, good and marketable title to the personal property described in the Regulatory

Agreement (collectively with the real property described therein, the “Property”), in each case subject only to Permitted Encumbrances, as defined in the Regulatory Agreement; and there are no laws, ordinances, agreements or restrictions affecting land use, zoning and development known to the Corporation after due inquiry which would prohibit the current use of such Property for its intended use.

(f) Any liens, encumbrances, covenants, conditions and restrictions on the property do not materially adversely affect the value of, or materially interfere with or materially impair the operation of, the property affected thereby for the purpose for which it was acquired or is held by the Corporation (or, if such Property is not being operated, the operation for which it was designated or last modified).

(g) As of the date hereof, the Official Statement, including financial and statistical data contained in the Official Statement (other than statements and information contained therein under the captions “THE AUTHORITY,” “LITIGATION – The Authority,” “CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM,” “TAX MATTERS” or APPENDIX D to the Official Statement, as to which the Corporation makes no representation), does not, and will not as of the date of Closing, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

(h) The Corporation will not take or omit to take any action which will in any way cause or result in the proceeds of the sale of the Bonds being applied in a manner other than as provided in the Indenture and the Loan Agreement or as described in the Official Statement.

(i) Except as may be described in the Official Statement, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any public board or body pending or, to the knowledge of the Corporation seeking to restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, in any way contesting or affecting any authority for the issuance of the Bonds or the validity of binding effect of any of the Legal Documents, or threatened against or affecting the Corporation or its property (and, to the knowledge of the Corporation, there is no meritorious basis therefor) wherein an unfavorable decision, ruling or finding would have a material adverse effect on (i) the financial condition of the Corporation or the operation of such property, (ii) the transactions contemplated in this Purchase Contract and in the Official Statement, or (iii) the tax-exempt status of the Corporation, or would have an adverse effect on the validity or enforceability of the Bonds, the Official Statement, any of the Corporation Documents or any other material agreement or instrument by which the Corporation or any of its Property is or may be bound, or would in any way contest the corporate existence or powers of the Corporation or would in any way adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes or the amounts to be received by the Authority pursuant to the Indenture or the Loan Agreement.

(j) On or before the date of Closing, the Corporation shall execute the Official Statement and the Corporation Documents. This Purchase Contract is and, when executed and delivered, the other Corporation Documents will be, valid and binding obligations of the Corporation enforceable in accordance with their respective terms (i) subject to any applicable

bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally from time to time in effect and to the availability of equitable remedies and subject to the further qualification that the indemnification provisions of this Purchase Contract may be limited by federal or state securities laws; (ii) provided that enforcement of the Loan Agreement and the Regulatory Agreement is subject to the qualifications that (A) the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, fraudulent conveyance, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by the availability of equitable remedies; (B) the provisions of the Loan Agreement requiring payments may not be enforceable if such payments (a) are requested to be made from any assets which are donor restricted or which are subject to a direct, express or charitable trust which does not permit the use of such assets for such payments; (b) are requested with respect to payments for a purpose which is not consistent with the charitable purpose of the Corporation from which such payment is requested or which was incurred or issued for the benefit of any entity other than a nonprofit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not a "private foundation" as defined in Section 509(a) of the Code; (c) would result in the cessation or discontinuation of any material portion of the senior care and housing or related services previously provided by the Corporation from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws. The Loan Agreement is consistent with the charitable purposes of the Corporation and does not violate any applicable usury laws.

(k) The Corporation (i) has been determined to be and is exempt from federal income taxes under Section 501(a) of the Code or its statutory predecessor, by virtue of being an organization described in Section 501(c)(3) of the Code, (ii) is not a "private foundation" as defined in Section 509(a) of the Code, and (iii) has not impaired its status as an organization exempt from federal income taxes under the Code and will not, while any of the Bonds remain outstanding, impair its status as a "501(c)(3) organization" as that term is used in Section 145 of the Code.

(l) To the extent such can be obtained as of this date, all approvals from any governmental agency, as may be necessary, consents, authorizations, certifications and other orders of any governmental authority, board, agency or commission having jurisdiction, and all filings with such entities, which would constitute a condition precedent to or would materially adversely affect the performance by the Corporation of its obligations hereunder or under the Corporation Documents or the consummation of the transactions contemplated in the Official Statement have been duly obtained, or will be obtained in due course.

(m) Any certificate signed by an authorized officer of the Corporation and delivered to the Authority or the Underwriters shall be deemed a representation and warranty by the Corporation to the Authority and the Underwriters as to the accuracy of the statements made therein.

(n) The Corporation agrees to cooperate reasonably with the Underwriters and their counsel in any endeavor to qualify the Bonds for offering and sale under the securities or "Blue Sky" laws of such jurisdictions of the United States as the Underwriters may request; provided,

however, that the Corporation shall not be required to qualify to do business in any jurisdiction where it is not now so qualified, or to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject. The Corporation ratifies and consents to the use by the Underwriters of drafts of the Preliminary Official Statement and of the Official Statement prior to the availability of the Official Statement in obtaining such qualification. The Corporation shall pay all expenses and costs (including legal fees) incurred in connection with such qualification.

(o) The Corporation is not engaged in termination proceedings as to its participation in third party reimbursement or payment arrangements nor has it received notice that its current participation in any third party reimbursement or payment arrangements is subject to any contest, termination or suspension as a result of alleged violations or any non-compliance with participation requirements.

(p) The Corporation has complied with all applicable requirements of the United States and the State, and of their respective agencies and instrumentalities, to operate its facilities substantially as they are being operated and are fully qualified by all necessary permits, licenses, certifications, accreditations and qualifications and is in compliance with all annual filing requirements of the State.

(q) To the best knowledge of the Corporation, after due inquiry, (i) other than those Hazardous Substances (as hereinafter defined) used in the course of operation of its continuing care facilities in accordance with federal, state and local laws and regulations, and except as set forth in the Official Statement, no dangerous, toxic or hazardous pollutants, contaminants, chemicals, waste, materials or substances, as defined in or governed by the provisions of any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating thereto (collectively, "Environmental Regulations"), including urea formaldehyde, polychlorinated biphenyls, nuclear fuel or waste, radioactive materials, explosives, carcinogens and petroleum products, or any other waste, material, substance, pollutant or contaminant which would subject the owner of the Property to any damages, penalties or liabilities under any applicable Environmental Regulation (collectively, "Hazardous Substances") are now or have been stored, located, generated, produced, processed, treated, transported, incorporated, discharged, emitted, released, deposited or disposed of in, upon, under, over or from the Property; (ii) the Property has not been used as or for a mine, a landfill, a dump or other disposal facility or a gasoline service station; (iii) no person, party, or private or governmental agency or entity has given any notice of or asserted any claim, cause of action, penalty, cost or demand for payment or compensation, whether or not involving any injury or threatened injury to human health, the environment or natural resources, resulting or allegedly resulting from any activity or event described in (i) above; (iv) there are not now any actions, suits, proceedings or damage settlements relating in any way to Hazardous Substances in, upon, under, over or from the Property; and (v) the Property is not subject to any lien or claim for lien or threat of a lien in favor of any governmental entity or agency as a result of any release or threatened release of any Hazardous Substance, except for those Hazardous Substances identified in the [Phase I Environmental Reports] prepared in connection with the transaction contemplated hereby.

(r) With respect to any pension plan (the “Plan”) in which the Corporation participates and with regard to compliance by the Corporation with ERISA (i) neither any Plan nor the trusts created thereunder, nor any trustee or administrator thereof, has engaged in a “prohibited transaction,” as such term is defined in Section 4975 of the Code, which would subject the Plan, any such trust, or any trustee or administrator thereof, or any party dealing with the Plan or any such trust to the tax or penalty on prohibited transactions imposed by Section 4975 of the Code; (ii) the performance of the transactions contemplated by the Official Statement will not involve any prohibited transaction (other than an exempt prohibited transaction); (iii) neither any Plan nor any such trusts have been terminated, nor have there been any “reportable events,” as such term is defined in Section 4043 of ERISA, since the effective date of ERISA except for the reportable events heretofore disclosed to the Underwriters in writing which had no material adverse effect on the financial conditions or results of operation of the Corporation; and (iv) neither the Plan nor any such trusts have incurred any “accumulated funding deficiency,” as such term is defined in Section 302 of ERISA (whether or not waived), since the effective date of ERISA. In addition, the Corporation, and any subsidiary, member of a controlled group or affiliated service group in which the Corporation is a member or has an interest, (i) has fulfilled in all material respects its obligations under the minimum funding standards of ERISA and the Code with respect to each of its pension plans; (ii) is in compliance in all material respects with the presently applicable provisions of ERISA, the Code and the Plan; and (iii) has not incurred any material and past due liability to the Pension Benefit Depository Trust Agreement Corporation. Neither the Corporation nor any subsidiary, member of a controlled group or affiliated service group in which the Corporation is a member or has an interest, is required to make or accrue, nor has ever made or accrued, an obligation to make a material contribution to a “multiemployer plan” as defined in Section 3(37)(A) of ERISA or Section 414 of the Code.

(s) The Corporation has not been in default in the past [10 years] as to principal or interest with respect to any obligation issued by or guaranteed by the Corporation or with respect to which the Corporation is an obligor, other than a default which was subsequently waived by the party holding the obligation.

(t) Between the date hereof and the time of the Closing, the Corporation shall not, without the prior written consent of the Representative, offer or issue in any material amount any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, except in the course of normal business operations of the Corporation or except for such borrowings as may be described in or contemplated by the Official Statement.

(u) During the last five years, the Corporation has not failed to materially comply with any previous undertaking relating to continuing disclosure of information pursuant to Rule 15c2-12.

By delivering an executed copy of the Official Statement to the Underwriters, the Corporation shall be deemed to have reaffirmed, with respect to the Official Statement, and as of its date, the representations, warranties and covenants set forth above with respect to the Official Statement.

6. Closing.

At 8:00 A.M., California time, on June __, 2014, or at such other time or such other date as shall have been mutually agreed upon by the Authority, the Corporation and the Underwriters, the Authority will direct the Trustee to release the Bonds through the services of The Depository Trust Company (“DTC”), in such form as shall be acceptable to DTC (which shall include printed or typewritten Bonds if and to the extent required by DTC which shall be registered in the name of such nominee of DTC as DTC shall require) for the account of the Underwriters, duly executed by the Authority and authenticated by the Trustee, together with the other documents hereinafter mentioned, and the Underwriters will accept such delivery and pay the purchase price of the Bonds.

Payment of the purchase price for the Bonds will be made with immediately available funds by wire transfer to the Trustee for the account of the Authority, and the Bonds shall be delivered, as facilitated by Chapman and Cutler LLP (“Bond Counsel”), upon payment therefor. Such payment and delivery is herein called the “Closing.” The Bonds will be delivered as definitive fully registered bonds in denominations required by the Indenture. It is expected that the Bonds shall be available in definitive form for delivery to the Trustee on behalf of DTC not less than one business day prior to the Closing, subject to release by the Trustee by Fast Automated Securities Transfer upon completion of the Closing. The Bonds will be made available by Bond Counsel to the Underwriters for checking not less than 24 hours prior to the Closing.

7. Termination of Purchase Contract.

The Underwriters shall have the right to cancel their respective obligations to purchase the Bonds if, between the date hereof and the date of Closing, (i) legislation shall be enacted or actively considered for enactment by the Congress, or recommended by the President of the United States to the Congress for passage, or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or the United States Tax Court shall be rendered, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other agency or department of the United States shall be made or proposed to be made which has the purpose or effect, directly or indirectly, of imposing federal income taxes upon revenues or other income to be derived by the Authority from payments made by the Corporation on the Loan Agreement, or upon interest on the Bonds or under the Indenture; (ii) any other action or event shall have transpired which has the purpose or effect, directly or indirectly, of materially adversely affecting the federal income tax consequences of any of the transactions contemplated in connection herewith or contemplated by the Official Statement, including the tax-exempt status of the Corporation under Sections 501(a) and 501(c)(3) of the Code and, in the reasonable opinions of the Underwriters, materially adversely affects the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Underwriters of the Bonds; (iii) legislation shall be enacted, or actively considered for enactment by the Congress, with an effective date prior to the date of Closing, or a decision by a court of the United States shall be rendered, or a ruling or regulation by the Securities and Exchange Commission or other governmental agency having

jurisdiction of the subject matter shall be made, the effect of which is that (A) the Bonds are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended, and as then in effect, or the Securities Exchange Act of 1934, as amended, and as then in effect, or (B) the Indenture is not exempt from the registration, qualification or other requirements of the Trust Indenture Act of 1939, as amended, and as then in effect; (iv) a stop order, ruling or regulation by the Securities and Exchange Commission shall be issued or made, the effect of which is that the issuance, offering or sale of the Bonds, as contemplated herein or in the Official Statement, is in violation of any provision of the Securities Act of 1933, as amended, and as then in effect, the Securities Exchange Act of 1934, as amended, and as then in effect, or the Trust Indenture Act of 1939, as amended, and as then in effect; (v) there shall occur any event which in the reasonable judgment of the Underwriters either (A) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement (other than any statement or information provided by the Underwriters) or (B) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect and, in either such event, the Authority or the Corporation refuses to permit the Official Statement to be supplemented to correct or supply such statement or information, or the effect of the Official Statement as so corrected or supplemented is, in the reasonable judgment of the Underwriters, to materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Underwriters of the Bonds; (vi) there shall occur any outbreak of hostilities or any national or international calamity or crisis or a financial crisis the effect of which on the financial markets of the United States is, in the reasonable judgment of the Underwriters, to materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Underwriters of the Bonds; (vii) a general suspension of trading on the New York Stock Exchange is in force, the effect of which on the financial markets of the United States is, in the reasonable judgment of the Underwriters, to materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Underwriters of the Bonds; (viii) a general banking moratorium is declared by federal, California, Illinois or New York authorities, the effect of which on the financial markets of the United States is, in the reasonable judgment of the Underwriters, to materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Underwriters of the Bonds; (ix) there occurs any material adverse change in the affairs, operations or financial condition of the Corporation, except as set forth or contemplated in the Official Statement, such as would, in the reasonable judgment of the Underwriters, materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Underwriters of the Bonds; (x) any rating on the Bonds by a national rating agency (“Rating Agency”) shall be withdrawn or downgraded; (xi) the Official Statement is not executed, approved and delivered in accordance with Section 3 above; (xii) the declaration of war or engagement in or escalation of military hostilities by the United States or the occurrence of any other national emergency or calamity or terrorism affecting the operation of the government of, or the financial community in, the United States; (xiii) the occurrence of a major financial crisis, a material disruption in commercial banking or securities settlement or clearance services, or a material disruption or deterioration in the fixed income or municipal securities market; (xiv) any change in or particularly affecting the Authority, the Corporation, the Act, the Resolutions, the Authority Documents, the Corporation Documents or the Revenues as the foregoing matters are

described in the Official Statement, which in the professional judgment of the Representative materially impairs the investment quality of the Bonds; or (xv) an order, decree or injunction of any court of competent jurisdiction, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities laws as amended and then in effect.

8. Conditions to the Underwriters' Obligations.

The obligations of the Underwriters hereunder shall be subject to the performance by the Authority and the Corporation of their respective obligations to be performed hereunder at and prior to the Closing, to the accuracy in all material respects, in the reasonable judgment of the Underwriters, of the representations and warranties of the Authority and the Corporation herein as of the date hereof and as of the time of the Closing and, in the reasonable discretion of the Underwriters, to the following conditions, including the delivery by the Authority and the Corporation, as the case may be, of such documents as are enumerated herein in form and substance reasonably satisfactory to the Underwriters and Hawkins Delafield & Wood LLP, counsel to the Underwriters:

(a) At the time of the Closing, (i) the Corporation Documents, the Bonds and the Indenture shall be in full force and effect in the form heretofore approved by the Authority, the Corporation and the Underwriters and none of the foregoing documents shall have been amended, modified or supplemented from the forms thereof on deposit with the staff of the Authority as of the date hereof, except as may have been approved in writing by the Underwriters, the Closing in all events, however, to be deemed such approval, (ii) the net proceeds of the sale of the Bonds and any other funds to be transferred to the Trustee or provided by the Corporation shall be deposited and applied as described in the Official Statement; (iii) the Authority and the Corporation (and, if necessary, the respective members of each thereof) shall have duly adopted and there shall be in full force and effect such resolutions as, in the opinion of Bond Counsel and counsel to the Underwriters, are necessary in connection with the transactions contemplated herein and in the Official Statement; (iv) the Authority and the Corporation shall have delivered to the Underwriters final Official Statements by the time, and in the numbers, required by this Bond Purchase Contract; and (v) all necessary action of the Authority and the Corporation with respect to the Authority Documents, the Corporation Documents and the Official Statement shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect.

(b) At the Closing, the Authority shall cause the Bonds to be delivered to the Underwriters or its agents as provided in Section 6.

(c) At or prior to the Closing, the Underwriters shall receive the following documents in such number of counterparts as shall be mutually agreeable to the Underwriters, the Authority and the Corporation:

(1) The approving opinion of Bond Counsel, dated the Closing Date, in substantially the form set forth in APPENDIX D to the Official Statement, a reliance letter relating to such approving opinion addressed to the Underwriters, and the supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Authority, the Underwriters and the Trustee, in substantially the form set forth in APPENDIX B hereto;

(2) The opinion of County Counsel, counsel to the Authority, dated the date of Closing, addressed to the Underwriters, in substantially the form set forth in APPENDIX C hereto;

(3) The opinion of Gordon & Rees, LLP, counsel to the Corporation (“Corporation Counsel”), dated the Closing Date and addressed to the Authority, the Underwriters, the Corporation, Bond Counsel, the Trustee and the Office, in substantially the form set forth in APPENDIX D hereto;

(4) The opinion of Hawkins Delafield & Wood LLP, counsel to the Underwriters, dated the date of Closing, addressed to the Underwriters;

(5) The opinion of counsel to the Office, dated the date of Closing, in form satisfactory to the Underwriters;

(6) A certificate executed by the Corporation with respect to the affairs of, matters relating to and documents or instruments to be executed, delivered, accepted or approved by the Corporation, addressed to the Underwriters, the Authority and the Trustee dated the date of Closing, signed by authorized officers, in form and substance satisfactory to the Underwriters, to the effect that (i) the descriptions and information contained in the Official Statement were as of its date, and are as of the date of Closing, true and correct in all material respects and the Official Statement, as of the date of Closing, does not contain any untrue statement of a material fact and the Preliminary Official Statement did not omit, and the Official Statement, as of its date and as of the date of the Closing, does not omit, to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not be deemed to cover or apply to statements in or omissions from the Preliminary Official Statement or the Official Statement under the captions “THE AUTHORITY” or “LITIGATION – Authority” or “CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM;” (ii) no litigation or proceeding is pending or, to the knowledge of the Corporation, threatened in any court, tribunal or administrative body, nor is there any basis for any litigation which would (a) contest the due organization, corporate existence or corporate powers of the Corporation, (b) contest or affect the validity or execution of the Indenture, the Corporation Documents and this Purchase Contract or the execution of the Official Statement, (c) limit, enjoin or prevent (1) the Corporation from functioning, or (2) the Corporation from making payments under the Loan Agreement, (d) restrain or enjoin the issuance or delivery of the Bonds, the execution or delivery of the Indenture, the Corporation Documents or this Purchase Contract, the collection of Revenues (as defined in the Indenture) pledged under the Indenture or the application of the proceeds of sale of the Bonds as provided in the Indenture, (e) contest or affect the issuance or the validity of the Bonds or the Indenture, or (f) adversely affect the federal tax-exempt status of the interest on the Bonds or the amounts to be received by the Authority pursuant to the Loan

Agreement or the Indenture; (iii) no event affecting the Corporation has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose for which it is to be used or which is necessary to disclose in order to make the statements and information made therein not misleading in any material respect as of the time of the Closing; (iv) the representations and warranties of the Corporation in the Official Statement, any of the Corporation Documents and this Purchase Contract are true and correct in all material respects as of the date of Closing; (v) such officers have no knowledge of any defect in the title to the Property of the Corporation or of any lien affecting such Property, other than the Permitted Encumbrances; (vi) there has been no change or threatened change in the status of the Corporation as a Section 501(c)(3) organization as defined in Section 145 of the Code and not a private foundation as described in Section 509(a) of the Code; (vii) at the time of the Closing, no default or event of default has occurred and is continuing, and no event has occurred and is continuing which, with the lapse of time or the giving of notice, or both, would constitute a default or an event of default under any of the Corporation Documents or this Purchase Contract or any other material agreement or material instrument to which the Corporation is a party or by which it is or may be bound or to which any of its Property or other assets is or may be subject, including all such agreements or instruments to which the Authority is a party; and (viii) the resolutions of the Board of Directors of the Corporation authorizing and approving the transactions described or contemplated in this Purchase Contract or in the Official Statement and the execution or approval, as necessary, of the respective forms, as the case may be, of the Corporation Documents and this Purchase Contract, and the Bonds have been duly adopted by such Board, are in full force and effect and have not been modified, amended or repealed; provided, that, in the event that, in response to (ii) above, such certificate shall disclose any litigation or proceeding that is pending or threatened, or the Underwriters or the Authority may accept in lieu of or in conjunction with such certificate the opinion of counsel handling such litigation or proceeding that such litigation or proceeding is without merit;

(7) Certificate of the Authority in substantially the form set forth in APPENDIX E hereto;

(8) The Official Statement executed on behalf of the Corporation by a duly authorized officer;

(9) Letters from Dixon Hughes Goodman LLC consenting to the attachment of its Financial Feasibility Report, dated [_____, 2014] (the “Feasibility Study”) to the Preliminary Official Statement and the Official Statement as “APPENDIX B – FINANCIAL FEASIBILITY REPORT” and to all references to its firm in the Preliminary Official Statement and the Official Statement;

(10) The Indenture, the Loan Agreement, the Environmental Indemnity Agreement, the Tax Exemption Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Deposit Account Control Agreement, the Continuing Disclosure Agreement, the Bonds and this Purchase Contract duly executed by the respective parties thereto;

(11) A copy of the resolutions of the Board of Directors and committees thereof (if any) authorizing or approving the execution and delivery of the respective documents required to be executed and delivered by the Corporation;

(12) A copy of the Articles of Incorporation and a certificate of the existence of the Corporation, certified by the Secretary of State of the applicable state;

(13) A copy of the By-laws of the Corporation and each Guarantor, in each case certified by the respective Secretary or Assistant Secretary;

(14) Evidence, satisfactory to the Underwriters and the Authority, to the effect that the Corporation is an organization described in Section 501(c)(3) of the Code and is not a “private foundation” as that term is used in the Code;

(15) Specimen Bonds;

(16) Certificates of insurance satisfactory to the Underwriters and the Authority, dated the date of the Closing, to the effect that the insurance coverage and self-insurance program, if any, that the Corporation complies with the applicable requirements of the Regulatory Agreement and with the descriptions thereof set forth in the Official Statement;

(17) A certificate of the Trustee to the effect that all moneys and securities delivered to the Trustee under and pursuant to the Indenture have been duly deposited to the credit of the appropriate funds established under or in accordance with the Indenture or otherwise applied as provided in the Indenture and that the Trustee has no knowledge of any default under the Indenture;

(18) The certificates and opinions required by the Indenture for the issuance thereunder of the Bonds;

(19) A lender’s title insurance policy covering the property subject to the Deed of Trust with such affirmative coverages and endorsements as may be reasonably requested by the Underwriters and without those exceptions thereto the removal of which the Underwriters have reasonably requested, including any survey exception, all in form and substance satisfactory to the Underwriters, and an ALTA Survey for the property subject to the Deed of Trust in form and substance satisfactory to the Underwriters;

(20) Receipts or other evidence that financing statements have been filed for record with the Secretary of State of the State of California with respect to the security interests granted or assigned by the Indenture, the Regulatory Agreement and the Loan Agreement;

(21) Information Return for Private Activity Bond Issues, IRS Form 8038 as to the Bonds, executed by the Authority;

(22) Copies of material licenses and permits issued to the Corporation to operate the facilities financed or refinanced with the proceeds of the Bonds;

(23) A certificate executed by the Corporation which establishes to the satisfaction of Bond Counsel that the weighted average maturity of the Bonds does not exceed 120% of the reasonably expected economic life of the assets financed with the proceeds thereof;

(24) Copies of all required governmental approvals relating to the issuance of the Bonds and the insurance of the Bonds by the Office, including letters of non-reviewability and certificates of need, if any;

(25) Evidence that the approval of the “applicable elected representative” after a public hearing, all as described in Section 147(f) of the Code, has been obtained (and such hearing has been held) with respect to the Bonds, and evidence, acceptable to Bond Counsel, that a public hearing was properly called and conducted in connection with the issuance of the Bonds;

(26) A copy of the Resolution authorizing or approving the execution of the respective documents required to be executed and delivered by the Authority or approving, as necessary, the forms of the Official Statement, the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance and this Purchase Contract and the other documents described in the Official Statement;

(27) Evidence that the Rating Agency has issued ratings for the Bonds that are not lower than the ratings set forth in the Official Statement and that such ratings are in effect at the date of Closing and are not then being reviewed; and

(28) Such additional legal opinions, certificates, proceedings, instruments and other documents listed on the Closing Agenda as the Underwriters, counsel to the Underwriters, Bond Counsel, or counsel to the Authority may request.

If either the Authority or the Corporation shall be unable to satisfy the conditions to the obligations of the Underwriters contained in this Purchase Contract, or if the obligations of the Underwriters to purchase and accept delivery of the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriters, the Corporation nor the Authority shall be under further obligation hereunder; except that the respective obligations to pay expenses, as provided in Section 12 hereof, and the respective obligations contained in Section 11 hereof, shall continue in full force and effect.

9. Conditions to Obligations of the Authority.

The obligations of the Authority hereunder and under the Indenture to issue the Bonds on the Closing Date shall be subject to the performance by the Underwriters of their obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) The Authority Documents shall have been executed by the other parties thereto;

(b) No order, decree, injunction, ruling or regulation of any court, regulatory agency, public board or body shall have been issued, nor shall any legislation have been enacted, with the purpose or effect, directly or indirectly, of prohibiting the offering, sale or issuance of the Bonds as contemplated hereby;

(c) The documents contemplated by Section 8 shall have been delivered substantially in the forms set forth herein or, as the case may be, in form and substance satisfactory to Bond Counsel and counsel to the Authority;

(d) The Authority's closing fee shall have been paid by wire transfer or in other immediately available funds or arrangements reasonably satisfactory to the Authority and its counsel shall have been made to pay such fees from the proceeds of the Bonds or otherwise; and

(e) The Underwriters shall provide any information to which each has access in its ordinary course of business that is requested by the Authority for purposes of its compliance with California Government Code Section 8855.

10. Survival of Representations, Warranties, Agreements, and Obligations.

Each respective representation, warranty and agreement of any of the Authority, the Corporation or the Underwriters shall remain operative and in full force and effect, regardless of any investigations made by or on behalf of the Underwriters, the Corporation or the Authority and shall survive the Closing. The obligations of the Corporation and of the Underwriters under Sections 11 and 12 hereof shall survive any termination of this Purchase Contract by the Underwriters pursuant to its terms.

11. Indemnification.

(a) The Corporation agrees to indemnify and hold harmless the Authority and its directors, trustees, members, officers, employees, attorneys and agents and each other person, if any, who has the power, directly or indirectly, to direct or cause the direction of the management and policies of the Authority pursuant to the Act or the Authority's regulations or by-laws (collectively, the "Authority Indemnified Parties"), against any and all losses, claims, damages, liabilities or expenses, including attorneys' fees and expenses, whatsoever caused by any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in the Official Statement or caused by any omission or alleged omission from the Official Statement of any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, but only insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue or misleading statement or omission or alleged untrue or misleading statement or omission in the information contained in the Official Statement other than with respect to the matters set forth under the caption "THE AUTHORITY."

The Corporation agrees to indemnify and hold harmless each Underwriter, each director, trustee, member, officer or employee of the Underwriters and each person, if any, who has the power, directly or indirectly, to direct or cause the direction of the management and policies of the respective Underwriters through the ownership of voting securities, by contract or otherwise (collectively, the "Underwriter Indemnified Parties") against any and all losses, claims, damages, liabilities or expenses whatsoever caused by any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in the Official Statement or caused by any omission or alleged omission from the Official Statement of any material fact required to be stated therein or necessary in order to make the statements made

therein, in the light of the circumstances under which they were made, not misleading, but only insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue or misleading statement or omission or alleged untrue or misleading statement or omission in the information contained in the Official Statement, but only insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue or misleading statement or omission or alleged untrue or misleading statement or omission in the information contained in the Official Statement other than with respect to the matters set forth under the caption "THE AUTHORITY" and other than to the extent that such untrue or misleading statement or alleged untrue or misleading statement or omission or alleged omission was made in reliance upon and in conformity with information furnished to the Authority or the Corporation by the Underwriters for inclusion therein.

In case a claim shall be made or any action shall be brought against one or more of the Authority Indemnified Parties or the Underwriter Indemnified Parties (the Authority Indemnified Parties and the Underwriter Indemnified Parties being collectively referred to as the "Section 11(a) Indemnified Parties") based upon the Official Statement and/or in respect of which indemnity can be sought against the Corporation pursuant to either of the preceding paragraphs, the Section 11(a) Indemnified Parties seeking indemnity shall promptly notify the Corporation, in writing, and the Corporation shall promptly assume the defense thereof, including the employment of counsel chosen by the Corporation and approved by the Underwriters or the Authority, or both (provided, that such approval by the Underwriters or the Authority shall not be unreasonably withheld, delayed or conditioned), the payment of all expenses and the right to negotiate and consent to settlement. If any of the Section 11(a) Indemnified Parties is advised in a written opinion of counsel (obtained at the expense of the Corporation) that there may be legal defenses available to such Section 11(a) Indemnified Party which are adverse to or in conflict with those available to the Corporation or that the defense of such Section 11(a) Indemnified Party should be handled by separate counsel, the Corporation shall not have the right to assume the defense of such Section 11(a) Indemnified Party, but the Corporation shall be responsible for the reasonable fees and expenses of counsel retained by such Section 11(a) Indemnified Party in assuming its own defense, and provided also that, if the Corporation shall have failed to assume the defense of such action or to retain counsel reasonably satisfactory to either Underwriter or the Authority within a reasonable time after notice of the commencement of such action, the reasonable fees and expenses of counsel retained by the Section 11(a) Indemnified Parties shall be paid by the Corporation. Notwithstanding the foregoing, any one or more of the Section 11(a) Indemnified Parties shall have the right to employ separate counsel with respect to any such claim or in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be paid by such Section 11(a) Indemnified Party or Parties unless the employment of such counsel has been specifically authorized in writing by the Corporation or unless the provisions of the immediately preceding sentence are applicable. The Corporation shall not be liable for any settlement of any such action effected without the consent of the Corporation, but if settled with the consent of the Corporation or if there be a final judgment for the plaintiff in any such action with or without consent, the Corporation agrees to indemnify and hold harmless the Section 11(a) Indemnified Parties from and against any loss, liability or expense by reason of such settlement or judgment.

(b) The Underwriters agree to indemnify and hold harmless the Authority, the Corporation, their respective directors, trustees, members, officers and employees and each person, if any, who has the power, directly or indirectly, to direct or cause the direction of the management and policies of the Authority, pursuant to the Act or the Authority's regulations or by-laws, or of the Corporation, by contract or otherwise (collectively, the "Section 11(b) Indemnified Parties"), from and against any and all losses, claims, damages, liabilities or expenses including attorney's fees and expenses related thereto, arising out of or caused by any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in the Official Statement, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, under the caption "UNDERWRITING."

The Underwriters agree to indemnify and hold harmless the Section 11(b) Indemnified Parties from and against any and all losses, claims, damages, liabilities or expenses including attorney's fees and expenses caused by the failure of the Underwriters to comply with any registration or qualification requirements applicable to such Underwriters or the Bonds under any securities or "Blue Sky" law of any jurisdiction in which such registration or qualification is required.

In case any claim shall be made or any action shall be brought against one or more of the Section 11(b) Indemnified Parties based upon noncompliance described in the preceding paragraph or based upon information furnished to the Authority or the Corporation by the Underwriters and included in the Official Statement, in respect of which indemnity is sought against the Underwriters pursuant to this Section 11(b), the Section 11(b) Indemnified Parties seeking indemnity shall promptly notify the Underwriters in writing, and the Underwriters shall promptly assume the defense thereof, including the employment of counsel reasonably satisfactory to the Authority or the Corporation, or both, the payment of all expenses and the right to negotiate and consent to settlement. If any of the Section 11(b) Indemnified Parties is advised in a written opinion of counsel that there may be legal defenses available to it which are adverse to or in conflict with those available to the Underwriters, or that the defense of such Section 11(b) Indemnified Party should be handled by separate counsel, the Underwriters shall not have the right to assume the defense of such Section 11(b) Indemnified Party, but shall be responsible for the fees and expenses of counsel retained by such Section 11(b) Indemnified party in assuming its own defense, and provided also that, if the Underwriters shall have failed to assume the defense of such action or to retain counsel reasonably satisfactory to the Corporation or the Authority, or both, within a reasonable time after notice of the commencement of such action, the fees and expenses of counsel retained by the Section 11(b) Indemnified Parties shall be paid by the Underwriters. Notwithstanding the foregoing, any one or more of the Section 11(b) Indemnified Parties shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Section 11(b) Indemnified Party or Parties unless the employment of such counsel has been specifically authorized, in writing, by the Underwriters or unless the provisions of the immediately preceding sentence are applicable. The Underwriters shall not be liable for any settlement of any such action effected without its written consent, but if settled with the written consent of the Underwriters or if there be a final judgment for the plaintiff in any such

action with or without consent based on the preceding paragraph because of information supplied by the Underwriters, the Underwriters agree to indemnify and hold harmless the Section 11(b) Indemnified Parties from and against any loss, liability or expense by reason of such settlement or judgment.

(c) In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in this Section 11 is for any reason held to be unavailable to the Underwriters, the Authority or the Corporation other than in accordance with its terms, the Underwriters and the Corporation shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by said indemnity agreement incurred by the Underwriters, the Authority, the Corporation in such proportion as is appropriate to reflect the relative fault of each of the Underwriters and the Corporation, as well as any other relevant equitable considerations; provided, however, in no event shall the Underwriters' aggregate contribution to the amount paid or payable exceed the aggregate amount of fees actually received by the Underwriters under this Purchase Contract; provided, further, that no person guilty of fraudulent misrepresentation shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section, each person, if any, who controls an Underwriter shall have the same rights to contribution as such Underwriter.

(d) The covenants and agreements of the Corporation and the Underwriters herein contained shall survive the delivery of the Bonds.

12. Expenses.

If the Bonds are sold to the Underwriters by the Authority, any expenses incident to the performance of the Underwriters', the Corporation's and the Authority's obligations hereunder including but not limited to: (i) the cost of the preparation and printing of the Official Statement, the Indenture and the Corporation Documents, together with a reasonable number of copies thereof; (ii) the cost of the preparation and printing of the definitive Bonds; and (iii) the fees and disbursements of Bond Counsel, counsel to the Authority and of any other experts or consultants retained by the Authority shall be paid by the Corporation, which includes payment from proceeds of the Bonds. The Corporation shall also pay the reasonable expenses of the Underwriters including, but not limited to: (i) any advertising expenses in connection with the public offering of the Bonds; (ii) any fees and costs incurred in connection with the qualification of the Bonds under state "Blue Sky" securities laws (including legal fees); (iii) any fees and disbursements of counsel retained by the Underwriters; and (iv) travel and related expenses. The Underwriters shall be responsible for expenses incurred in connection with Municipal Securities Rulemaking Board fees, CUSIP fees, and all expenses for communication among itself and other underwriters, if any.

The Underwriters shall pay all other expenses incurred by it in connection with the offering and distribution of the Bonds.

If the Bonds are not sold by the Authority to the Underwriters, the Corporation shall pay the Authority's fees and all expenses incident to the performance of the Authority's obligations hereunder (not included in the Authority's fees).

13. Changes Affecting the Official Statement.

No amendment or supplement to the Official Statement shall be made without the approval of the Authority, the Underwriters and the Corporation. After the Official Statement has been delivered in accordance with Section 3 hereof and for 25 days after the “end of the underwriting period” as such is described in SEC Rule 15c2-12 and below, if any event shall occur as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements therein, in light of the circumstances under which they are made, not misleading, either of the Underwriters or the Corporation having such knowledge will so advise the Underwriters, the Authority and the Corporation, as appropriate. The “end of the underwriting period” means the time that no participating underwriter retains, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. The Corporation may treat the date of Closing as the “end of the underwriting period” unless notified by the Underwriters to the contrary. In any such case, the Corporation will prepare and furnish to the Underwriters and to the dealers (whose names and addresses the Representative will furnish to the Corporation) to whom Bonds may have been sold by the Underwriters and to any other dealers upon request, either amendments to the Official Statement or supplemental information so that the statements in the Official Statement, as so amended or supplemented will not, in light of the circumstances, be misleading.

If the Authority is notified by the Corporation of an event described above, the Authority shall have the obligations set forth in Section 4(g).

14. Limitation of Liability of Authority.

The Authority shall not be directly, indirectly, contingently or otherwise liable for any costs, expenses, losses, damages, claims or actions of any conceivable kind under any conceivable theory under this Purchase Contract or any document or instrument referred to herein or by reason of or in connection with this Purchase Contract or other document or instrument except to the extent it receives amounts from the Corporation available for such purpose.

15. Miscellaneous.

(a) Any notice or other communication to be given to the Authority or the Corporation under this Purchase Contract shall be deemed given when delivered in person to their respective addresses set forth above, or when mailed by first class mail, postage prepaid, and addressed to the Chief Executive Officer and the Chief Financial Officer, respectively, at the addresses set forth above, and any notice or other communication to be given to the Representative on behalf of the Underwriters under this Purchase Contract shall be deemed given when delivered in person to the address set forth below, or when mailed by first class mail, postage prepaid, and addressed as follows: B.C. Ziegler and Company, d/b/a Ziegler Capital Markets, 200 South Wacker Drive, Suite 2000, Chicago, Illinois 60606, Attention: President.

(b) This Purchase Contract is made solely for the benefit of the Authority, the Corporation and the Underwriters (including the successors or assigns of any Underwriter and including the respective directors, trustees, members, officers, employees and controlling persons

of said parties as provided in Section 11 hereof) and no other person, including any purchaser of the Bonds, shall acquire or have any right hereunder or by virtue hereof.

(c) This Purchase Contract shall be construed in accordance with and governed by the laws of the State applicable to contracts made and performed in the State. This Purchase Contract shall be enforceable in the State, and any action arising hereunder shall (unless waived by the Authority in writing) be filed and maintained in the Superior Court of California, County of Los Angeles.

(d) The captions in this Purchase Contract are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

(e) This Purchase Contract may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

This Purchase Contract shall become effective upon your mutual acceptance hereof.

Very truly yours,
B.C. ZIEGLER AND COMPANY, for itself and as
Representative of the Underwriters

By: _____
Senior Vice President

Accepted and agreed to as of
the date first above written:

LOS ANGELES COUNTY
REGIONAL FINANING AUTHORITY

By: _____
Authorized Signatory

MONTECEDRO INC.

By: _____
[Chief Executive Officer]

By: _____
[Board President]

APPENDIX A
TERMS OF BONDS

LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS,
Series 2014A
(MonteCedro Inc. Project)

Dated: Date Of Delivery

Due: November 15, as shown below

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

<u>Maturity Date</u> (November 15)* 20__	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
	\$	%	%	%	

\$ _____ % Term Bond Due November 15, ____ Priced _____ % To Yield ____ % CUSIP[†] _____

LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
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(MonteCedro Inc. Project)

DATED: Date of Delivery

DUE: November 15, as shown below

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

	<u>Principal</u> <u>Amount*</u>	<u>Maturity Date</u> (November 15)*	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
Series 2014B-1 Bonds	\$	20__	%	%	
Series 2014B-2 Bonds	\$	20__			
Series 2014B-3 Bonds	\$	20__			
Series 2014B-4 Bonds	\$	20__			
Series 2014B-5 Bonds	\$	20__			

The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 increments. Interest on the Bonds will be payable on each May 15 and November 15 of each year, commencing November 15, 2014. The Bonds will be subject to redemption prior to maturity, as more fully described below.

Optional Redemption. The Series 2014A Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-1 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-2 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-3 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-4 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-5 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; in each case at the option of the Authority (which option shall be exercised as directed by the Corporation), in whole or in part by lot on any date (and if in part, in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity), from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption.

Series 2014A Bonds. The Authority shall pay or redeem Bonds from moneys on deposit in the Sinking Account for Outstanding Term Bonds, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium, in the amounts and at the times, as follows:

**Series 2014A Term Bond
Maturing November 15, 20__**

November 15 of the Year	Mandatory Sinking Account Payment
20__	\$
20__†	
† Stated maturity	

Series 2014B Bonds. The Series 2014B Bonds are not subject to mandatory sinking account redemption prior to their respective stated maturities.

Special Redemption. The Bonds are subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised as directed by the Corporation) in whole or in part on any date (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) from certain moneys derived from insurance or condemnation proceeds received with respect to the facilities of the Corporation required to be deposited in the Special Redemption Account pursuant to the Regulatory Agreement at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

APPENDIX B
FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

June __, 2014

Los Angeles County
Regional Financing Authority
Los Angeles, California

U.S. Bank National Association, as bond
trustee
Los Angeles, California

B.C. Ziegler and Company
Chicago, Illinois

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Los Angeles, California

\$[_____]*
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$[_____]* Series 2014A	\$[_____]* Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	\$[_____]* Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	\$[_____]* Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	\$[_____]* Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	\$[_____]* Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
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(MONTECEDRO INC. PROJECT)

Ladies and Gentlemen:

We have acted as bond counsel to MonteCedro Inc., a nonprofit public benefit corporation incorporated under the laws of the State of California (the "Corporation"), and delivered our approving opinion in connection with the issuance by the Los Angeles County Regional Financing Authority (the "Authority") of above-referenced bonds (the "Bonds"), initially dated the date hereof. The Bonds are issued under the provisions of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California, as amended, and under and pursuant to that certain Indenture dated as of June 1, 2014 (the "Indenture") between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"), as acknowledged by the Corporation.

The proceeds from the sale of the Bonds will be loaned by the Authority to the Corporation under that certain Loan Agreement dated as of June 1, 2014 (the "Loan Agreement") between the Authority and the Corporation. Pursuant to the terms of the Loan Agreement, the Corporation is obligated to make payments sufficient to pay the principal of, premium, if any, and interest on the Bonds.

Payment of the principal of and interest on the Bonds will be insured by the Office of Statewide Health Planning and Development of the State of California (the "Office") pursuant to a Contract of Insurance dated as of June 1, 2014 (the "Contract of Insurance") among the Corporation, the Authority and the Office and a Regulatory Agreement dated as of June 1, 2014 (the "Regulatory Agreement") among the Corporation, the Authority and the Office.

The proceeds from the sale of the Bonds will be used, together with certain other moneys, to (i) finance the cost of the construction, renovation and equipping of the Corporation's senior living facility located in Altadena, California (the "Project"), (ii) repay a taxable loan to the Corporation from Bank of America, N.A. (the "Bank Loan"), the proceeds of which were used to construct a portion of the Project, (iii) pay a portion of the interest on the Bonds, (iv) fund a Debt Service Reserve Account for the benefit of the Bonds, and (v) pay certain expenses incurred in connection with the issuance of the Bonds.

In connection with the issuance of the Bonds, the Authority, the Corporation and the Bond Trustee have entered into a Tax Exemption Agreement dated the date hereof (the "Tax Exemption Agreement") with respect to the Bonds, which places certain restrictions on the investment of moneys held in the funds established by the Bond Indenture and which, under certain circumstances, would require the transfer of certain moneys held in such funds to a Rebate Fund created under the Indenture.

The Bonds have been sold by the Authority pursuant to a Bond Purchase Contract dated June __, 2014 among B.C. Ziegler and Company (the "Representative") on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters"), the Corporation and the Authority (the "Bond Purchase Contract").

The Corporation has informed us that it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), that it is exempt from federal income taxes under Section 501(a) and 501(c)(3) of the Code, and that it is not a "private foundation" as defined in Section 509(a) of the Code.

In our capacity as bond counsel, we have examined, among other things, the following:

- (a) the proceedings of the members of the Authority authorizing, among other things, the execution and delivery of the Indenture, the Loan Agreement, the Bond Purchase Contract, the Tax Exemption Agreement, the Official Statement dated June __, 2014 (the "Official Statement"), the Regulatory Agreement, the Contract of Insurance and the issuance of the Bonds under the Indenture;
- (b) executed counterparts of the Indenture, the Loan Agreement, the Tax Exemption Agreement, the Official Statement, the Deed of Trust dated as of June 1, 2014 (the "Deed of Trust") from the Corporation, the Bond Purchase Contract, the Regulatory Agreement and the Contract of Insurance;
- (c) specimen Bonds and a certificate of the Bond Trustee regarding the authentication of the Bonds;
- (d) an executed opinion of County Counsel, counsel to the Authority, dated this date;

- (e) an executed opinion of Hawkins Delafield & Wood LLP, San Francisco, California, counsel to the Underwriters, dated this date; and
- (f) such other documents and showings and related matters of law 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 Indenture creates a valid assignment to the Bond Trustee as security for the payment of the Bonds of all of the Authority's right, title and interest to and under the Loan Agreement (other than those rights that are unassigned as described in the Indenture), subject to the qualification that the enforcement of the Indenture and the Loan Agreement may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights and by the availability of equitable remedies.

2. The Tax Exemption Agreement has been duly authorized by the Authority, has been duly executed and delivered by authorized officers of the Authority and, assuming the due authorization, execution and delivery thereof by the Corporation and 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, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights and by the availability of equitable remedies.

3. The Bond Purchase Contract has been duly authorized by the Authority, has been duly executed and delivered by the Authority and, assuming the due authorization, execution and delivery by the other parties thereto, 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, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights and by the availability of equitable remedies, and further subject to the qualification that the enforcement of the indemnification and contribution provisions of the Bond Purchase Contract may be limited by federal or state securities laws.

4. The Bonds are exempt securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and of Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

5. The information contained in the Official Statement under the heading entitled "TAX MATTERS" is correct in all material respects and nothing has come to our attention which would lead us to believe that the information under such heading contains an untrue statement of a material fact or that such information, taken collectively, omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. The information contained in the Official Statement under the headings entitled "THE BONDS" and "SECURITY AND

SOURCE OF PAYMENT FOR THE BONDS” and in APPENDIX C to the Official Statement entitled “SUMMARY OF PRINCIPAL DOCUMENTS” is correct in all material respects and nothing has come to our attention which would lead us to believe that the information under such headings or in such Appendix to the Official Statement contains an untrue statement of a material fact or that such information, taken collectively, omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, in all of the foregoing cases insofar as such information summarizes the provisions of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust, the Regulatory Agreement or the Contract of Insurance; provided that we express no opinion as to any information contained in or any information omitted under such headings or in such Appendix regarding the Corporation, the Office, The Depository Trust Company, Cede & Co. or the book-entry only system.

In rendering the foregoing opinions, where we have assumed the due authorization, execution and delivery of certain documents by certain parties thereto, we have not attempted to verify the correctness of the assumptions, including without limitation whether such parties have the power or authority to take such actions or whether such actions violate existing corporate articles or by-laws, agreements or court decisions or are the subject of or may be affected by any litigation.

We have not been requested, nor have we undertaken, to review any matters relating to the title of the Corporation to its property or the effectiveness or priority of the Deed of Trust.

Respectfully submitted,

APPENDIX C
FORM OPINION OF COUNSEL TO THE AUTHORITY

June __, 2014

Ziegler Capital Markets Group,
Chicago, Illinois

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Los Angeles, California

\$[_____]*
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$[_____]*	\$[_____]*	\$[_____]*	\$[_____]*	\$[_____]*	\$[_____]*
Series 2014A	Series 2014B-1	Series 2014B-2	Series 2014B-3	Series 2014B-4	Series 2014B-5
	(Tax Exempt	(Tax Exempt	(Tax Exempt	(Tax Exempt	(Tax Exempt
	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
	Paydown	Paydown	Paydown	Paydown	Paydown
	Securities	Securities	Securities	Securities	Securities
	(TEMPS-85 SM)	(TEMPS-75 SM)	(TEMPS-65 SM)	(TEMPS-55 SM)	(TEMPS-45 SM)
	(MONTECEDRO INC. PROJECT)				

We have acted as counsel to the Los Angeles County Regional Financing Authority (the “Authority”) in connection with its issuance of above-referenced bonds (the “Bonds”). In such connection, we have reviewed Resolution No. __ adopted by the Authority on [May __, 2014] (the “Resolution”), certificates of the Authority and others as to certain factual matters, and such documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. With the delivery of this letter, our engagement with respect to the Bonds has concluded, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, all parties thereto. We have assumed, without undertaking to verify independently, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. Our engagement with respect to the Bonds as counsel to the Authority was limited to the matters expressly covered by

the opinions set out below. We express no opinion as to the validity or enforceability of the Bonds or any of the documents or actions authorized by the Resolution or as to the tax status of interest on the Bonds. We also undertake no responsibility of any kind for the Official Statement or other offering material relating to the Bonds.

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

1. The Authority is a joint powers authority duly organized and validly existing under the laws of the State of California.

2. The Resolution was duly adopted at a meeting of the governing body of the Authority. The Resolution is in full force and effect and has not been amended, modified or superseded.

This letter is delivered to you as Underwriters of the Bonds, is solely for your benefit as such Underwriters and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any person other than the addressee of this letter. This letter is not intended to, and may not, be relied upon by the owners of any Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

APPENDIX D
FORM OPINION OF COUNSEL TO THE CORPORATION

[June __, 2014]

Los Angeles County
Regional Financing Authority
Los Angeles, California

U.S. Bank National Association,
as bond trustee
Los Angeles, California

B.C. Ziegler and Company
Chicago, Illinois

Office of Statewide Health Planning and
Development of the State of California
Sacramento, California

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Los Angeles, California

\$[_____]*
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$[_____]* Series 2014A	\$[_____]* Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	\$[_____]* Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	\$[_____]* Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	\$[_____]* Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	\$[_____]* Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
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(MONTECEDRO INC. PROJECT)

Ladies and Gentlemen:

We have served as counsel to MonteCedro Inc., a nonprofit public benefit corporation incorporated under the laws of the State of California (the “Corporation”), in connection with the issuance by the Los Angeles County Regional Financing Authority (the “Authority”) of \$_____ in aggregate principal amount of the above-referenced bonds (the “Bonds”), initially dated the date hereof (the “Issue Date”).

This letter is provided pursuant to Section 8(d)(3) of that certain Bond Purchase Contract dated June __, 2014 (the “Bond Purchase Contract”) among the Authority, the Corporation and B.C. Ziegler and Company (the “Representative”) on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Underwriters”).

Reference is made to the Bond Purchase Contract or the Indenture, as applicable, for a definition of each of the capitalized terms used and not otherwise defined herein. All references to the “Property” herein shall have the meaning set forth in the Deed of Trust and shall include, except as limited by context, the real property described in Exhibit A to the Deed of Trust. The

Uniform Commercial Code, as amended and in effect in the State of California on the date hereof, is referred to herein as the “California UCC.”

I.

In connection with the opinion expressed herein, we have examined such documents, records and matters of law as we have deemed necessary for the purposes of such opinion. We have examined, among other documents:

- a. The documents identified on Attachment A hereto;
- b. The documents identified on Attachment B hereto (the “Encumbrance Documents”);
- c. The Indenture;
- d. The Bond Purchase Contract;
- e. The Continuing Disclosure Agreement;
- f. The Deed of Trust;
- g. The Loan Agreement;
- h. The Regulatory Agreement;
- i. The Official Statement;
- j. The Contract of Insurance;
- k. The Tax Exemption Agreement;
- l. The Deposit Account Deposit Account Control Agreement; and
- m. Such other documents, opinions and matters we deem necessary to render the opinions set forth herein.

The documents described above as items (d) through (l) are hereinafter referred to as the “Corporation Documents.”

As to various other questions of fact material to our opinion, we have relied on certificates of officers of the Corporation without any independent investigation or verification whatsoever.

Our opinions in part II below are limited to the laws of the State of California and United States federal law. We express no opinion as to any local law, rule or regulation and we disclaim any opinion as to the laws of any other jurisdiction. We further disclaim any opinion as to any

statute, rule, regulation, ordinance, order or other promulgation of any regional or local governmental body or as to any related judicial or administrative decision.

II.

Based upon the foregoing, and subject to the assumptions, qualifications and limitations set forth herein, we are of the opinion that:

1. The Corporation is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California, and had at the time of signing the Bond Purchase Contract, and has as of the date hereof, the corporate power and authority (a) to approve the Indenture and the Corporation Documents, (b) to carry out and perform its duties and covenants contained therein, and (c) to consummate the transactions contemplated thereby.

2. The Indenture and the Bond Purchase Contract have been duly approved by the Corporation. The Corporation Documents have been duly authorized, executed and delivered by the Corporation, the Corporation Documents that chose as their governing law the law of California constitute the valid and binding agreements of the Corporation, enforceable in accordance with their terms.

3. The resolutions of the Board of Directors of the Corporation authorizing the execution and delivery of the Corporation Documents by certain officers of the Corporation and approving the Indenture were duly adopted at a meeting of the Corporation's Board of Directors, at which a quorum was present and acting throughout.

4. The approval of the Indenture by the Corporation and the execution and delivery by the Corporation of the Corporation Documents, and the consummation by the Corporation of the transactions therein contemplated and the fulfillment of or compliance with the terms and conditions thereof, (i) do not conflict with or constitute a breach or violation of or default under its Articles of Incorporation or its Bylaws, as defined in Attachment A hereto, or any resolution adopted by the Corporation, and (ii) do not in any material respect conflict with or constitute on the part of the Corporation a violation of any existing law or regulation (except for state blue sky or securities laws as to which we express no opinion) or, to our actual knowledge, a breach of or violation of or default under any material contract, agreement or instrument to which the Corporation is a party or by which it or its properties is bound, or any court order, judgment or consent decree to which the Corporation or its property is or are subject, in each case as to this clause (ii), which would (a) adversely affect the validity or enforceability against the Corporation of the Corporation Documents, or (b) have a material adverse effect upon the condition or operation, financial or otherwise, of the Corporation.

5. Neither the approval of the Indenture and the Bond Purchase Contract by the Corporation nor the execution, delivery and performance of the Corporation Documents by or on behalf of the Corporation are subject to any authorization, consent or approval of any governmental body or regulatory authority not heretofore obtained or effected, as required.

6. To our actual knowledge, 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 or threatened in writing against the Corporation (a) which is material to its operations, business and affairs and which is not or will not be covered by liability insurance or its equivalent (subject to applicable deductibles), and we have no knowledge of any reasonable basis for any such action, suit, proceeding, inquiry or investigation, (b) which would restrain or enjoin the execution or delivery of the Bonds, the Corporation Documents, the Indenture or the Bond Purchase Contract or the consummation of the transactions contemplated thereby, or (c) affecting the corporate existence of the Corporation or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the collection of revenues by the Corporation from which it is obligated to make payments under the Loan Agreement.

7. The Corporation has been recognized as and is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and has been determined to be and is exempt from federal income taxes under Section 501(a) of the Code, except for unrelated business income subject to taxation under Section 511 of the Code. The Corporation is not a “private foundation” as described in Section 509(a) of the Code. The Corporation is a corporation organized and operated exclusively for charitable or educational purposes and not for pecuniary profit, and no part of its net earnings inure to the benefit of any person, private shareholder or individual within the meaning of Section 501(c)(3) of the Code or Section 3(a)(4) of the Securities Act of 1933, as amended. To our knowledge, there is no pending or threatened change in such status and no information has come to our attention that indicates that the Corporation is no longer eligible for such status. To our knowledge and based on our review of the Tax Exemption Documents (as hereinafter defined), nothing has come to our attention to cause us to believe that the Corporation is not in compliance with the terms, conditions and limitations set forth in the IRS Determination Letter (as defined in Attachment A hereto).

8. The Corporation is duly licensed and qualified to operate and maintain its existing facilities and has all necessary corporate power and authority, and to our knowledge all necessary governmental approvals, to conduct the business now being conducted by it and as contemplated by the Corporation Documents.

9. The provisions of the Deed of Trust and the Deposit Account Control Agreement are sufficient to create a valid lien on and perfected security interest in favor of the Trustee in such right, title and interest as the Corporation may have from time to time in the deposit accounts (as defined in Section 9102(29) of the California UCC), which are established and maintained by the Corporation with the Trustee.

10. The Deed of Trust is in proper form for recording with the office of the county recorder of Los Angeles County, California, and is in a form sufficient to create, upon due recordation in such office, a lien upon the real property described therein in favor of the Deed of Trust Trustee for the benefit of the Beneficiary (as defined in the Deed of Trust).

11. The Deed of Trust is a valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.

12. A security interest in favor of the Trustee has attached under the Uniform Commercial Code, as amended and in effect in the State of California (the “California UCC”), to

the personal property (including without limitation, “Accounts” as defined in the Deed of Trust) and fixtures included in the Property (as defined in Deed of Trust) to the extent that a security interest can attach thereto under Division 9 of the California UCC. Upon the filing of the Financing Statements (as defined in Attachment B hereto) with the California Secretary of State (the “Filing Office”), the Beneficiary will have the benefit of a perfected security interest in that portion of the Property in which a security interest may be perfected by filing an initial financing statement with the Filing Office under the California UCC.

13. The liens created by the Encumbrance Documents constitute Permitted Encumbrances (as defined in the Regulatory Agreement).

14. Assuming the proceeds of the Bonds will be used in accordance with the purposes stated in the Corporation Documents and except to the extent permitted under Section 145(a) of the Code, the Property is not now being used and will not be used by Corporation in or for any trade or business the conduct of which is not substantially related to the exercise or performance of the purposes or functions constituting the basis for Corporation’s exemption under Section 501(c)(3) of the Code as determined by applying Section 513(a) of the Code, and therefore does not constitute an unrelated trade or business within the meaning of Section 513(a).

III.

Our opinions above are subject to the limitations, qualifications and assumptions set forth herein, including without limitation those in this Section III and Section IV below.

(a) Our opinions in paragraph 2 and 11 are subject, as to enforceability, to the effect of any applicable bankruptcy, fraudulent conveyance, insolvency, reorganization, preference, moratorium or similar laws affecting creditors’ rights generally.

(b) Our opinions in paragraph 2 and 11 are subject, as to enforceability, to the effect of general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law) and the possible unavailability of the remedy of specific performance.

(c) Our opinions in paragraph 2 and 11 are subject to the qualification that there are possible limitations under applicable laws upon the exercise of remedial or procedural provisions contained in the Corporation Documents, which laws do not, in our opinion, materially interfere with the practical realization of the benefits intended to be granted pursuant to such documents.

(d) Our opinions in paragraph 2 are subject, as to enforceability, to the exception that the enforcement of the indemnification provisions in the Bond Purchase Contract may be limited by applicable securities laws or held to be against public policy.

(e) We express no opinion as to the applicability of laws relating to fraudulent transfer, fraudulent obligations or preferential transfer, or any laws governing the distribution of assets of the Corporation, including, without limitation, Section 548 of Chapter 11 of the United States Code.

(f) The provisions of the Loan Agreement pursuant to which Corporation promises to pay any and all amounts payable under the Loan Agreement, may not be enforceable with respect to the Corporation (and may conflict with other obligations of the Corporation or its charter documents) to the extent that the payments (i) are requested to be made with respect to payments on any obligation which was issued for a purpose which is not consistent with the charitable purposes of the Corporation, or which was issued for the benefit of an entity other than a not-for-profit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Code and is not a “private foundation” as defined in Section 509(a) of the Code; (ii) are requested to be made from any property of the Corporation which is donor restricted or which is subject to a direct or express trust which does not permit the use of such property for such payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Corporation; or (iv) are requested to be made pursuant to any loan violating applicable usury laws, other than such laws in the State of California.

(h) In rendering the opinion in paragraph 1: (i) as to the existence and good standing of the Corporation, we have relied solely upon certificates issued by the Secretary of State of the State of California and the Franchise Tax Board of the State of California, including items 1 through 4 and 6 on Attachment A hereto; and (ii) as to the due incorporation of the Corporation, we have relied solely upon a copy of the Articles of Incorporation of the Corporation certified by the California Secretary of State on June __, 2014.

(i) In rendering the opinion in paragraph 4(ii)(b), we have relied upon the certificates of officers of the Corporation as to whether an identified conflict would have a material adverse effect, without any independent investigation or verification whatsoever.

(j) For purposes of the opinions in paragraphs 4(ii) and 6, our inquiry has been limited to searches of the court dockets of (i) The United States District Court of the Central District of California dated [_____, 2014] (current through [_____, 2014]) and (ii) the Superior Court of the County of Los Angeles, California dated [_____, 2014] (current through [_____, 2014]), and our reliance on a certificate of the President and Chief Executive Officer of the Corporation. We have made no investigation whatsoever with respect to such matters except as identified in the immediately preceding sentence.

(k) For purposes of the opinion set forth in paragraph 7 above, our inquiry has been limited to our review of the documents and analyses identified on Attachment A hereto, our discussions with certain officers of the Corporation, and our reliance on a certificate of the Chief Executive Officer of the Corporation that (a) the Corporation is not a party to any agreement or arrangement, nor has taken any action that would cause the Internal Revenue Service to revoke its determination referred to in the opinion in the above paragraph, that would indicate the Corporation is a “private foundation” defined in Section 509(a) of the Code or that would indicate that any part of the Corporation’s net earnings inures to the benefit of any person, private shareholder or individual within the meaning of Section 501(c)(3) of the Code or Section 3(a)(4) of the Securities Act of 1933, as amended, and (b) the Corporation has not been notified by the Internal Revenue Service of any investigation of, or proposed or actual revocation of, its status as an organization described in Section 501(c)(3) of the Code (collectively, the “Tax Exemption Documents”).

(l) We have assumed (without expressing any opinion thereon herein), to the extent the obligations of the Corporation may be dependent on such matters, that (i) each party other than the Corporation to the Corporation Documents is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and (ii) any party seeking to enforce its rights against the Corporation is qualified to do business in every state necessary in order for it to enforce its rights under the Corporation Documents. We also have assumed (i) the due authorization, execution and delivery of the Corporation Documents by all parties (other than the Corporation), (ii) that the Corporation Documents do not violate the laws of the various jurisdictions (other than California law and United States federal law) which may be applicable to such documents or to the Corporation, (iii) that each party (other than the Corporation) to the Corporation Documents has the requisite organizational power and authority to perform its obligations under each such document to which it is a party and (iv) the validity and binding effect of the Corporation Documents with regard to such parties (other than the Corporation).

(m) In rendering the opinion in paragraphs 9 and 12 above, we have assumed that the Corporation has rights in all such fixtures and deposit accounts, that amounts transferred to such deposit accounts shall be in the possession of the Corporation when and as received prior to any transfers to the Master Trustee, and the funds therein. With respect to paragraphs 9 and 12, we express no opinion as to (i) the priority of any security interest in the collateral referred to in paragraphs 9 and 12 above, (ii) the perfection of any security interest in any account which is not a deposit account or is evidenced by a certificate of deposit or other type of instrument, or (iii) the creation or perfection of a security interest in any collateral other than such deposit accounts.

(n) Our opinion in paragraphs 9 and 12 are subject to the assumptions, qualifications and limitations set forth in paragraphs (a), (b), (c) and (f) hereof.

(o) Any security interest in the proceeds of collateral is subject in all respects to the limitations set forth in Section 9315 of the California UCC.

(p) We express no opinion as to the nature or extent of the rights of the Corporation in, or title of the Corporation to, any collateral under the Deed of Trust, or property purporting to constitute such collateral, or the value, validity or effectiveness for any purpose of any such collateral or purported collateral, and we have assumed that the Corporation has sufficient rights in all such collateral or purported collateral for the security interests provided for under the Deed of Trust to attach. Additionally, we have assumed that “value” has been given.

(q) In the case of property that becomes collateral under the Deed of Trust after the date hereof, Section 552 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330, limits the extent to which property acquired by a debtor after the commencement of a case under the United States Bankruptcy Code may be subject to a lien arising from a security agreement entered into by the debtor before the commencement of such case.

(r) We express no opinion as to the enforceability of any provision of the Deed of Trust providing that any person or entity may sell or otherwise dispose of, or purchase, any collateral subject thereto, or enforce any other right or remedy thereunder (including without limitation any self-help or taking-possession remedy), except in accordance with the California UCC and other applicable laws.

(s) We express no opinion as to the enforceability of the security interests under the Deed of Trust in any item of collateral subject to any restriction on or prohibition against transfer contained in or otherwise applicable to such item of collateral or any contract, agreement, license, permit, security, instrument or document constituting, evidencing or relating to such item, except to the extent that any such restriction or prohibition is rendered ineffective pursuant to any of Sections 9406 through 9409, inclusive, of the California UCC, but subject to the limitations set forth in each such section, including Section 9408(d) of the California UCC.

(t) We express no opinion regarding the security interest of the Trustee in any items of collateral which are subject to a statute, regulation or treaty of the United States of America which provides for a national or international registration or a national or international certificate of title for the perfection of a security interest therein.

(u) We express no opinion regarding the security interest of the Trustee in any of the Gross Revenues collateral consisting of claims against any government or governmental agency (including without limitation the United States of America or any state thereof or any agency or department of the United States of America of any state thereof).

(v) We express no opinion regarding the attachment or perfection of any security interests with respect to any of the collateral consisting of goods which are to become fixtures.

(w) We call to your attention that an obligor (as defined in the California UCC) other than a debtor may have rights under Chapter 6 of Division 9 of the California UCC.

(x) We call to your attention that Division 9 of the California UCC requires the filing of continuation statements within the period of six months prior to the expiration of five years from the date of original filing of financing statements under the California UCC in order to maintain the effectiveness of such financing statements and that additional financing statements may be required to be filed to maintain the perfection of security interests if the debtor granting such security interests makes certain changes to its name, or changes its location (including through a change in its jurisdiction of organization) or the location of certain types of collateral, all as provided in the California UCC.

(y) The opinions expressed in paragraphs 9 and 12 are limited to Division 9 of the California UCC and therefore those opinions do not address (i) laws of jurisdictions other than the State of California, (ii) laws of the State of California except for Division 9 of the California UCC, (iii) collateral of a type not subject to the Division 9 of the California UCC and (iv) under the choice of law rules of the California UCC with respect to the law governing perfection and priority of security interests, what law governs perfection or priority of the security interests granted in the collateral covered by this opinion letter.

For purposes of paragraph, “Actual Knowledge” means, with respect to any person, the conscious awareness of facts by such person; “Our Actual Knowledge” means the Actual Knowledge of any lawyer included in the Covered Lawyer Group; and the “Covered Lawyer Group” means [list particular lawyers involved in the transaction] . In making the foregoing statements, we have inquired as to the Actual Knowledge of the lawyers included in the Covered Lawyer Group with respect to the existence of the legal proceedings described above and we

have relied on certificates of officers or other representatives of the Transaction Parties. Except as disclosed in paragraphs 4 and 6, we have not, however, made any review, search or investigation of any public or private records or files, including, without limitation, litigation dockets or other records or files of the Corporation or of Gordon & Rees, LLP.

(z) For purposes of the opinions set forth in paragraphs 11 and 12 above, we have assumed the following:

- i. The description of the Property contained in the Deed of Trust sufficiently and accurately describes the collateral intended to be covered by the Deed of Trust.
- ii. The Corporation's execution of the Deed of Trust in form for recordation has been acknowledged by a duly licensed and acting notary public.
- iii. The Corporation is the legal, beneficial and record owner of the Property.

IV.

We further advise you that:

- (a) The Deed of Trust Trustee may not invoke penalties (or other remedies) for defaults that bear no reasonable relation to the damage suffered or that would otherwise work a forfeiture.
- (b) The enforceability of indemnities, rights of contribution, exculpatory provisions, choice of venue provisions, waivers of jury trials, and waivers of the benefits of other statutory provisions may be limited on public policy grounds.
- (c) California Civil Code § 1717 provides that, in any action on a contract where the contract specifically provides that attorneys' fees and costs incurred to enforce that contract shall be awarded either to one of the parties or to the prevailing party, then the party who is determined to be the party prevailing in the action, whether that party is the party specified in the contract or not, shall be entitled to reasonable attorneys' fees in addition to other costs.
- (d) Provisions of the Deed of Trust regarding the related beneficiary's right to apply proceeds of fire or other casualty insurance policies or awards of damages in condemnation proceedings against the Corporation's secured obligations will not be enforceable unless the beneficiary's application of such proceeds or damages is reasonably necessary to protect the beneficiary's security.
- (e) Provisions regarding the substitution of a trustee under the Deed of Trust will not be enforceable to the extent they are inconsistent with California Civil Code § 2934a.
- (f) Enforcement of the Deed of Trust will be subject to statutory limitations on the trustees' fees, attorneys' fees and other charges that may be imposed in

connection with giving notice of defaults and sales and the sale of the collateral pursuant to either judicial or nonjudicial procedures.

- (g) California Code of Civil Procedure § 726 provides that “[t]here can be but one form of action for the recovery of any debt or the enforcement of any right secured by mortgage upon real property” Under judicial decisions construing that statute, a lender secured by a mortgage or deed of trust (i) must first exhaust all of its real property security if it wishes to preserve a claim against the debtor for a deficiency, and (ii) may be required to realize upon all of its real property security before it may exercise other remedies. A secured party may lose its lien on the real property collateral if (i) the secured party obtains a personal judgment on the debt before exhausting its real property collateral, or (ii) the secured party employs another form of action in an attempt to realize upon assets of the debtor, such as exercising a right of set-off against funds of the debtor that are on deposit with the secured party; provided, pursuant to Section 9604 of the Code, application of California Code of Civil Procedure § 726 will not cause a secured party to lose its lien on its real property security as a result of its exercise of remedies with respect to its personal property security so long as such personal property has not been previously included by the secured party in an action for judicial or non-judicial foreclosure.
- (h) California Code of Civil Procedure § 726 also provides that the amount of any deficiency following a judicial foreclosure will be based upon the court’s determination of the fair value of the real property collateral and not the amount realized upon the sale of that collateral in the foreclosure proceeding.
- (i) California Code of Civil Procedure § 580d provides that “[n]o judgment shall be rendered for any deficiency upon a note secured by a deed of trust or mortgage upon real property . . . in any case in which the real property . . . has been sold by the mortgagee or trustee under power of sale contained in the mortgage or deed of trust.” Accordingly, if the beneficiary wishes to preserve its claim against the Corporation for any deficiency, it must first proceed by judicial foreclosure against its real property collateral.
- (j) § 2924c of the California Civil Code provides that a borrower whose obligations are secured by a mortgage or deed of trust on real property, and holders of junior liens on that property, may cure payment defaults by paying all amounts that are due without giving effect to acceleration of the debt. If a timely cure is made, the acceleration is rescinded by operation of law, all foreclosure proceedings are dismissed or discontinued, as the case may be, and the secured obligation and the mortgage or the deed of trust, as the case may be, are reinstated as though the acceleration had not occurred.
- (l) Except to the extent expressly noted to the contrary in this opinion letter, we express no opinion with respect to the Corporation’s title to or the condition of title of any property.

- (m) We express no opinion as to the enforceability of:
- (i) provisions related to the waiver of rights, remedies, defenses and obligations or waivers of good faith and reasonableness, including, without limitation, attempts to waive applicable statutes of limitations or rights to a jury trial, attempts to change or waive rules of evidence or to fix the method or quantum of proof;
 - (ii) provisions permitting the pursuit of inconsistent or cumulative remedies;
 - (iii) provisions releasing a party from, or indemnifying a party for, liability for its own gross negligence, recklessness, willful misconduct or unlawful conduct or for securities law liabilities;
 - (iv) provisions establishing or waiving evidentiary standards;
 - (v) provisions providing for payment of attorneys' fees incurred in a dispute or enforcement action to a party other than the prevailing party or purporting to limit judicial discretion regarding determination of the amount of such fees and related costs;
 - (vi) provisions appointing a party as attorney in fact for another party;
 - (vii) provisions for penalties, liquidated damages, acceleration of future amounts due (other than principal) without appropriate discount to present value, charging interest on interest, late charges, increased interest after default or maturity or prepayment premiums;
 - (viii) self help provisions or rights of set off;
 - (ix) choice of law, choice of forum, consent to jurisdictions (both as to personal jurisdiction and subject matter jurisdiction) and service of process provisions;
 - (x) provisions that provide for the appointment of a receiver, trustee, conservator or liquidator in any manner except in compliance with applicable law;
 - (xi) confession of judgment provisions;
 - (xii) provisions that are unconscionable as a matter of law; and
 - (xiii) provisions that would permit the exercise of remedies without consideration of the materiality of (i) the breach by the opinion giver's client, and (ii) the consequence of the breach to the party seeking enforcement.
- (n) Pursuant to the California Corporations Code, the written consent of the California Attorney General is required prior to any transfer of a health facility operated by a nonprofit corporation to a for-profit entity. It is not clear under California law if this provision would apply to transfers by deed in lieu of foreclosure or at foreclosure but, if it were determined to be applicable, satisfaction of this requirement may delay or prohibit the transfer of Property following an Event of Default (as defined in the Indenture) under the Indenture.

- (o) Certain provisions of the Deed of Trust may not be enforceable; nevertheless such unenforceability will not render the Deed of Trust invalid as a whole or preclude, subject to the other qualifications and exclusions set forth herein, (i) the judicial enforcement of the obligation of the Corporation to pay the principal, together with interest thereon (to the extent not deemed a penalty), as provided in the Deed of Trust, (ii) the acceleration of the obligation of the Corporation to repay such principal and interest, based upon a material default by the Corporation in the payment of such principal or interest and (iii) the foreclosure in accordance with applicable law of the lien on and security interest in the Property created by the Deed of Trust upon maturity or upon acceleration pursuant to clause (ii) above.

V.

We have participated in the preparation of the Official Statement and in connection therewith we have had discussions with certain officers, directors and employees of the Corporation and with representatives of the Authority and the Underwriters, and counsel to the Authority and the Underwriters and bond counsel, among others, concerning the information contained in the Official Statement. We have not independently verified and are not passing judgment upon, and do not assume any responsibility for, the accuracy, completeness or fairness of the information contained in the Official Statement. Based upon our participation and discussions described above, however, no facts have come to our attention that cause us to believe that the Official Statement, as of its date and as of the date hereof, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in the light of the circumstances under which they were made to make the statements therein not misleading, except that we express no view with respect to (i) the financial statements, financial schedules and other financial and statistical data included therein, or (ii) the information under the headings "THE AUTHORITY," "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM," "CERTAIN FINANCIAL INFORMATION REGARDING THE STATE," "LITIGATION" (as to information concerning the Authority), "UNDERWRITING," "RATING," APPENDIX B thereto, and any information contained therein describing The Depository Trust Company, the book-entry system, the Underwriters, the Office of Statewide Health Planning and Development of the State of California or the Authority.

This letter is furnished by us, as special counsel for the Corporation, solely for your benefit upon the understanding that it may not be relied upon by any other person without our express written consent. This opinion is as of the date hereof, and we hereby undertake no, and disclaim any, obligation to advise you of any change in any matters set forth herein or upon which this opinion is based.

Respectfully submitted,

Attachment A

1. A copy of the Amended and Restated Articles of Incorporation of the Corporation, as amended and as certified by the Corporation's Secretary as being a complete and correct copy of the Articles of Incorporation filed with the Secretary of State of the State of California (the "Articles of Incorporation").
2. A copy of the Amended and Restated Bylaws of the Corporation, as amended and as certified by the Corporation's Secretary as being a complete and correct copy of the bylaws adopted by the Board of Directors of the Corporation (the "Bylaws").
3. A Certificate of Status (Domestic Nonprofit Corporation) issued by the California Secretary of State _____, 2014.
4. A Franchise Tax Board status certificate dated _____, 2014 regarding the Corporation.
5. An Internal Revenue Service determination letter dated _____, regarding the Corporation (the "IRS Determination Letter").
6. A Franchise Tax Board determination letter dated _____, regarding the Corporation.
7. A copy of the resolutions of the Board of Directors of the Corporation authorizing, among other things, the Corporation's execution and delivery of the Corporation Documents and the Corporation's approval of the Indenture and the Bond Purchase Contract and authorizing certain officers of the Corporation to evaluate, negotiate and execute the Corporation Documents and all documents related thereto on behalf of the Corporation.
8. The Incumbency Certificate of the Corporation dated June __, 2014 wherein the true signature of the officers of the Corporation authorized to execute the Corporation Documents and other documents related thereto are certified by the Secretary of the Corporation.
9. Copies of all government authorizations, approvals, consents, licenses and permits to operate the existing facilities of the Corporation provided by the Corporation.
10. Certificates signed on behalf of the Corporation dated the date hereof, certifying as to certain factual matters, including the Corporation's Certificate Regarding the Expenditure of Funds dated June __, 2014.
11. Copies of all tax returns filed by the Corporation for the last three years, including Forms 990.
12. The minutes of the governing boards of the Corporation for the last three years.
13. The specific agreements, arrangements and transactions identified by the Chief Financial Officer of the Corporation, and provided to us as part of our due diligence inquiry in connection with this transaction.
14. UCC and Litigation searches for the Corporation dated _____, 2014.

Attachment B

Encumbrance Documents

15. Deed of Trust.
16. Forms of UCC-1 Financing Statements to be filed in Los Angeles, County, California and the California Secretary of State (the "Financing Statements").
17. Deposit Account Control Agreement.
18. Title Policies of Chicago Title Company dated _____ on the properties described in the Deed of Trust.

APPENDIX E
FORM OF CERTIFICATE OF THE AUTHORITY

CERTIFICATE OF THE AUTHORITY

\$[_____]*
 LOS ANGELES COUNTY
 REGIONAL FINANCING AUTHORITY
 SENIOR LIVING INSURED REVENUE BONDS

\$[_____]* Series 2014A	\$[_____]* Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	\$[_____]* Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	\$[_____]* Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	\$[_____]* Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	\$[_____]* Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
(MONTECEDRO INC. PROJECT)					

The undersigned, an Authorized Signatory (defined below) of [the Commission] of the Los Angeles County Regional Financing Authority, a public entity of the State of California, created pursuant to Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the “Authority”), hereby certifies that the following are now and, except as may be noted below, have continuously been since [_____ __, 2014], the duly appointed, qualified and acting members:

<u>Title</u>	<u>Name</u>
Chair	
Vice Chair	
Treasurer	
Secretary	
Member	
Member	
Member	

The undersigned further certifies that _____, _____, _____ and _____ are each appointed as administrative delegates of the Authority and that each such person and each of the foregoing members of Authority (each, an “Authorized Signatory”) are authorized by the Authority to execute, on behalf of the Authority, in connection with the execution and delivery of that certain Indenture, dated as of June 1, 2014 (the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as acknowledged by MonteCedro Inc., various instruments, documents, and certificates, including, without limitation, the following documents:

1. Indenture;

2. Loan Agreement, dated as of June 1, 2014 (the “Loan Agreement”), between the Authority and MonteCedro Inc. (the “Corporation”);

3. Bond Purchase Contract, dated June __, 2014 (the “Purchase Contract”), among the Authority, the Corporation and B.C. Ziegler and Company (the “Representative”) on behalf of itself and the other underwriters listed in the Bond Purchase Contract;

4. Regulatory Agreement, dated as of June 1, 2014 (the “Regulatory Agreement”), among the Corporation, the Authority and the Office of Statewide Planning and Development of the State of California (the “Office”); and

5. Contract of Insurance, dated as of June 1, 2014 (the “Regulatory Agreement”), among the Corporation, the Authority and the Office.

6. Tax Exemption Agreement, dated June __, 2014 (the “Tax Exemption Agreement”), among the Corporation, the Authority and the Trustee.

The undersigned hereby certifies that attached hereto as Exhibit A are full, true and correct copies of [(i) Resolution No. __-__ adopted at a regular meeting of the Authority, held on [May __, 2014] and (ii) Resolution No. ____, adopted at a regular meeting of the Authority held on [May __, 2014] (the “Delegation Resolution”)], at each of which meetings a quorum was present. The undersigned further certifies that said copies are full, true and correct copies of the original resolutions adopted at said meetings and entered in the respective proceedings thereof; and that said resolutions have not been amended, modified or superseded in any manner since the date of their adoption, and the same are now in full force and effect.

The undersigned further certifies that the Authority has fulfilled or performed each of its obligations contained in the Indenture, the Loan Agreement, the Regulatory Agreement, the Tax Exemption Agreement, the Contract of Insurance and the Purchase Contract required to be fulfilled or performed by it as of the date hereof; and the representations and agreements made by the Authority in the Purchase Contract are true and correct in all material respects on the date hereof, with the same effect as if made on and with respect to the facts as of the date hereof.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Dated: June __, 2014.

LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY

By: _____
Authorized Signatory

Exhibit A

Bond Resolution [and Delegation Resolution]

PRELIMINARY OFFICIAL STATEMENT DATED MAY __, 2014

NEW ISSUE
BOOK ENTRY ONLY

RATING: Standard & Poor's: "[A]"
SEE "RATING" HEREIN

Subject to compliance by the Los Angeles County Regional Finance Authority and the Corporation with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. See "TAX MATTERS" herein for a more detailed discussion of some of the federal income tax consequences of owning the Bonds. Interest accruing on the 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.

ECs, MONTECEDRO LOGO

\$[]*
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$[]*	\$[]*	\$[]*	\$[]*	\$[]*	\$[]*
Series 2014A	Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))

(MONTECEDRO INC. PROJECT)

Dated: Date of Delivery

Due: November 15, as shown on the inside cover

The Los Angeles County Regional Financing Authority (the "Authority") is issuing its \$[]* Senior Living Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project) (the "Series 2014A Bonds"), its \$[]* Senior Living Insured Revenue Bonds, Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85SM)) (MonteCedro Inc. Project) (the "Series 2014B-1 Bonds"), its \$[]* Senior Living Insured Revenue Bonds, Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75SM)) (MonteCedro Inc. Project) (the "Series 2014B-2 Bonds"), its \$[]* Senior Living Insured Revenue Bonds, Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65SM)) (MonteCedro Inc. Project) (the "Series 2014B-3 Bonds"), its \$[]* Senior Living Insured Revenue Bonds, Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55SM)) (MonteCedro Inc. Project) (the "Series 2014B-4 Bonds") and its \$[]* Senior Living Insured Revenue Bonds, Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45SM)) (MonteCedro Inc. Project) (the "Series 2014B-5 Bonds" and, together with the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds and the Series 2014B-4 Bonds, the "Series 2014B Bonds"), pursuant to an Indenture, dated as of June 1, 2014 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), as acknowledged by and MonteCedro Inc., a California nonprofit public benefit corporation (the "Corporation"). The Series 2014A Bonds and the Series 2014B Bonds are collectively referred to herein as the "Bonds." Except as described in this Official Statement, the Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement, dated as of June 1, 2014 (the "Loan Agreement"), between the Authority and the Corporation, and from certain funds held under the Indenture. The sources of payment of, and security for, the Bonds are more fully described in this Official Statement. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS are shown on the Inside Front Cover.

Interest on the Bonds is payable on May 15 and November 15 of each year, commencing November 15, 2014, to the maturity or redemption dates thereof. The Bonds are issuable in the form of fully registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial Owners (as hereinafter defined) of Bonds will not receive physical certificates representing the Bonds purchased, but will receive a credit balance on the books of the nominees of such Owners. See "BOOK-ENTRY SYSTEM" herein.

The Bonds are subject to Optional, Special and Mandatory Redemption prior to maturity, as described herein.

EXCEPT TO THE EXTENT EXPRESSLY PROVIDED THROUGH THE INSURANCE PROGRAM DESCRIBED HEREIN, THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE COUNTY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER AND HAS NO OBLIGATION TO PAY PRINCIPAL OR INTEREST ON THE BONDS.

Pursuant to the California Constitution Article XVI, Section 4, and California Health and Safety Code, Division 107, Part 6, Chapter 1, payment of the principal of and interest on the Bonds will be insured by the Office of Statewide Health Planning and Development of the State of California, and all debentures issued in payment of any claims under such insurance will be fully and unconditionally guaranteed by the State of California, all as more fully described herein. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM" herein.

An investment in the Bonds involves a certain degree of risk related to the nature of the business of the Corporation, the regulatory environment, and the provisions of the principal documents. A prospective holder of the Bonds is advised to read "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" and "BONDHOLDERS' RISKS" herein for a description of the security for the Bonds and for a discussion of certain Bondholders' Risks that should be considered in connection with an investment in the Bonds.

This cover page contains certain information for ease of reference only. It does not constitute a summary of the 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.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Bonds by Chapman and Cutler LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by County Counsel; for the Corporation by its counsel, Gordon & Rees, LLP; and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about June __, 2014.

ZIEGLER

B of A Merrill Lynch

The date of this Official Statement is June __, 2014.

* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. The CUSIP numbers are provided for convenience and reference only and none of the Authority, the Corporation or the Underwriters makes any representation as to their accuracy.

**Los Angeles County
Regional Financing Authority
Senior Living Insured Revenue Bonds,
Series 2014A
(MonteCedro Inc. Project)**

Dated: Date Of Delivery

Due: November 15, as shown below

<u>Maturity Date</u> (November 15)*	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
20__	\$	%	%	%	

\$ _____ % Term Bond Due November 15, _____ Priced _____ % To Yield _____ % CUSIP† _____

**Los Angeles County
Regional Financing Authority
Senior Living Insured Revenue Bonds**

Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85SM))	Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75SM))	Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65SM))	Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55SM))	Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45SM))
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(MonteCedro Inc. Project)

Dated: Date of Delivery

Due: November 15, as shown below

	<u>Principal</u> <u>Amount*</u>	<u>Maturity Date</u> (November 15)*	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP†</u>
Series 2014B-1 Bonds	\$	20__	%	%	
Series 2014B-2 Bonds	\$	20__			
Series 2014B-3 Bonds	\$	20__			
Series 2014B-4 Bonds	\$	20__			
Series 2014B-5 Bonds	\$	20__			

* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. The CUSIP numbers are provided for convenience and reference only and none of the Authority, the Corporation or the Underwriters makes any representation as to their accuracy.

REGARDING USE OF THIS OFFICIAL STATEMENT

The information contained herein under the heading "THE AUTHORITY" and "LITIGATION – Authority" has been furnished by the Los Angeles County Regional Financing 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 MonteCedro Inc. (the "Corporation") 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 B.C. Ziegler and Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters"). The Underwriters have provided the following sentence for inclusion in this Official Statement: *The Underwriters have 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 Underwriters do not guarantee the accuracy or completeness of such information.*

No dealer, broker, salesperson or other person has been authorized by the Authority, the Corporation or the Underwriters 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 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, the Corporation or the Corporation's 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 Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the 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 Bonds have not been registered under the Securities Act of 1933 nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the 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 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement should be reviewed by each prospective purchaser and its legal, regulatory, tax, accounting, investment and other advisors. Investors whose investment authority is subject to legal restrictions should consult their own legal advisors to determine whether and to what extent the Bonds constitute a legal investment for them. In making any investment decision,

investors must rely on their own examination of the Indenture, the Loan Agreement, the Deed of Trust, the Contract of Insurance, the Regulatory Agreement and related documents and the terms of the Bonds, including the risks involved.

**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. THE CORPORATION DOES NOT PLAN 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.

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OFFICIAL STATEMENT

relating to

\$[]^{*}
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$[] [*] Series 2014A	\$[] [*] Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	\$[] [*] Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	\$[] [*] Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	\$[] [*] Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	\$[] [*] Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
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(MONTECEDRO INC. PROJECT)

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 – “SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS” for definitions of certain words and terms used herein. The following descriptions and summaries of the Bonds, the Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement 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 Principal Corporate Trust Office of the Trustee. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to set forth information in connection with the offering by the Los Angeles County Regional Financing Authority (the “Authority”) of its \$[]^{*} Senior Living Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project) (the “Series 2014A Bonds”), its \$[]^{*} Senior Living Insured Revenue Bonds, Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85SM)) (MonteCedro Inc. Project) (the “Series 2014B-1 Bonds”), its \$[]^{*} Senior Living Insured Revenue Bonds, Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75SM)) (MonteCedro Inc. Project) (the “Series 2014B-2 Bonds”), its \$[]^{*} Senior Living Insured Revenue Bonds, Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65SM)) (MonteCedro Inc. Project) (the “Series 2014B-3 Bonds”), its \$[]^{*} Senior Living Insured Revenue Bonds, Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55SM)) (MonteCedro Inc. Project) (the “Series 2014B-4 Bonds”) and its \$[]^{*} Senior Living Insured Revenue Bonds, Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45SM)) (MonteCedro Inc. Project) (the “Series 2014B-5 Bonds” and, together with the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014 B-3 Bonds and the Series 2014B-4 Bonds, the “Series 2014B Bonds”). The Series 2014A Bonds and the Series 2014B Bonds are collectively referred to herein as the “Bonds.”

The Corporation. MonteCedro Inc., a California nonprofit public benefit corporation (the “Corporation”), was established in February 2014 to own and operate a continuing care retirement community consisting of approximately 186 independent living units and approximately 20 assisted

living units and related parking and other facilities, to be constructed in Altadena, California (collectively, the "Facility"). The Corporation has received a ruling from the Internal Revenue Service ("IRS") that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described under Section 501(c)(3) of the Code. For more information about the Facility, operation, governance and financial condition of the Corporation, see APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC."

The Bonds. The Bonds will be issued pursuant to the provisions of an Indenture, dated as of June 1, 2014 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), as acknowledged by the Corporation. The Authority will lend the proceeds of the Bonds to the Corporation pursuant to the provisions of a Loan Agreement, dated as of June 1, 2014 (the "Loan Agreement"), by and between the Authority and the Corporation. See "THE BONDS" herein.

Purpose of the Bonds. The proceeds of the Bonds will be loaned to the Corporation to (1) finance the cost of the construction, renovation and equipping of the Facility (the "Project"), (2) repay a taxable loan to the Corporation from Bank of America, N.A. (the "Bank Loan"), the proceeds of which were used to construct a portion of the Project, (3) pay a portion of the capitalized interest on the Bonds, (4) fund a Debt Service Reserve Account for the benefit of the Bonds, and (5) pay certain expenses incurred in connection with the issuance of the Bonds. A more detailed description of the use of the proceeds from the sale of the Bonds is included under the captions "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF FINANCE" herein.

Insurance of Bonds by the Office. In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the "Insurance Law"), the Authority and the Office of Statewide Health Planning and Development of the State of California (the "Office") will enter into a Contract of Insurance, dated as of June 1, 2014 (the "Contract of Insurance"), and the Regulatory Agreement, dated as of June 1, 2014 (the "Regulatory Agreement"), with the Corporation, pursuant to which the Office will insure the payment of principal of and interest on the Bonds in the event that amounts received by the Trustee pursuant to the Loan Agreement are not sufficient to pay in full, when due, principal of and interest on the Bonds. If monies are not available to pay principal of and interest on the Bonds, the Office will be obligated to continue to make payments on the Bonds or will instruct the Trustee to declare the principal of all Bonds then outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest and, upon the occurrence of certain events, shall notify the Treasurer ("Treasurer") of the State of California (the "State") and the Treasurer will issue debentures to the holders of the Bonds, fully and unconditionally guaranteed by the State, in an amount equal to the principal of and the accrued interest on the Bonds. For a more detailed description of the obligation of the Office to insure the payment of the principal of and interest on the Bonds, the procedures with respect to an insurance default, the obligations of the Corporation pursuant to the Regulatory Agreement and the financial condition of the Office's insurance program and the State, see "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM," "BONDHOLDERS' RISKS – State Bond Insurance," "CERTAIN FINANCIAL INFORMATION REGARDING THE STATE," "RATING," APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – CONTRACT OF INSURANCE" and "– REGULATORY AGREEMENT," and APPENDIX F – "FORM OF CONTRACT OF INSURANCE."

Security for the Bonds. The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and the Loan Agreement and payable from payments made by the Corporation under the Loan Agreement and from certain funds held under the Indenture. The terms of the Loan Agreement will require payments by the Corporation that, together with other moneys available therefor (and interest earned thereon), will be sufficient to provide for the payment of the principal (or Redemption Price) of and interest on the Bonds when due.

As security for the payment of the Bonds, the Authority will pledge and assign to the Trustee all right, title and interest of the Authority in and to the Loan Agreement (other than certain rights of the Authority that are unassigned as described in the Loan Agreement), including the right to receive payments under the Loan Agreement, and will direct the Corporation to make said payments directly to the Trustee. Under the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (but not including the Rebate Fund) are pledged to secure the full payment of the principal (or Redemption Price) of and interest on the Bonds in accordance with their terms and the provisions of the Indenture.

Payment of the principal of, and interest on, the Bonds will be additionally secured by moneys deposited to the credit of the Debt Service Reserve Account established under the Indenture, the security interest in Gross Revenues of the Corporation granted in the Loan Agreement and the Regulatory Agreement, subject to Permitted Encumbrances (as defined in the Regulatory Agreement), and a first mortgage lien on the Facility and a security interest in the personal property of the Corporation pursuant to a Deed of Trust on the Facility (described herein). See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Debt Service Reserve Account," "– Gross Revenue Fund" and "– Deed of Trust" herein.

As further described in APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC. EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS – Merger Of Sophie Miller Foundation and MonteCedro LLC," an affiliate of the Corporation that is expected to be formed and named the "Sophie Miller Foundation" prior to the issuance of the Bonds (the "New Foundation") will enter into a Guaranty and Liquidity Support Agreement dated as of June 1, 2014 (the "Guaranty"), in favor of [the Corporation, the Trustee and the Office]. Under the Guaranty, which shall be effective upon the transfer of certain assets to the New Foundation, the New Foundation will guaranty and promise to pay, or cause to be paid to the Trustee, the Corporation's obligations under the Loan Agreement and to fund payments to assist the Corporation in satisfying its obligations under certain financial covenants of the Regulatory Agreement. The Guaranty will be released after [____], in accordance with its terms. See "THE GUARANTY" herein.

For further information concerning the security for the Bonds, see the information under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" below.

Financial Covenants. The Regulatory Agreement requires the Corporation to meet certain financial covenants, including a Rate Covenant, a Current Ratio Covenant and a Days Cash on Hand Covenant, on an annual basis. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Rate Covenant, Current Ratio Covenant, Days Cash on Hand Covenant" herein.

Deed of Trust. The Corporation will execute and deliver the Deed of Trust, pursuant to which the Corporation will grant to the trustee thereunder for the benefit of the Office and the Trustee (as assignee of the Authority) a first lien on and security interest in the Collateral Property, as defined herein, securing the principal of, and interest on, the Bonds and Parity Debt. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Deed of Trust" herein.

Additional Indebtedness; Parity Debt. Subject to the satisfaction of the terms and conditions of the Regulatory Agreement, the Corporation may incur additional Long-Term Indebtedness, including Parity Debt, which would be secured equally and ratably with the obligations of the Corporation under the Loan Agreement. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – REGULATORY AGREEMENT – Parity Debt."

Continuing Disclosure. The Corporation will enter into an undertaking for the benefit of the Bondholders to provide certain information and to provide notice of certain events to the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access system ("EMMA"). 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 the Corporation to investors on a periodic basis.

Feasibility Study. Dixon Hughes Goodman LLC has prepared a Financial Feasibility Report, dated [____], 2014 (the "Feasibility Study"), which is attached hereto as APPENDIX B – "FINANCIAL FEASIBILITY REPORT." The Feasibility Study includes management's financial forecast of the Corporation for the fiscal years ending June 30, 2014 to June 30, 2020. As stated in the Feasibility Study, there will usually be differences between the forecasted data and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. **THE FEASIBILITY STUDY SHOULD BE READ IN ITS ENTIRETY, INCLUDING THE FINANCIAL STATEMENT ASSUMPTIONS SET FORTH THEREIN.**

Bondholders' Risks. There are risks associated with the purchase of the Bonds, including without limitation those described under the heading "BONDHOLDERS' RISKS" herein. A prospective owner is advised to read this Official Statement for a discussion of certain Bondholders' Risks which should be considered in connection with an investment in the Bonds. Among other things, careful evaluation should be made of the assumptions described in the Feasibility Study, and certain factors that may adversely affect the ability of the Corporation to generate sufficient revenues to pay expenses of operation, including the principal of, premium, if any, and interest on the Bonds. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement.

THE AUTHORITY

The Authority is a joint powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated as of December 1, 2010, by and between the County of Los Angeles, California (the "County") and the County of Los Angeles Public Works Financing Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to the Act to issue bonds for the purpose of financing the construction and equipping of the Facility.

The Authority has previously issued obligations secured by certain revenues of and rental payments from certain contracting parties and may issue additional obligations in the future. These other obligations of the Authority are not secured by the Revenues, and the Bonds are not secured by any assets or property of the Authority other than the amounts pledged to the payment of the Bonds under the Indenture.

EXCEPT TO THE EXTENT EXPRESSLY PROVIDED THROUGH THE INSURANCE PROGRAM DESCRIBED HEREIN, THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE

AUTHORITY, THE COUNTY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER AND HAS NO OBLIGATION TO PAY PRINCIPAL OR INTEREST ON THE BONDS.

THE BONDS

General

Certain capitalized terms used herein which are taken from the Indenture have the meanings set forth in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS.”

The Bonds

The Bonds will be issued only in fully registered form in denominations of \$5,000 or any integral multiple thereof. The 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 Bonds will bear interest from their dated date, payable on May 15 and November 15 of each year, commencing November 15, 2014 (the “*Interest Payment Dates*”). The Bonds will be dated their date of delivery.

When the Bonds are issued, The Depository Trust Company (“*DTC*”) will act as securities depository. Thereafter, the 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 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 will apply.

The principal or Redemption Price of the Bonds will be payable in lawful money of the United States of America by check upon presentation and surrender of such Bonds at the Principal Corporate Trust Office of the Trustee. Interest payments on the Bonds (other than with respect to defaulted interest) will be payable to the registered owner thereof appearing on the registration books of the Trustee as of the close of business on the Record Date. “*Record Date*” means, with respect to each Interest Payment Date, the May 1 or November 1 preceding such Interest Payment Date, whether or not such day is a Business Day. Interest on the Bonds shall, except as hereinafter provided, be paid by check mailed by first class mail on each Interest Payment Date to the registered owner thereof at the address as it appears on the registration books of the Trustee; or, if a written request of any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more is received by the Trustee prior to the Record Date, by wire transfer to an account within the United States.

In the event of a default in the payment of interest due on an Interest Payment Date, such defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a Special Record Date fixed by the Trustee upon notice to Owners by first class mail not less than ten days prior to such Special Record Date.

Redemption of the Bonds*

Optional Redemption. The Series 2014A Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-1 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-2 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-3 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-4 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; the Series 2014B-5 Bonds are callable for redemption prior to maturity on any date on or after November 15, 20__; in each case at the option of the Authority (which option shall be exercised as directed by the Corporation), in whole or in part by lot (and if in part, in such maturities as are designated by the Corporation, or if the Corporation fails to so designate, in inverse order of maturity, and by lot within a maturity), from any source of available moneys, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption.

Series 2014A Bonds. The Authority shall pay or redeem Bonds from moneys on deposit in the Sinking Account for Outstanding Term Bonds, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium, in the amounts and at the times, as follows:

Series 2014A Term Bond Maturing November 15, 20__

November 15 of the Year	Mandatory Sinking Account Payment
20__	\$
20__†	

† Stated maturity

Series 2014B Bonds. The Series 2014B Bonds are not subject to mandatory sinking account redemption prior to their respective stated maturities.

Special Redemption. The Bonds are subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised as directed by the Corporation) in whole or in part on any date (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) from certain moneys derived from insurance or condemnation proceeds received with respect to the facilities of the Corporation required to be deposited in the Special Redemption Account pursuant to the Regulatory Agreement at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

General Redemption Provisions. No redemption of less than all of the Bonds at any time outstanding will be made unless the aggregate principal amount of the Bonds to be redeemed is equal to an Authorized Denomination of \$5,000 or more, and the aggregate principal amount of the Bonds outstanding after the redemption is an Authorized Denomination.

* Preliminary, subject to change.

Purchase In Lieu of Redemption. In lieu of redeeming Bonds in the manner provided above under the captions "Optional Redemption," "Special Redemption" and "Mandatory Sinking Account Redemption," the Trustee shall, upon written direction of the Corporation with the consent of the Office, apply amounts deposited in the Optional Redemption Account, the Special Redemption Account or the Mandatory Sinking Account for the applicable series of Bonds established under the Indenture to the purchase of such series of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the subaccount of the Interest Account for the related series of Bonds) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the applicable Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be credited against Loan Repayments for the related series of Bonds in order of their due date as set forth in a Request of the Corporation. All Term Bonds purchased or redeemed shall be allocated to applicable Mandatory Sinking Fund Account Payments designated in a Certificate of the Corporation (or if the Corporation fails to deliver such a certificate, in inverse order of their payment dates).

Notice of Redemption. Except as provided below, notice of redemption shall be mailed by first class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to (i) the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, and (ii) the Authority and one or more Information Services. Notice of redemption shall also be given by telecopy, certified, registered, electronic or overnight mail to the Securities Depositories. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, the date of issue of the Bonds, the CUSIP number (if any) of the maturity or maturities and, if less than all of any such maturity, the distinctive numbers (or inclusive ranges of distinctive numbers) of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a fully registered Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

If any Bonds are to be redeemed pursuant to optional redemption as described above under the caption "Optional Redemption," the notice of redemption shall specify that the redemption is contingent on the deposit of moneys with the Trustee in an amount sufficient to redeem such Bonds on the anticipated redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Bonds have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the Bonds to be optionally redeemed, such event shall not constitute an Event of Default, the Trustee shall send written notice to the Owners, to the Securities Depositories and to one or more of the Information Services to the effect that the redemption did not occur as anticipated, and the Bonds for which notice of optional redemption was given shall remain Outstanding.

Failure to give notice in the manner prescribed with respect to any Bond, or any defect in such notice, shall not affect the validity of the redemption of any other Bond.

Upon the happening of the conditions described above, the Bonds thus called will not, after the applicable redemption date, bear interest, be protected by the Indenture or be deemed to be Outstanding under the provisions of the Indenture.

Defeasance. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided above or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Owner thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Bonds. The 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 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 securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of AA+. 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the Bonds 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 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 Bonds are credited on the Record Date (identified in a listing attached to the "Omnibus Proxy").

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 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 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 Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 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, THE CORPORATION OR THE UNDERWRITERS 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 Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Bonds for all purposes, including payments, notices and voting.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Authority's obligations under the Indenture and the Corporation's obligations under the Loan Agreement, to the extent of the payments so made.

None of the Authority, the Underwriters, the Corporation or the 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 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 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 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 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 Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Bonds, (ii) giving notices of redemption and other matters with respect to the Bonds, (iii) registering transfers with respect to the Bonds and (iv) the selection of Bonds for redemption.

PLAN OF FINANCE

The proceeds of the Bonds, together with certain other additional funds, will be loaned to the Corporation to (1) finance the Project, (2) repay the Bank Loan, the proceeds of which were used to construct a portion of the Project, (3) fund a Debt Service Reserve Account for the benefit of the Bonds; (4) pay a portion of the capitalized interest on the Bonds, and (5) pay certain expenses of issuing the Bonds.

The Project

The Corporation expects to apply a portion of the proceeds of the Bonds, together with other available funds, to pay or reimburse the Corporation for the costs of construction, renovation and equipping of the Facility, which is expected to include 132 residential living accommodations, 10 assisted living accommodations and 10 memory care assisted living accommodations, as well as 80,015 square feet of below grade parking. For a more detailed description of the Project, see APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC. – THE COMMUNITY" and "– OTHER PROFESSIONAL SERVICES."

ESTIMATED SOURCES AND USES OF FUNDS*

Proceeds to be received from the sale of the Bonds are estimated to be applied as set forth in the following table. All amounts are shown rounded to the nearest whole dollar.

<u>Source of Funds</u>	<u>Total</u>
Principal Amount.....	\$
[Net] Original Issue [Premium/Discount]	
Corporation Equity	_____
Total Sources of Funds	_____ \$
<u>Uses of Funds</u>	
Project Fund.....	\$
Working Capital Fund ⁽¹⁾	
Funded Interest on Series 2014A Bonds	
Debt Service Reserve Account ⁽²⁾	
Repayment of Bank Loan	
Costs of Issuance ⁽³⁾	
Insurance Premium and Related Fees.....	_____
Total Uses of Funds	_____ \$

* Preliminary, subject to change.

⁽¹⁾ The moneys deposited by the Corporation into the Entrance Fee Fund and the Working Capital Fund are equity, not Bond proceeds (within the meaning of the Code).

⁽²⁾ The amounts deposited to the subaccounts of the Debt Service Reserve Account for the Series 2014A, Series 2014B-1, Series 2014B-2, Series 2014B-3, Series 2014B-4 and Series 2014B-5 Bonds will be \$ _____, \$ _____, \$ _____, \$ _____ and \$ _____, respectively.

⁽³⁾ Includes Authority fees, legal fees, underwriters' discount, printing costs, accounting fees, rating agency fees and other costs of issuance. Costs of issuance in excess of 2% of the proceeds of the Bonds will be paid from Corporation equity.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS*

The following table sets forth, for each bond year ending November 15, the amounts required to be available for the payment of principal of (including required Mandatory Sinking Account payments) and interest on the Bonds. All amounts are shown rounded to the nearest whole dollar.

Bond Year Ending November	Series 2014A Bonds		Series 2014B-1 Bonds ⁽¹⁾		Series 2014B-2 Bonds ⁽¹⁾		Series 2014B-3 Bonds ⁽¹⁾		Series 2014B-4 Bonds ⁽¹⁾		Series 2014B-5 Bonds ⁽¹⁾		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
15													
2014	\$		\$		\$		\$		\$		\$		\$
2015													
2016													
2017													
2018													
2019													
2020													
2021													
2022													
2023													
2024													
2025													
2026													
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2032													
2033													
2034													
2035													
2036													
2037													
2038													
2039													
2040													
2041													
2042													
2044													
Total†	\$		\$		\$		\$		\$		\$		\$

* Preliminary, subject to change.

⁽¹⁾ The Series 2014B-1, Series 2014B-2, Series 2014B-3, Series 2014B-4 and Series 2014B-5 Bonds will mature on November 15 of 20__*, 20__*, 20__*, 20__*, and 20__* respectively, and are not subject to mandatory bond sinking fund redemption. The Corporation anticipates redeeming the Series 2014B-1, Series 2014B-2, Series 2014B-3, Series 2014B-4 and Series 2014B-5 Bonds in full from entrance fees by November 15 of 20__*, 20__*, 20__*, 20__*, and 20__* respectively. The actual timing of the prepayment of the Series 2014B Bonds may differ from the assumed timing because of timing differences in the receipt of entrance fees. See "THE BONDS – Redemption of the Bonds" and [] herein.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority, payable solely from Loan Repayments received by the Trustee pursuant to the Loan Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture and any payments owed pursuant to the Guaranty. In the Loan Agreement, the Corporation will agree to make payments to the Trustee at such times and in such amounts so as to provide for payment of the principal of, premium, if any, and interest on the Bonds outstanding when due, whether upon a scheduled Interest Payment Date, at maturity or by mandatory or optional redemption, acceleration or otherwise, and certain fees and expenses (consisting generally of fees and charges of the Trustee, taxes, accountants' fees and any fees and expenses of the Authority and the Trustee associated with the Bonds) (the "Additional Payments").

As security for the payment of the Bonds, the Authority will pledge and assign to the Trustee for the benefit of the Bondholders all of the Revenues (as described below) and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture and all right, title and interest of the Authority in and to the Loan Agreement, including the right to receive payments under the Loan Agreement (other than (i) its rights to give consent or approval under the Indenture, (ii) the right to receive Additional Payments or certain fees, costs and charges payable to third parties to the extent payable to the Authority, and (iii) the right of the Authority to indemnification, to receive notices, to consent to amendments and to receive certain certificates), the Deed of Trust, the Contract of Insurance and the Regulatory Agreement, as further described under this heading.

Certain investment earnings on monies held by the Trustee may be transferred to a Rebate Fund established pursuant to the Indenture and governed by the provisions of a Tax Exemption Agreement to be entered into by the Corporation. Amounts held in such Rebate Fund will not be part of the "trust estate" pledged to secure the Bonds and consequently will not be available to make payments on the Bonds. In the Loan Agreement, the Corporation will agree to make any payments required under the Tax Exemption Agreement.

EXCEPT TO THE EXTENT EXPRESSLY PROVIDED THROUGH THE INSURANCE PROGRAM DESCRIBED HEREIN, THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE COUNTY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER AND HAS NO OBLIGATION TO PAY PRINCIPAL OR INTEREST ON THE BONDS.

Pledge of Revenues

Under the Indenture, and subject to and for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds)

held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are pledged to secure the payment of the principal of, Redemption Price and interest on the Bonds. "Revenues" are all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any expenses or any amounts paid to the Authority or the Trustee pursuant to rights of indemnification or any Additional Payments. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS."

Deed of Trust

The Corporation will execute and deliver the Deed of Trust, pursuant to which the Corporation will grant to the trustee thereunder for the benefit of the Office and the Trustee (as assignee of the Authority), a first lien on and security interest in the real property, rents and leases, personal property and fixtures relating to the Facility (collectively, the "*Collateral Property*"), subject to Permitted Encumbrances and to the right of the Corporation (with the prior consent of the Office) to remove property from the lien of the Deed of Trust, as security for the performance of the Corporation's obligations under the Loan Agreement, the Regulatory Agreement and the Contract of Insurance and with respect to Parity Debt. The total book value of the Collateral Property constituted approximately [100]% of the book value of all property, plant and equipment of the Corporation as of [____], 2014.

For as long as the Office is obligated under the Contract of Insurance, all rights under the Deed of Trust shall be exercised solely by the Office. With the consent of the Office, the Deed of Trust may be amended, subordinated or terminated at any time without the necessity of obtaining the consent of the Trustee, the Authority, Bondholders or the holders of any Parity Debt. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – DEED OF TRUST."

Security Interest in Gross Revenues

Subject to the terms of the Loan Agreement and the Regulatory Agreement, the Gross Revenues of the Corporation are pledged to secure the payment of Loan Repayments and the performance by the Corporation of its obligations under the Contract of Insurance and the Regulatory Agreement and with respect to Parity Debt. "*Gross Revenues*" is defined in the Regulatory Agreement as all revenues, income, receipts and money received in any period by the Corporation, including, but without limiting the generality of the foregoing, the following: (a) gross revenues derived from its operation and possession of and pertaining to its properties; (b) proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt), (2) accounts, including, but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation; and (c) rentals received from the lease of the Corporation's properties or space in its facilities; *provided, however*, that there shall be excluded from Gross Revenues (i) any amounts received by the Corporation as a billing agent for another entity, except for fees received for serving as billing agent, (ii) gifts, grants, bequests, donations and contributions to the Corporation heretofore or hereafter made, and the income and gains derived therefrom, which are

specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (iii) any moneys received by the Corporation from prospective residents or commercial tenants in order to pay for customized improvements to those independent living units or other areas of the Corporation's facilities to be occupied or leased to such residents or tenants, (iv) payments or deposits under a residency agreement that by its terms or applicable law are required to be held in escrow or trust for the benefit of a resident until the conditions for the release of such payment or deposit have been satisfied, and (v) all deposits and/or advance payments made in connection with any residency of the independent living units or other areas of the Corporation's facilities to be occupied by residents or tenants and received prior to receipt of such certificate and licenses for occupancy of such units.

So long as any Loan Repayments remain unpaid under the Loan Agreement, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund," which the Corporation shall establish and maintain pursuant to the provisions of the Loan Agreement at such banking or financial institution or institutions as the Corporation shall from time to time designate for such purpose (the "*Depository Bank(s)*"). See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – LOAN AGREEMENT – Gross Revenue Fund."

Debt Service Reserve Account

A Debt Service Reserve Account for the Bonds (the "*Debt Service Reserve Account*") will be established and funded under the terms of the Indenture. Amounts on deposit in subaccounts of the Debt Service Reserve Account for each series of the Bonds shall be used and withdrawn by the Trustee solely for the purpose of making up a deficiency in the subaccounts of the Interest Account or Principal Account for the related series of Bonds (but, in each case, only with the consent of the Office, provided the Office is not in default of its obligations under the Contract of Insurance) or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding. In the event the balance in a subaccount of the Debt Service Reserve Account shall be less than the Debt Service Reserve Account Requirement for the related series of Bonds as a result of a draw thereon to make up a deficiency in the applicable subaccount of the Interest Account or Principal Account, the Corporation shall replenish such subaccount of the Debt Service Reserve Account with the amount necessary to increase the balance in such subaccount to an amount at least equal to the Debt Service Reserve Account Requirement for the related series of Bonds. In the event the balance in a subaccount of the Debt Service Reserve Account shall be less than 90% of the Debt Service Reserve Account Requirement for the related series of Bonds due to valuation of the Investment Securities deposited therein, the Corporation shall replenish such subaccount of the Debt Service Reserve Account with the amount necessary to increase the balance in such subaccount to an amount at least equal to the Debt Service Reserve Account Requirement for the related series of Bonds. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – INDENTURE – Investments" and "SUMMARY OF PRINCIPAL DOCUMENTS – INDENTURE – Allocation of Revenues."

On the date of delivery of the Bonds, an amount equal to the Debt Service Reserve Account Requirement for each series of Bonds will be deposited in the applicable subaccount of the Debt Service Reserve Account. The Debt Service Reserve Account Requirement is defined in the Indenture to mean (a) with respect to the Series 2014A subaccount of the Debt Service Reserve Account, an amount equal to the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on the Series 2014A Bonds then outstanding, (ii) an amount equal to 10% of the original principal amount or the issue price of the Series 2014A Bonds (as determined under the Code), or (iii) an amount equal to 125% of the average annual debt service with respect to the Series 2014A Bonds (calculated as of the date of the issuance of the Bonds); (b) with respect to the Series 2014B-1 subaccount of the Debt Service Reserve Account, \$ _____; (c) with respect to the Series

2014B-2 subaccount of the Debt Service Reserve Account, \$ _____; (d) with respect to the Series 2014B-3 subaccount of the Debt Service Reserve Account, \$ _____; (e) with respect to the Series 2014B-4 subaccount of the Debt Service Reserve Account, \$ _____; and (f) with respect to the Series 2014B-5 subaccount of the Debt Service Reserve Account, \$ _____.

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

See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF THE INDENTURE – Allocation of Revenues” and “– Application of Debt Service Reserve Account.”

Rate Covenant, Current Ratio Covenant and Days Cash on Hand Covenant

Under the Regulatory Agreement and the Loan Agreement, the Corporation is required to fix, charge and collect rates, fees and charges that, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year to achieve Net Income Available for Debt Service of at least 1.25 times Maximum Aggregate Annual Debt Service, measured as of the end of each Fiscal Year, commencing with the Fiscal Year ending [June 30, 2016].

The Regulatory Agreement also requires the Corporation to maintain, as of the end of each Fiscal Year (commencing with the first full Fiscal Year following the issuance of the initial, temporary or final certificate of occupancy issued by the appropriate governmental entities having jurisdiction over the Project permitting occupancy of the Independent Living Units included in the Project (the “*Occupancy Certificate*”)) a current ratio (a ratio of current assets to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation’s audited financial statements for such Fiscal Year) of at least 1.5:1.0.

In addition, the Regulatory Agreement requires the Corporation to maintain, [(i) as of the end of the Fiscal Year ending June 30, 2017, until the end of the Fiscal Year in which the conditions for the release of the Guaranty have been satisfied, at least 150 Days Cash on Hand, and (ii) as of the end of each Fiscal Year (commencing with the first Fiscal Year after the conditions for the release of the Guaranty have been satisfied), not less than 175 Days Cash on Hand], as shown on the Corporation’s audited financial statements for such Fiscal Year. For purposes of this requirement, “*Days Cash on Hand*” shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Corporation’s cash and cash equivalents, including board designated funds and funded depreciation, but excluding donor restricted funds and proceeds of short-term indebtedness, as of the end of such Fiscal Year by (2) the quotient of dividing (a) the Corporation’s operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (b) the number of days in such Fiscal Year.

The Corporation covenants and agrees under the Regulatory Agreement that within forty-five (45) days after each December 31, March 31, June 30 and September 30 (each three-month period ending on each such date being referred to herein as a “*Fiscal Quarter*”) commencing with the Fiscal Quarter ending [June 30, 2016], the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Quarter and for the twelve-month period ending on the last day of such Fiscal Quarter

("Running Twelve-Month Period") and promptly furnish to the Office a Statement setting forth the results of such computation. If at the end of such Fiscal Quarter the Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for such Running Twelve-Month Period, the Corporation shall, upon the request of the Office, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Facilities or the methods of operation of the Facilities which will result in producing Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Quarter.

The Corporation further covenants and agrees under the Regulatory Agreement that if, at the end of such Fiscal Year, (i) the Debt Service Coverage Ratio shall have been less than as required by the provisions of the Regulatory Agreement described above in the first paragraph under this sub-heading, (ii) the current ratio shall have been less than as required by the provisions of the Regulatory Agreement described above in the second paragraph under this sub-heading, or (iii) the Days Cash on Hand shall have been less than as required by the provisions of the Regulatory Agreement described in the foregoing paragraph, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result in producing (x) a Debt Service Coverage Ratio as required by the provisions of the Regulatory Agreement described above in the first paragraph under this sub-heading in the current Fiscal Year, (y) a current ratio as required by the provisions of the Regulatory Agreement described above in the second paragraph under this sub-heading in the current Fiscal Year and (z) Days Cash on Hand as required by the provisions of the Regulatory Agreement described in the foregoing paragraph in the current Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; *provided, however*, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board of Directors of the Corporation makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fails to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the foregoing covenants for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio, the current ratio or the Days Cash on Hand shall be less than the amount required by the provisions of the Regulatory Agreement described in the foregoing paragraphs; provided, that (1) this sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under the Regulatory Agreement or be construed as constituting a waiver of any other event of default under the Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

The above-described covenants contained in the Regulatory Agreement may be waived or amended by the Office without the necessity of obtaining the consent of the owners of the Bonds, the Authority or any other party (but not including the rate covenant, which is also contained in the Loan Agreement). For a further description of the rate covenant, the current ratio covenant and the Days Cash on Hand covenant, see APPENDIX C - "SUMMARY OF PRINCIPAL DOCUMENTS -

REGULATORY AGREEMENT – Rates and Charges; Debt Coverage; Current Ratio; Days Cash on Hand.”

Parity Debt; Other Indebtedness

In addition to its obligations with respect to the Bonds, the Corporation may incur other indebtedness that may be secured by a security interest in Gross Revenues and the lien of the Deed of Trust on a parity with the Corporation’s obligation to make Loan Repayments under the Loan Agreement, if issued for the purposes and subject to the conditions provided in the Regulatory Agreement. Parity Debt may not be incurred unless it is insured by the Office or, if the Parity Debt can be issued as such without being insured under the Insurance Law, it is issued with the consent of the Office. *See* APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – REGULATORY AGREEMENT – Parity Debt.”

Insurance

The principal of and interest on the Bonds will be insured by the Office. If moneys are not available to pay the principal of or interest on the Bonds, the Office will be obligated to continue to make payments on the Bonds or shall instruct the Trustee to declare the principal of all Bonds then Outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest. Upon the occurrence of certain events, the Office shall notify the Treasurer, and the Treasurer shall issue debentures to the Holders of the Bonds fully and unconditionally guaranteed by the State in an amount equal to the principal of and accrued interest on the Bonds. *See* “CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM” herein.

The Office’s Control of Remedies

For as long as the Office is obligated under the Contract of Insurance, all remedies of the Trustee (as assignee of the Authority) and owners of the Bonds under the Indenture, the Loan Agreement, the Regulatory Agreement and the Deed of Trust shall be exercised solely by the Office.

Limited Liability of the Authority

EXCEPT TO THE EXTENT EXPRESSLY PROVIDED THROUGH THE INSURANCE PROGRAM DESCRIBED HEREIN, THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE COUNTY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER AND HAS NO OBLIGATION TO PAY PRINCIPAL OR INTEREST ON THE BONDS.

THE GUARANTY

[SUMMARY OF THE GUARANTY TO COME]

CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM

Description of the Insurance Policy

General. The Corporation has received a conditional commitment from the Office for insurance of the Corporation's payment of the principal and interest with respect to the Bonds. Insurance of the full amount of the principal and interest with respect to the Bonds (but not any premium) is evidenced by the Contract of Insurance and the Regulatory Agreement, both of which will be entered into by the Office, the Authority and the Corporation, concurrently with the execution and delivery of the Bonds. See APPENDIX F – "FORM OF CONTRACT OF INSURANCE" for the form and terms of the insurance provided by the Office. The Regulatory Agreement contains certain financial covenants of the Corporation relating to, among other things, the maintenance of specified debt service coverage levels and the limitations on incurrence of additional indebtedness or disposition of assets by the Corporation. Prospective holders of the Bonds should note that the provisions of the Regulatory Agreement may be amended with the consent of the Office without the necessity of obtaining the consent of the holders of the Bonds or the holders of Parity Debt. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM – Description of the Insurance Policy - Rights of the Office Under the Regulatory Agreement" herein and APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – REGULATORY AGREEMENT."

Insurance Law Section 129050(a) requires that a loan must be secured by a first mortgage, first deed of trust or first priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, the Corporation will grant a security interest in the Gross Revenue Fund and all of the Gross Revenues under the Loan Agreement and the Regulatory Agreement and the Corporation will enter into the Deed of Trust. Prospective holders of the Bonds should note that the provisions of the Deed of Trust may be amended, subordinated or terminated at any time with the consent of the Office without the necessity of obtaining the consent of the holders of the Bonds or the holders of Parity Debt.

Incontestability and Non-Cancellability. Under Insurance Law Section 129110, the Contract of Insurance is incontestable from the date of execution thereof, except in case of fraud or misrepresentation on the part of the lender. The Insurance Law and the Contract of Insurance impose certain continuing obligations on the Corporation as a condition of insuring the Bonds but specify that the remedies for breach of these obligations shall not include withdrawal or cancellation of the insurance. The insurance provided by the Contract of Insurance will terminate under certain circumstances, including payment in full by the Office of the insurance with respect to the Bonds or defeasance of the Bonds pursuant to the Indenture, as more fully described in APPENDIX F – "FORM OF CONTRACT OF INSURANCE." See also, APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – CONTRACT OF INSURANCE."

Procedures upon Default. If there is an event of default as specified under the Indenture or the Loan Agreement, the Trustee must notify the Office. The Trustee also must notify the Office if 30 days prior to an Interest Payment Date or Principal Payment Date there are not sufficient available moneys

held by the Trustee in the Revenue Fund (other than in the Debt Service Reserve Account) to make the next payment of principal or interest with respect to the Bonds.

Pursuant to the Regulatory Agreement and the Indenture, if there is an Event of Default under the Indenture and the Trustee has notified the Office that available moneys in the Principal and Interest Account will be insufficient to pay in full the next succeeding payment of interest and/or principal on the Bonds when due, the Office shall cause a sufficient amount to be deposited in the Principal Account and/or Interest Account at least three Business Days prior to the date on which such payment is due. The money will come from the Debt Service Reserve Account held under the Indenture or from the Health Facility Construction Loan Insurance Fund (the "HFCLIF") that is established by the Insurance Law (Sections 129010(g) and 129200). The obligation of the Corporation to repay any money advanced from the HFCLIF is secured by the Deed of Trust.

Following an Event of Default, the Office may either (i) continue to approve such transfers or make such payments described in the preceding paragraph as are necessary to provide for the timely payment of the principal of and interest with respect to the Bonds, (ii) accept title to the Facility from the Trustee upon foreclosure pursuant to the Deed of Trust or otherwise, (iii) accept an assignment of the security interest created under the Deed of Trust and of all claims under the Indenture, or (iv) instruct the Trustee to declare the principal of the Bonds then Outstanding and the interest with respect thereto to be immediately due and payable and make such payment from the HFCLIF. If funds in the HFCLIF are not sufficient to make the required payments described above, the Office shall notify the Treasurer who is required to issue debentures in place of such Bonds. See "The Office, the Program and the Insurance Fund – State Debentures" below.

Rights of the Office under the Regulatory Agreement. The Regulatory Agreement grants the Office extensive rights, including the right to attend and participate in all meetings of the Corporation's Board of Directors. Additionally, the Regulatory Agreement prohibits the Corporation from taking certain actions without first obtaining the consent of the Office or meeting certain requirements in the Regulatory Agreement, including affiliating with, merging into, or consolidating with any entity; transferring cash or cash equivalents to any entity, including but not limited to a subsidiary or an affiliate of the Corporation; disposing of or acquiring property; and incurring indebtedness. Additionally, upon the occurrence of an event of default under the Regulatory Agreement, the Deed of Trust or the Indenture, the Office shall have the remedies provided in Insurance Law Section 129173. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – REGULATORY AGREEMENT."

Rate Covenant and Other Financial Covenants. Under the Regulatory Agreement and the Loan Agreement, the Corporation is required to fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year, beginning with the Fiscal Year ending [June 30, 2016], to produce Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year. The Regulatory Agreement also requires the Corporation to maintain, as of the end of each fiscal year, a ratio of current assets to current liabilities of at least 1.5 to 1 beginning with the first full Fiscal Year following the issuance of the Occupancy Certificate for the Independent Living Units included in the Project. The Regulatory Agreement further requires the Corporation to maintain, (i) as of the end of the Fiscal Year ending [June 30, 2017, until the end of the Fiscal Year in which the conditions for the release of the Guaranty have been satisfied, at least one hundred fifty (150) Days Cash on Hand and (ii) as of the end of each Fiscal Year, commencing with the first Fiscal Year after the conditions for the release of the Guaranty have been satisfied,] at least one hundred seventy-five Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year. The measurement of Days Cash on Hand is taken at the end of each particular fiscal

year. For more specific information relating to these covenants, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – REGULATORY AGREEMENT.” The Bonds will continue to be insured by the Office in the manner described above even if an Event of Default were to occur under financial or other covenants made by the Corporation.

The Office, the Program and the Insurance Fund

General. The California Health Facility Construction Loan Insurance Program (the “Program”) is authorized by Article XVI, Section 4 of the California Constitution and is provided for in the Insurance Law. The Program is operated by the Office, which has adopted regulations implementing the Program. Under the Insurance Law, the Office is currently authorized to insure health facility construction, improvement and expansion loans, as specified in the Insurance Law. Entities which may obtain insurance for their facilities include both public agencies and nonprofit corporations, and authorized health facilities include a wide range from acute care facilities to local clinics, dependency centers and community mental health centers. The Insurance Law authorizes the Program to insure not more than \$3,000,000,000 principal amount of loans at any time. As of October 31, 2013, the principal amount of loans insured under the Program was approximately \$1,681,810,140, comprised of 113 loans.

Finances of the Program; Financial Reports. The Program is financed by an application fee of 0.5% of the loan applied for, but not to exceed \$500 (Insurance Law section 129090), an inspection fee not in excess of 0.4% of the loan that is insured (Insurance Law section 129035), and an insurance premium due in full at closing not in excess of 3.0% of the total amount of principal and interest payable over the term of the loan (Insurance Law section 129040). The fees and premiums charged are deposited in the HFCLIF and are used to defray administrative expenses of the Program, to cure defaults on loans and to pay principal of and interest on insured bonds and certificates of participation prior to issuance of debentures by the Treasurer.

Under the Insurance Law, payments of principal and interest with respect to the Bonds or payments on the debentures would be made by the Office from the HFCLIF. As of October 31, 2013, the cash balance of the HFCLIF was approximately \$166,117,387. The moneys in the HFCLIF are continuously appropriated to pay obligations insured by the Office under the Insurance Law. Insurance Law section 129215 states: “The Health Facility Construction Loan Insurance Fund, established pursuant to Section 129200, shall be a trust fund and neither the fund nor the interest or other earnings generated by the fund shall be used for any purpose other than those purposes authorized by this chapter.” The moneys in the HFCLIF are invested in the State’s Pooled Money Investment Account.

The Office is required by law to submit certain reports to the Legislature, consisting of an Annual Report, and a State Plan. The State Plan is prepared every two years, as of January 1 of each odd-numbered year. The 2013 State Plan has not yet been released but is expected to be available in the summer of 2014. The 2011 State Plan is available at the website of the Office. The Annual Report for the year ended June 30, 2012 (the “2012 Annual Report”), is available at the website of the Office. The Office also prepares monthly reports containing limited financial data. The most recent monthly report available from the Office is for the period ended October 31, 2013.

The following table provides certain statistics for the Program as of the end of the last five fiscal years for which reports are available from the Office:

	<u>Fiscal Year Ended June 30</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Number of Loans Insured	133	139	132	122	117
Principal Amount of Loans Insured (\$000)	\$1,655,192	\$1,735,068	\$1,809,696	\$1,708,991	\$1,726,980
Cash Balance of HFCLIF	\$192,557,629	\$189,745,143	\$180,371,861	\$172,924,033	\$168,822,959

Program Loans; Status of Borrowers. The future financial status of the Program is directly affected by the financial performance of the borrowers in the Program and their current and projected ability to repay their loans. The Office has established a rating system to implement objective criteria and continues to monitor each borrower for compliance with loan covenants assigning a risk rating (A to F) to that borrower and all its loans. The risk ratings measure the corresponding relationship between the financial status of the borrower and risk to the HFCLIF, as follows:

- A Rating – no material problems;
- B Rating – minor problems such as one or more of the following: for more than one fiscal year, some of the borrower’s covenant requirements have not been met; the borrower’s financial trends indicate potential problems; the borrower is more than 6 months late in providing its financial and other reports as required by its Regulatory Agreement.
- C Rating – serious problems, such as one or more of the following: the borrower’s last insured loan payment was not paid within 30 days of the delinquency date defined in the borrower’s Regulatory Agreement; the borrower’s day’s cash on hand is low; the last calculation of the insured debt service coverage ratio was below 1.0 and the project does not have a substantial cash cushion either in days cash on hand or in relation to amount of insured debt; payables and receivables indicate inappropriate lag time; economic indicators locally, regionally or statewide are impacting the borrower; management turnover and/or board oversight is in question; borrower has filed for bankruptcy protection but is making full payments on insured debt.
- D Rating – very serious problems such as one or more of the following: the debt service reserve fund has been invaded and the borrower is not making substantial progress in fully replenishing its debt service reserve fund, pursuant to the loan documents; financial trends have been escalating downward with no action plan in place to correct the problem; the borrower’s days cash on hand is exceedingly low, such that it does not appear that the borrower will be able to make its next payroll; payment(s) are not being made and HFCLIF may be used within the next 12 months.
- E Rating – payments have been or are being made from the HFCLIF, but full recovery is expected. The Office has a work out plan with the borrower.
- F Rating – payments have been or are being made from the HFCLIF and loss of some magnitude is expected.

As of September 30, 2013, there were two borrowers with one loan each in the portfolio with a D Rating, three borrowers with a total of six loans with E Ratings, and no borrowers with an F Rating; the total outstanding principal balance of these D and E rated borrower's loans was \$75,238,523.

Since the start of the Program in 1972, 20 borrowers (with 28 loans) have defaulted with all required payments coming from the HFCLIF (without cost to the State General Fund). Elder Care Alliance of Union City ("*Elder Care*") defaulted on its loan in the fiscal year ending June 30, 2012 resulting in payments from the HFCLIF. After an unsuccessful attempt at a work out, the Office has commenced foreclosure. A third party has agreed in writing to purchase the property from the Office at a price that will result in no loss to bond holders. Kern Valley Healthcare District ("*Kern Valley*") defaulted on its loan in the fiscal year ended June 30, 2011 and is expected to require payments from the HFCLIF during calendar year 2013 of approximately \$517,000. The Office anticipates that Kern Valley will require advances from the HFCLIF of approximately \$5,450,000 through August, 2021. Kern Valley is making partial payments through a workout agreement with the Office and the shortfall is expected to be repaid with interest starting in August, 2021 through August 2029. On October 17, 2012, Mendocino Coast Health Care District ("*Mendocino Coast*") entered Chapter IX bankruptcy. The Office insured three bond issues totaling \$9,205,000 and a bank line of credit of \$1,000,000 for Mendocino Coast. Mendocino Coast continues to make bond payments. When Mendocino Coast entered bankruptcy, the bank declared the line of credit in default and the Office paid on its insurance and now asserts the claim in bankruptcy. The Office and the District have reached a settlement agreement which restructures the loan, but results in no loss to the Office.

The largest defaulted loan in the Program was a loan to Triad Healthcare Corporation in the original amount of \$182.3 million. The project is no longer in existence and the Triad loan is carried as a long-term liability of the Program. As of December 31, 2013, the remaining principal balance of the Triad loan is \$75,360,000. The payments from the HFCLIF (net of recoveries) for the Triad loan have been \$158,493,744. In December 2013, a portion of the outstanding bonds were refunded so the Program could realize interest expense savings. The HFCLIF will make payments for the Triad loan of approximately \$11.5 million each year until August 1, 2018, \$12.1 million in 2019 and 2020, and a final payment of \$8.2 million on August 1, 2021.

State Debentures. In the event the obligations of the HFCLIF to pay on an issue of defaulted bonds or certificates of participation exceeds the available balances in the HFCLIF, and upon receipt by the Office of title to subject facilities or assignment of the security interest in a deed of trust and upon surrender of the defaulted bonds or certificates of participation to the Office, the Office shall notify the Treasurer and request the Treasurer to issue debentures to the trustee for the benefit of the holders of the defaulted bonds and certificates of participation so surrendered; debentures are to be issued in an amount equal to the total face value of the outstanding principal of and accrued but unpaid interest on the defaulted bonds and certificates of participation, for the term and at the interest rate payable on such bonds and certificates of participation. Pursuant to Insurance Law section 129160, subsection (a), the debentures are fully and unconditionally guaranteed as to principal and interest by the State. Insurance Law section 129160, subsection (b) provides, "In the event of a default, any debenture issued under this article shall be paid on par with general obligation bonds issued by the state." See "CERTAIN FINANCIAL INFORMATION REGARDING THE STATE" and "RATING" below.

While the Office has not requested the issuance of and the Treasurer has not issued any such debentures since the inception of the Program, and while definitive procedures for their issuance have not been established, including procedures covering matters such as compliance with the provisions of the Code and the Treasury Regulations promulgated thereunder, the Office and the Treasurer have all necessary power to establish such procedures, and it is expected that such procedures would be established in advance of any issuance of debentures. It is expected that, to the same extent as interest on

the Bonds is not includable in the gross income of the holders thereof for purposes of federal income taxation, interest on the debentures would not be includable in the gross income of the holders, and that interest on debentures would be exempt under the law as in effect on the date hereof from State personal income taxes. Upon the occurrence of certain Events of Default under the Indenture, there is the possibility that the interest on the Bonds could become subject to federal income taxation. The Indenture provides that there shall be no acceleration of the principal and interest on the Bonds upon the occurrence of an Event of Default under the Indenture without the consent of the Office. If the Bonds were declared taxable by the IRS or another appropriate authority, thereby resulting in an Event of Default under the Indenture, and if the Office did not consent to an acceleration, the holders of the Bonds (and holders of any debentures exchanged for such Bonds) would continue to receive interest payments, but those interest payments would not be excludable from gross income for federal income tax purposes. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – INDENTURE – Events of Default; Remedies on Default” [and “– Acceleration of Maturities].

Actuarial Study. The Office obtains an independent actuarial review of the HFCLIF every two years. At the request of the Office, Oliver Wyman Actuarial Consulting, Inc. (“*Oliver Wyman*”) completed a study in August 2011 (the “*2010 Actuarial Study*”) to evaluate, among other matters, (1) the reserve sufficiency of the HFCLIF as of June 30, 2010; and (2) the risk to the State’s General Fund from the Program. Oliver Wyman compared the HFCLIF cash balance as of June 30, 2010 of \$189.75 million against the reserve and capital requirements standards set by the California Department of Insurance for private financial guaranty insurers; the 2010 Actuarial Study indicated that the Program’s assets were at least \$78.28 million below the level which would be required by the California Department of Insurance standards for private insurers (including reserves for projects which had scheduled loss payments during fiscal year 2010/11). As to the second subject, the 2010 Actuarial Study indicated that the HFCLIF as of June 30, 2010 under the “expected scenario” (which scenario assumed, among other things, a 6.5% default rate) should maintain a positive balance until at least the forecast period of 2039/2040. Even under the “most pessimistic scenario” in which a 10% probability of catastrophic loss was used, the 2010 Actuarial Study indicated that there was a 70% likelihood that HFCLIF reserves as of June 30, 2010 would protect against any General Fund losses until at least 2020-21, and a 90% likelihood that HFCLIF reserves as of June 30, 2010 would protect against any General Fund losses until at least 2016/17.

The 2010 Actuarial Study is based on stated assumptions and estimates including, but not limited to, default rates, investment yields, termination rates, claim severities, catastrophic losses and payment patterns. Variation from such estimates or assumptions may cause actual results to vary from the analysis in the 2010 Actuarial Study and such variations could be material. A copy of the 2010 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, 400 R Street, Suite 470, Sacramento, CA 95811, Telephone: (916) 319-8800; e-mail: cminsure@oshpd.ca.gov. The actuarial study as of June 30, 2012 (the “*2012 Actuarial Study*”), has been commenced.

See “BONDHOLDER’S RISKS – State Bond Insurance” for a discussion of the risks related to the Insurance. See “RATING” in this Official Statement for a discussion of the rating the Bonds are expected to receive due to the insurance by the Office of the Bonds.

FOR A FURTHER DESCRIPTION OF THE REGULATORY AGREEMENT AND THE CONTRACT OF INSURANCE, SEE APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS” AND APPENDIX F – “FORM OF CONTRACT OF INSURANCE.”

CERTAIN FINANCIAL INFORMATION REGARDING THE STATE

Information about the financial condition of the State, including the State budget and State spending, is available at various State-maintained websites. Information concerning the current year State budget and the proposed Governor's Budget for Fiscal Year 2014-15 (the "Governor's Budget") may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Analyses of the current year budget and future budget proposals are posted from time to time by the independent Office of the Legislative Analyst at www.lao.ca.gov. Reference is made to the most recent preliminary official statement or official statement issued by the State in connection with general obligation bonds, lease revenue obligations or revenue anticipation notes, which can be accessed from the website of the State Treasurer's office, www.treasurer.ca.gov, under the headings "Public Finance Division – Current Offerings" (for preliminary official statements) or through the Electronic Municipal Market Access System, a facility of the Municipal Securities Rulemaking Board, at <http://emma.msrb.org> (for official statements). All of such websites and other sources are provided for general informational purposes only and the material on such sites and from such resources is in no way incorporated into this Official Statement. Readers are cautioned that such information is not necessarily fully current and that the reported financial condition of the State may have changed since the date such information was published or posted. In particular, the prior State official statements currently on file do not reflect updated revenue and expenditure estimates and economic projections included in the Governor's Budget. The Governor's Budget can be assessed as <http://www.ebudget.ca.gov/>.

BONDHOLDERS' RISKS

The purchase and ownership of the Bonds involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should evaluate all of the information presented in this Official Statement. This section on Bondholders' Risks focuses primarily on the general risks associated with the operations of senior living facilities, whereas APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC." describes the Corporation specifically. These should be read together.

The bondholders' risks discussed below should be considered in evaluating the ability of the Corporation to make payments in amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Bonds. This discussion of bondholders' risks is not, and is not intended to be, exhaustive.

General

As described herein under the caption, "INTRODUCTION – Security for the Bonds," the Bonds are limited obligations of the Authority, and principal of, premium, if any, and interest on the Bonds, except to the extent payable from the proceeds thereof or investment income thereon, are payable solely from amounts payable by the Corporation under the Loan Agreement.

As an assisted living provider, the Corporation operates residential care facilities for the elderly ("RCFEs"), which do not contract with Medicare and Medi-Cal, but which are nonetheless regulated under California law. See "Regulatory Matters – RCFE Requirements of the State" below for more information. The future financial condition of the Corporation could be adversely affected by changes in the regulatory scheme governing the Corporation and its Facilities, as well as increased competition from other health care or senior living entities, the costs associated with responding to governmental inquiries and investigations, reduced demand for senior living, capability of management, future changes in the economy, demographic changes, availability of staff and malpractice claims and other litigation, among other things. These factors and others may adversely affect payment by the Corporation under the Loan

Agreement and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation and, therefore, of the Bonds, could be adversely affected by, among other things, an adverse determination by a governmental entity, non-compliance with governmental regulations or legislative changes.

Impact of Market Turmoil and Recent Federal Legislation

The turbulence of the credit and financial markets in the last several years has resulted in volatility in the securities markets, significant losses in investment portfolios, increased business failures, consumer and business bankruptcies, and a reduction in philanthropy. The healthcare and senior living sectors have been materially adversely affected by these developments, the consequences of which have generally included realized and unrealized investment portfolio losses, reduced investment income, limitations on access to the credit markets, difficulties in extending existing or obtaining new liquidity facilities, difficulties in remarketing revenue bonds subject to tender, requiring the expenditure of internal liquidity to fund tenders of revenue bonds and increased borrowing costs.

In response to this disruption of the credit and financial markets, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*") was enacted in July 2010 to stabilize the credit and financial markets. Additional legislation is under active consideration by Congress and regulatory action is being considered by various federal agencies and the Federal Reserve Board and foreign governments, which are intended to increase the regulation of financial institutions and domestic and global credit and securities markets. The Corporation has significant holdings in a diversified portfolio of investments. Market fluctuations have affected and will continue to affect materially the value of those investments and those fluctuations may be and historically have been material. See APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC. – Management's Discussion of Financial Performance." The effects of these legislative, regulatory and other governmental actions, including the Dodd-Frank Act, upon the Corporation and, in particular upon its access to capital markets and investment portfolio, cannot be predicted.

Some of the challenges caused by the disruptions in the credit markets are further highlighted below. The reader is advised to refer to APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC." in this Official Statement for specific information about the effects of these factors on the Corporation's most recent financial performance and its financial condition. These and other risks may adversely affect the Corporation and jeopardize its ability to generate revenues, make payments under the Loan Agreement and, consequently, make payments on the Bonds. There can be no assurance that the financial condition of the Corporation and/or the utilization of its facilities will not be adversely affected by any of these circumstances.

California State Budget

[TO BE UPDATED] Many states, including California, have faced severe financial challenges in recent years, 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. California enacted a Fiscal Year 2012-13 state budget which took effect July 1, 2012, meeting the State's constitutional requirement. The State Budget is generally considered to be balanced, meeting an additional constitutional requirement. The State's Budget is based on revenue forecasts that appear to be accurate, and potentially understated, based on revenue collected by, and projections through, February 2013. One reason for California's improved fiscal outlook in FY 2012-13 is attributed to the results of the November 2012 election. California voters passed Proposition 30, providing new state General Fund revenues by increasing personal income taxes and state sales tax. These taxes are temporary and are considered to be a "bridge" in helping the State maintain a balanced budget while the economy recovers. General economic factors suggest that the State's economy is improving, with California's unemployment

rate dropping in recent quarters, corporate profits are trending favorably, housing prices increasing, and the percentage of foreclosures dropping.

It is impossible to predict what the State's budget will be in future years. It is also impossible to predict the actions of the Governor, the Legislature or voters - via ballot initiative - will take in the future. 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.

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 Corporation's operations, but they could be material.

State Bond Insurance

Because the principal and interest payments on the Bonds will be insured by the Office, if the principal and interest payments on the Bonds are not made by the Corporation, such payments would be made by the Office from the HFCLIF. The last actuarial study of HFCLIF obtained by the Office is as of June 30, 2010, and indicated that the HFCLIF could be depleted prior to the maturity date of the Bonds in the event a 10% probability of catastrophic loss was assumed. The 2012 Annual Report is available at the website of the Office. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM – The Office, the Program and the Insurance Fund."

To the extent the HFCLIF reserves are depleted and subject to the requirements of the Insurance Law, the Office shall request the Treasurer to issue debentures which are fully and unconditionally guaranteed as to principal and interest by the State in an amount equal to the then outstanding principal amount of the Bonds. Accordingly, any decline in the State's fiscal condition could adversely affect the State's ability to make payment on debentures in the event of a claim on such insurance. See "CERTAIN FINANCIAL INFORMATION REGARDING THE STATE."

In addition, over certain time periods, deterioration in the State's budget and cash situation may cause the nationally recognized rating services to reduce the State's credit ratings. Standard & Poor's Ratings Services, the rating agency for the Bonds, has indicated that it rates the Office's insured bonds on par with the rating of the State's general obligations bonds and that any rating action affecting the State will directly affect the rating on the Cal-Mortgage insurance program. Therefore, any decline in the State's fiscal condition could adversely affect the rating on the Bonds. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM – The Office, the Program and the Insurance Fund." See also "CERTAIN FINANCIAL INFORMATION REGARDING THE STATE" and "RATING."

Uncertainty of Revenues

The Bonds are limited obligations of the Authority and, except as described herein under "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN PROGRAM," are payable solely from Revenues, which will consist primarily of Loan Repayments to be made by the Corporation under the Loan Agreement and from certain funds and interest, profits or other income derived from the investment of amounts in such funds held under the Indenture. For further information concerning the security for the Bonds, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

The principal and interest payments on the Bonds will be insured by the Office. The Authority has no control, financial or otherwise, over the Office. If the Corporation were to default in making Loan

Repayments under the Loan Agreement and the Office were to default on its insurance obligations under the Contract of Insurance, there could be insufficient funds available to pay the Holders of the Bonds. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM," "CERTAIN FINANCIAL INFORMATION REGARDING THE STATE," and "BONDHOLDERS' RISKS – State Bond Insurance."

No guarantee or assurance can be made that sufficient revenues will be available to pay the principal of, premium, if any, and interest on the Bonds when due. The receipt of future revenues by the Corporation will be dependent upon the capabilities of management of the Corporation and may be adversely affected by future economic conditions, technological or demographic changes affecting demand for senior living facilities and health care services, future federal or state regulation or funding of health care services, competition from other senior living or health care providers and facilities in the service area of the Corporation's Facility and other factors. None of the Authority or the Underwriters has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Corporation.

For information concerning the Corporation, its operations and financial condition, see APPENDIX A – "INFORMATION CONCERNING MONTECEDRO INC."

Occupancy and Turnover in the Corporation's Facility

The ability of the Corporation to generate sufficient revenues depends in large part on its ability to attract sufficient numbers of residents to its facilities in order to maintain substantial occupancy and turnover of occupancy throughout the term of the Bonds. Because occupancy and turnover at the Corporation's facilities depend upon factors outside the Corporation's control, such as residents' rights to terminate their contracts with the Corporation, the Corporation must rely on various assumptions about the Corporation's residents and the market for its services. Where such assumptions prove to be wrong, the Corporation's revenues will be affected. Revenues would also be impaired if the Corporation is unable to remarket units as they become available. If the Corporation's operations fail to maintain occupancy levels and resell independent living units and assisted living units as they become available, the Corporation may lack sufficient funds to pay debt service on the Bonds.

Sale of Personal Residences

Prospective residents of the Facility may be required to sell their current homes to meet their 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 meet their financial obligations under their residency agreements, thereby causing a delay in scheduled occupancy of the Facility or the remarketing of vacated units, either of which would have an adverse impact on the revenues of the Corporation.

Nature of the Income of the Elderly

A large percentage of the monthly income of the residents of the Facility 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. The Corporation's inability to collect from residents the full amount of their payment obligations may jeopardize the ability of the Corporation to pay amounts due under the Loan Agreement, as well as its Obligations.

Reduced Demand

Several factors could, if implemented, affect demand for services of the Facility including advances in scientific and medical technology that could permit increased or more effective competition from continuing care retirement communities and nursing home, assisted living facilities and long-term care facilities now or hereafter located in the service areas of the Facility.

Competition

Increased competition from a wide variety of potential sources, including but not limited to other assisted living and retirement communities, sheltered care communities, residential supportive living communities, continuing care retirement communities, skilled nursing facilities, nursing homes, inpatient and outpatient health care facilities, independent living communities, home health services and others, any of which could receive financing from the Authority, could adversely affect the utilization and/or revenues of the Corporation. Existing and potential competitors may not be subject to various restrictions applicable to the Corporation, and competition may, in the future, arise from new sources not currently anticipated or prevalent. Such competition could inhibit the extent to which the Corporation will be able to raise charges and maintain or increase admissions. There can be no assurance that additional competing facilities will not be constructed in the future. *See* APPENDIX A – “INFORMATION CONCERNING MONTECEDRO INC. – Competition.”

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Indenture 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 Trustee is permitted to invest under the Indenture, 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 Indenture.

Philanthropy

The Corporation derives income from unrestricted gifts and donations to supplement operating revenues to finance operations and capital needs. *See* APPENDIX A – “INFORMATION CONCERNING MONTECEDRO INC.” Although management of the Corporation 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 the Corporation.

General Risks of Senior Living Facilities

There are many diverse factors not within the Corporation's control that have a substantial bearing on the risks generally incident to the operation of the Facility. These factors include generally imposed fiscal policies, adverse use of adjacent or neighboring real estate, the ability to maintain the Facility, community acceptance of the Facility, changes in demand for long-term care services, changes in the number of competing facilities, changes in the costs of operation of the Facility, changes in the laws of the State affecting long term care programs, the limited income of the elderly, changes in the long term care and health care industries, difficulties in or restrictions on the Corporation's ability to raise rates charged, general economic conditions and the availability of working capital. In recent years, a significant number of long term care facilities throughout the United States have defaulted on various

financing obligations or otherwise have failed to perform as originally expected. There can be no assurance the Facility will not experience one or more of the adverse factors that caused other facilities to fail. Many other factors may adversely affect the operation of facilities like the Facility and cannot be determined at this time.

Seismic Risk

The Facility is situated in an active earthquake zone. A significant earthquake in the region could have a material adverse effect on the Corporation and could result in material damage and temporary or permanent cessation of operations at one or more of the Corporation's communities. Under the Regulatory Agreement, the Corporation will agree to keep its Facility and all of its operations adequately insured at all times including through earthquake insurance (unless waived by the office).

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 the Corporation.

Regulatory Matters

General. Health care and senior living facilities are subject to regulation by a number of federal, state, local and other regulatory or accrediting agencies created to oversee planning and development of health care resources and services, the governmental and private agencies. Renewal and continuance of certain licenses, certifications and accreditations issued by these agencies are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the management of the Corporation. These activities generally are conducted in the normal course of business. Nevertheless, an adverse result could be the cause of loss or reduction in a Facility's scope of licensure, certification or accreditation, or could reduce payments received. Federal and state governments also have a range of criminal, civil and administrative sanctions available to penalize and remediate healthcare fraud and abuse, including imposing civil money penalties, suspending payments and excluding a provider from participating in federal and state healthcare programs. Future legislation and governmental policies affecting the senior living industry in general could have an impact on the operations of the Corporation.

Licensing, Surveys, Investigations and Audits. Health care and senior living facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health care and senior living facilities. Loss of, or limitations imposed on, licenses, certifications or accreditations could reduce utilization or revenues or a health care provider's ability to operate all or a portion of its facilities.

Senior living facilities have been the subject of adverse attention from governmental regulatory agencies, consumer attorneys, and the press for alleged substandard care resulting in injuries to residents. In certain circumstances, consumer attorneys will use the laws designed to prevent elder abuse as a means of obtaining large settlements or judgments from facilities whose residents have suffered injury. In addition, insurers often deny coverage of the defense of elder abuse claims and do not cover punitive

damages, which are frequently pled in elder abuse cases. This has led to periodic discussions at both the federal and state levels regarding possible reform legislation.

RCFE Requirements of the State. RCFEs are facilities for residents requiring nonmedical care and supervision such as assistance with bathing, dressing and reminders to take medication. RCFEs must make available to residents three meals a day and round-the-clock supervision by at least one staff member. An RCFE must obtain to a license to operate under the Residential Care Facility for the Elderly Law from the California Department of Social Services (“DSS”). RCFE licenses renew annually upon payment of renewal fees; however, the license is subject to revocation due to, among other things, failure to satisfactorily pass annual inspections conducted to ensure safety and preservation of regulations for the operation of the facilities. The Corporation has obtained a license from the DSS to operate its assisted living program as an RCFE and, in the opinion of management of the Corporation, operates this Facility in a manner consistent with all applicable federal, state and local laws, regulations, rules and ordinances.

Annual licensure and on-site review of an RCFE is required by DSS. DSS has the ability to deny licensing and the required permits to the Corporation if it is not satisfied with the Corporation’s compliance with the requirements a provider must meet to operate as an RCFE. In addition, DSS has 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.

Compliance. State licensing requirements are subject to change, and there can be no assurance that the Corporation will be able to maintain all licenses needed to operate its facilities as planned or that it will not incur substantial costs in doing so. Failure to comply with State licensing or certification requirements could result in the loss by the Corporation of the right to conduct all or a portion of its business. Further, the Corporation’s facilities are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for continued licensing under State law.

From time to time, the Corporation may receive notices from State regulatory agencies relating to alleged deficiencies for failure to comply with components of the licensure regulations. While the Corporation will endeavor to comply with all applicable regulatory requirements, it may become subject from time to time to various sanctions and penalties resulting from deficiencies alleged by State survey agencies. While a State agency might threaten to revoke licensure in certain instances, management believes that the Corporation will not suffer any material adverse effect as a result of any such threats. There can be no assurance, however, that the Corporation will not be subject to sanctions and penalties in the future as a result of such actions.

Other Government Regulation. The Corporation’s facilities are and will continue to be subject to rules and regulations promulgated by various agencies and bodies of federal, State and local governments which have jurisdiction over such matters as health care, employment, safety, traffic and health. The impact of such rules and regulations on the Corporation’s facilities is unknown and cannot be predicted. Future orders, pursuant to existing or subsequently enacted rules or regulations, may require the expenditure by the Corporation of substantial sums to effect compliance therewith. No assurance can be given as to the effect on future operations of the Corporation of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Nonprofit Health Care and Senior Living Environment

The Corporation is a California nonprofit public benefit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. As a

nonprofit, tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes.

Recently, an increasing number of the operations or practices of health care and senior living providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare compliance, and instead in many cases are examinations of core business practices of nonprofit, tax-exempt health care senior living organizations. Areas that have come under examination include pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and private use of facilities financed with tax-exempt bonds.

IRS Examination of Compensation Practices. In August 2004, the IRS announced a new enforcement effort to address abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. The IRS announced that it would contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures. This examination project is ongoing.

Challenges to Real Property Tax Exemptions. The real property constituting the Property is currently exempt from ad valorem property taxes based on its use in providing the type and degree of assistance and care required by certain of its residents. There is no guaranty, however, that California law will not change in a way that adversely affects this exemption.

The foregoing are some examples of the challenges and examinations facing nonprofit health care and senior living organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly more difficult operating environment for health care and senior living organizations, including the Corporation. Such challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a material adverse effect on the Corporation's operating revenue and its continued financial viability. See "Tax Exempt-Status and Other Tax Matters" below for additional information.

Tax Exempt-Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of the Corporation. The tax-exempt status of the Bonds depends upon maintenance by the Corporation of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern senior living organization. Although traditional activities of senior living providers have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

If the IRS were to find that the Corporation had participated in activities in violation of certain regulations or rulings, the Corporation's tax-exempt status could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit senior living corporations, it could do so in the future. Loss of tax-exempt status by the Corporation potentially could result in loss of tax

exemption of the Bonds and defaults in covenants regarding the Bonds and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain "excess benefit transactions" involving 501(c)(3) organizations and "disqualified persons." An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any "organization manager" who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on the Corporation or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these "intermediate sanctions" rules.

State and Local Tax Exemption. Until recently, the State of California has not been as active as the IRS in scrutinizing the income tax exemption of health care or senior living organizations. In California 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 healthcare providers. It is likely that the loss by the Corporation of federal tax exemption would also trigger a challenge to its state tax-exemption. Depending on the circumstances, such event could be material and adverse.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care or senior living providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Corporation is currently treated as exempt from real property taxation. Although the real property tax exemption of the Corporation with respect to the Facility has not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the future real property tax exemption of the Corporation.

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 no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the future financial condition of the Corporation by requiring payment of income, local property or other taxes.

Maintenance of Tax-Exempt Status of Interest on the Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, and a requirement that certain investment earnings on bond proceeds be paid periodically to the United States Treasury. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Bonds may be, from time to time, subject to audits by the IRS. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." The Corporation has not sought to obtain a private

letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See "TAX MATTERS" herein.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code.

As a tax-exempt organization, the Corporation is limited with respect to its use of certain contractual arrangements, including low interest loans and joint venture programs. Any suspension, limitation, or revocation of the Corporation's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Corporation and might lead to loss of tax exemption of interest on the Bonds.

Taxpayer Relief Act of 1997 and Unrelated Business Taxation. The Taxpayer Relief Act of 1997 includes a provision that 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 choose 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 the Corporation's revenues. Recently Congress and the IRS have focused more closely on issues of tax-exemption, such as the scope of activities constituting unrelated business income. Management of the Corporation believes the effect on the Corporation is likely to be *de minimis* because the management believes its activities that may give rise to such income are insignificant.

Proposed Legislation Regarding Limitations or Elimination of Tax-Exempt Status. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014, by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest." The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond. Similarly, on February 26, 2014, Dave Camp, Chairman of the United States House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%) which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their "modified adjusted gross income," defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date.

Parity Debt

In addition to its obligations with respect to the Bonds, the Corporation may incur other indebtedness that may be secured by a security interest in Gross Revenues and the lien of the Deed of Trust on a parity with the Corporation's obligation to make Loan Repayments under the Loan Agreement, if issued for the purposes and subject to the conditions provided in the Regulatory Agreement. Parity Debt may not be incurred unless it is insured by the Office or, if the Parity Debt can be issued as such without being insured under the Insurance Law, it is issued with the consent of the Office. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – REGULATORY AGREEMENT – Parity Debt."

Bankruptcy

In the event of bankruptcy of the Corporation, the rights and remedies of the holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be voidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation. Security interests and other liens granted to the Trustee and perfected during such preference period also may be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of the Trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

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

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

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

Certain Matters Relating to Enforceability

The effectiveness of the security interests in the Corporation's Gross Revenues granted in the Loan Agreement and the Regulatory Agreement may be limited by a number of factors, including: (i) the absence of an express provision permitting assignment of receivables owed to the Corporation under its contracts, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (ii) commingling of the proceeds of Gross Revenues with other moneys not subject to the security interest in the Gross Revenues; (iii) statutory liens; (iv) rights arising in favor of the United States of America or any agency thereof; (v) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vi) federal bankruptcy laws or state insolvency laws which may affect the enforceability of the Deed of Trust or the security interest in the Gross Revenues of the Corporation which are earned by the Corporation within 90 days 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 the Corporation; (vii) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee; and (viii) 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 the Corporation other than the Gross Revenue Fund created under the Loan Agreement and the Regulatory Agreement 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 nonprofit 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.

Limitations Relating to Remedies Under the Deed of Trust

Valuation. The Facility is located in a region that has experienced real property market volatility throughout the past few years. There can be no assurance that, if the Corporation were to default in making the payments under the Loan Agreement, (i) any part or all of the Facility could be foreclosed upon and sold for an amount sufficient to fully pay the outstanding principal of and interest on the Bonds or (ii) any bid would be received for the Facility and, if received, that such bid would be sufficient to fully pay the outstanding principal of and interest on the Bonds.

Priority of the Liens. The lien created under the Deed of Trust delivered by the Corporation constitutes a first lien on and security interest in the Collateral Property. The liens are subordinate to and independent of liens for general property taxes, special taxes and assessments. Additional special taxes or assessments may be imposed on the Facility by other public agencies that have jurisdiction over the Collateral Property. Such future special taxes or assessments would have priority over the liens created under the Deed of Trust. Additionally, the Corporation may create Permitted Encumbrances which have priority over the liens created under the Deed of Trust.

Hazardous Substances. While governmental taxes, assessments and charges are common claims against the value of property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized is a claim with regard to hazardous

substances. In general, the Corporation may be required by law to remedy conditions of the Facility relating to release of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws. California laws with regard to hazardous substances are stringent and similar to the federal acts. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition on property, whether or not the owner (or operator) had or has anything to do with the creation or handling of the hazardous substance. Consequently, if any part of the Facility is affected by a hazardous substance, the marketability and value of the parcel may be reduced by the cost of remedying the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling the hazardous substance. Any of these circumstances could significantly affect the value of the Collateral Property that would be realized upon a delinquency and foreclosure.

Foreclosure. There are two methods of foreclosing on a deed of trust under California law: by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and must send a copy to the trustor, any person who has recorded a request for a copy of the notice of default and notice of sale, any successor in interest of the trustor and the beneficiary of any junior deed of trust. Following the lapse of three months after recording the notice of default and election to sell, the trustee may give notice of sale. The notice of sale must be posted in a public place and published once each week throughout a 20-day period prior to the trustee's sale. Such notice of sale must be posted on the property and must be sent to the trustor, to each person who has requested a copy, to any successor in interest of the trustor and to the beneficiary of any junior deed of trust at least 20 days prior to the sale. The trustor, any successor in interest of the trustor, or any person having a junior lien or encumbrance of record may cure the default during the statutory reinstatement period by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. Following the sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

If foreclosure under a deed of trust is sought in the form of a judicial foreclosure, it generally is subject to most of the delays and expenses that occur with other lawsuits. Judicial foreclosure sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of three months if the entire amount of the debt is bid at the foreclosure sale).

Antideficiency Legislation and Other Limitations on Lenders. The State of California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two of these prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment ordinarily is barred when 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 Corporation. 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 California statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the Deed of Trust and the Authority or the Trustee were to file suit to collect the debt under the Loan Agreement without seeking first to enforce their remedies under the Deed of Trust, they might be precluded from thereafter proceeding under the Deed of Trust to foreclose on the Collateral Property.

Another statutory provision limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale.

Other statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deed of Trust in the event of a default by the Corporation.

Forecast

Management's financial forecast contained in the Feasibility Study attached as APPENDIX B – "FINANCIAL FEASIBILITY REPORT" hereto is based upon assumptions made by the management of the Corporation. As stated in such financial forecast, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In addition, the financial forecast is only for the fiscal years ending June 30, 2014 to 2020 and consequently does not cover the whole period during which the Bonds may be outstanding. See APPENDIX B – "FINANCIAL FEASIBILITY REPORT."

BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE, NO GUARANTEE CAN BE MADE THAT THE FINANCIAL FORECAST IN THE FEASIBILITY STUDY WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY UNCONTROLLABLE FACTORS, INCLUDING BUT NOT LIMITED TO INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES, EMPLOYEE RELATIONS, TAXES, GOVERNMENTAL CONTROLS, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN THE RETIREMENT LIVING AND HEALTH CARE INDUSTRIES, AND GENERAL ECONOMIC CONDITIONS.

Completion of the Project

There can be no assurances given that the Project will be completed, or that it can be completed for the cost and within the time period set forth in this Official Statement. Failure to complete the Project, or to complete it in a timely fashion at the estimated cost could adversely affect the ability of the Corporation to generate sufficient revenues to continue its planned operations and to make payments with respect to the Bonds.

Whether or not the Project will be completed on schedule depends upon a large number of factors, many of which may be beyond the control of the Corporation. These include, but are not limited to, adverse weather, strikes, delays in the delivery of or shortages of materials, delays in the issuance of required building permits, environmental restrictions or similar unknown or unforeseeable contingencies. Further, although construction work will be inspected periodically by the Project architect, there can be no assurance that the Project will conform to construction specifications or state or local regulations. The occurrence of any of the foregoing could result in increases in construction costs or considerable delays in, or complete impossibility of, completion of the Project, resulting in a failure to achieve anticipated

operating results. Construction costs could exceed the amounts originally forecast due to a number of factors. The Corporation has no funds available to cover any increased construction costs.

Energy Costs

Deregulation of the electrical and natural gas industry in the State, together with changes in the supply and sale patterns of electricity and natural gas, has resulted in increased costs of energy to businesses located in California and has previously resulted in disruption in supply. Significant increases in the cost of energy could materially adversely affect the financial condition of the Corporation.

Environmental Matters

Retirement communities such as the Project 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, requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the such facility; 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, 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 the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

Under the federal Comprehensive Environmental Response, Compensation and Liability Act, a secured party which takes a deed in lieu of foreclosure, purchases a mortgaged property at a foreclosure sale or operates a mortgaged property may become liable in certain circumstances for the cost of remedial action if hazardous waste or hazardous substances have been released or disposed of on the property. Such remedial action costs could subject the Collateral Property to a lien and reduce or eliminate the amounts otherwise available to pay the owners of the Bonds if such remedial action costs were incurred.

Other Possible Bondholders' Risks

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

- (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 the Corporation;
- (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 the Corporation;
- (5) The cost and availability of energy which could, among other things, affect the cost of utilities of the Corporation's Facility;
- (6) Increased unemployment or other adverse economic conditions in the service areas of the Corporation'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 the Corporation;
- (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 Facility of the Corporation, interrupt utility service to the Facility, or otherwise impair the operation and generation of revenues from the Facility;
- (13) Scientific and technological advances that could reduce demand for services offered by the Corporation;
- (14) Shortage of personnel rendering services at multi-level retirement facilities;
- (15) Cost and availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that organizations such as the Corporation generally carry;
- (16) The occurrence of natural disasters, including floods and earthquakes, could damage the Facility, interrupt utility service to the Facility, or otherwise impair the operations of the Corporation and the generation of revenues from the Facility; or
- (17) Unfavorable trends in the national, state or local economy or political climate which in turn may adversely affect the operations of RCFEs; unfavorable changes in state legislation which currently regulates the retirement industry; increased governmental regulations which could adversely affect the Corporation's ability to deliver services to clients; governmental changes or reductions in rates and other methods of reimbursement of the Corporation for health care services delivered; loss of confidence in the Corporation's ability to deliver quality services

by state or county officials, health care professionals and the public which would adversely affect the level of revenue forecasted; increasing malpractice and other claims; competition by other for-profit or nonprofit entities; and unforeseen major repairs of the Corporation's properties or increases in insurance or other operating costs without the Corporation being able to obtain corresponding increases in revenues.

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 or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, the validity or enforceability of the documents executed by the Authority in connection with the Bonds, the completeness or accuracy of the Official Statement or the existence or powers of the Authority relating to the sale of the Bonds.

The Corporation

There is no litigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation which (i) seeks to restrain or enjoin the issuance or delivery of the Bonds or the execution or the performance by the Corporation of its obligations under the Loan Agreement, (b) in any way contests or affects the issuance or the validity of the Bonds or the enforceability of the Loan Agreement, or (c) in any way contests the legal existence or powers of the Corporation. There is no litigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation except for (i) litigation being defended by insurance carriers on behalf of the Corporation, the claims in which are entirely within the insurance policy limits of the Corporation, (ii) litigation in which the expected maximum aggregate recovery against the Corporation could be satisfied from the insurance or the reserves maintained by the Corporation 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 the Corporation. There is no litigation pending or, to the knowledge of the Corporation, threatened that could reasonably be expected to have a material adverse effect upon the operations or financial condition of the Corporation.

LEGAL MATTERS

All legal matters incident to the authorization and validity of the Bonds are subject to the approval of Chapman and Cutler LLP, Bond Counsel to the Corporation, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the Corporation by its counsel, Gordon & Rees, LLP; for the Underwriters by their counsel, Hawkins Delafield & Wood LLP; and for the Authority by County Counsel.

TAX MATTERS

Federal Income Taxation

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the Corporation have covenanted to comply with all requirements that must be

satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to compliance by the Authority and the Corporation with the above referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority and the Corporation with respect to certain material facts within the Authority's and the Corporation's knowledge and will rely on an opinion of Gordon & Rees, LLP, counsel to the Corporation, that the Corporation is a 501(c)(3) organization and certain other matters. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing AMTI of a corporation (with certain exceptions) 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). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, 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. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity of the Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Authority and the Corporation comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for

individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax exempt bond. The amortized bond premium is treated as a reduction in the tax exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The IRS has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the IRS, interest on such tax exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures the IRS may treat the Authority as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W 9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the IRS of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

Interest accruing on the 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. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes..

FEASIBILITY STUDY

As part of the Corporation's application to the Office for insurance, the Feasibility Study dated [____], 2014 was prepared for the Corporation by Dixon Hughes Goodman LLC. The conclusions of the Feasibility Study were based on certain assumptions, as outlined in the Feasibility Study. The Authority has not reviewed the Feasibility Study or financial information provided by the Corporation. There can be no assurance that as a result of the Feasibility Study or issuance of insurance by the Office that the Corporation will be able to meet its obligation to make Loan Repayments.

A copy of the Feasibility Study is included herein as APPENDIX B – "FINANCIAL FEASIBILITY REPORT." PROSPECTIVE INVESTORS SHOULD REVIEW THE FEASIBILITY STUDY IN ITS ENTIRETY PRIOR TO PURCHASING THE BONDS.

UNDERWRITING

Pursuant to a Bond Purchase Contract among the Underwriters, the Authority and the Corporation (the "*Purchase Contract*"), the Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$_____ (which reflects \$_____ of underwriters' discount and \$_____ of net original issue premium/discount). Pursuant to the Purchase Contract, the Corporation has agreed to indemnify the Underwriters and the Authority against certain liabilities. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The obligation of the Underwriters to accept delivery of the Bonds is subject to the various conditions of the Purchase Contract.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the Authority and/or the Corporation, for which they may have received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and

instruments. Such investment and securities activities may involve securities and instruments of the Authority and/or the Corporation.

RATING

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned its municipal bond rating of "[A]" to the Bonds with the understanding that, upon delivery of the Bonds, payment of the principal of and interest on the Bonds will be insured by the Office. The rating reflects the rating agency's current assessment of the creditworthiness of the Office and its ability to pay claims under the Program.

The rating and an explanation of its significance may be obtained from the rating agency furnishing such rating. Such rating reflects only the view of the rating agency. The Corporation has furnished the rating agency with certain information and materials relating to the 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. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority is not providing any financial or operating data. The Corporation will undertake all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 ("*Rule 15c2-12*") promulgated by the Securities and Exchange Commission the ("*SEC*").

The Corporation has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to file, or to cause a dissemination agent to file, the following information with EMMA (*see* APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for the definitions of the defined used below):

(a) Within 30 days of the receipt by the Corporation of its audited financial statements and in any event no later than 120 days after the completion of each fiscal year of the Corporation (beginning with the fiscal year ending [June 30, 2014]), an Annual Report, which shall contain:

(i) audit of the Corporation for the fiscal year immediately preceding the due date of the Annual Report, prepared in accordance with generally accepted accounting principles and audited by an independent certified public accountant, together with, and prepared in accordance with generally accepted accounting principles, a balance sheet as of the end of such fiscal year, a statement of changes in fund balances for such fiscal year, a statement of revenues and expenses, a statement of cash flows for such fiscal year and other financial reports and schedules as may have been delivered to the Corporation in connection with such financial statements;

(ii) (I) A report and opinion of an Accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such Accountants' examination was performed in accordance with generally accepted accounting

standards, and (II) [a separate written statement of the Accountants auditing such report containing calculations of the Debt Service Coverage Ratio for said Fiscal Year, Days Cash on Hand as of the last day of such Fiscal Year and Current Ratio as of the last day of such Fiscal Year and if such accountants shall have obtained knowledge of any default or defaults in any of the financial covenants included in this Agreement or the financial reporting requirements of Section XXIV of the Regulatory Agreement, they shall disclose the default or defaults and the nature thereof in a statement to the Trustee which statement shall comply with the reporting standards promulgated by the American Institute of Certified Public Accountants]; and

(iii) An Officer's Certificate of the Corporation (I) stating that the Corporation is in compliance with all of the terms, provisions and conditions of this Agreement and that no event which constitutes a Loan Default Event (as that term is defined in the Indenture) or which with the giving of notice or the passage of time or both would constitute a Loan Default Event has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Corporation to cure such default, (II) calculating and certifying the marketing and occupancy percentages, Cumulative Cash Operating Loss, Days Cash on Hand, Debt Service Coverage Ratio and Current Ratio, if required to be calculated for such Fiscal Year by this Agreement, as of the end of such fiscal period or Fiscal Year, as appropriate, and (III) comparing the audited financial statements delivered in the Annual Report with the operating budget for the preceding Fiscal Year.

(b) As soon as practicable after the information is available but in no event later than 45 days after the completion of each fiscal quarter of the Corporation, beginning with the first full fiscal quarter following the date that Stable Occupancy with respect to the Independent Living Units included in the Project is achieved, a Quarterly Report, which shall contain:

(i) Quarterly unaudited financial statements of the Corporation (including a report with respect to the fourth quarter of each fiscal year), including a statement of revenues and expenses and statement of cash flows during such period and a balance sheet as of the end of each such fiscal quarter with a comparison to the operating budget,

(ii) A calculation of Days Cash on Hand as of the last day of such quarter, the Debt Service Coverage Ratio (calculated as required by Section XXVI of the Regulatory Agreement) for such quarter, the Current Ratio for such quarter and the Cumulative Cash Operating Loss, if required to be calculated or submitted for such fiscal quarter, and

(iii) A calculation of the marketing/reservation levels for the Project as of the end of each month in the quarter, including the number of units that have been reserved or cancelled during that month and on an aggregate basis and occupancy levels of the Project as of the end of each such month including the number of units that were Occupied and vacated during that month and on an aggregate basis; all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Corporation, with a management's discussion and analysis of results.

(c) As soon as practicable after the information is available but in no event later than 45 days after the completion of each month until the end of the fiscal quarter in which the Corporation achieves Stable Occupancy with respect to the Independent Living Units included in the Project, a Monthly Report, which shall contain:

(i) Prior to the issuance of the initial Occupancy Certificate for any portion of the Project, (I) a calculation of the marketing/reservation levels for the Project as of the end of such

month, including the number of units that have been Reserved or cancelled during that month and on an aggregate basis; (II) a summary statement as to the status of construction; (III) unaudited financial reports on the development costs of the Project incurred during that month and on an aggregate basis; and (IV) statements of the balances for each fund and account required to be held under the Indenture as of the end of such month (to the extent available from the applicable trustee), all in reasonable detail, certified by an officer of the Corporation, and

(ii) After the issuance of the initial Occupancy Certificate for any portion of the Project, (I) a calculation of the marketing/reservation levels for the Project as of the end of such month, including the number of units that have been Reserved or cancelled during that month and on an aggregate basis; (II) occupancy levels of the Project as of the end of such month including the number of units that were Occupied and vacated during that month and on an aggregate basis; (III) a summary statement on the status of construction until the issuance of the last Occupancy Certificate for the Project; (IV) [unaudited financial reports on the development costs incurred during that month and on an aggregate basis until the issuance of the last Occupancy Certificate for the Project;] (V) an unaudited statement of revenues and expenses and statement of cash flows of the Corporation for such month with a comparison to the operating budget and an unaudited balance sheet of the Corporation as of the end of such month; (VI) a calculation of the Cumulative Cash Operating Loss as of the end of such month, (VII) statements of the balances in each fund and account required to be held under the Indenture as of the end of such month (obtained from the applicable trustee), and (VIII) a statement showing the amount of the Bonds that have been redeemed in the aggregate and during that calendar month, all in reasonable detail and certified by an officer of the Corporation.

(d) Within six (6) months of the completion of the Project, a final project audit and recorded notice of completion completed by an Accountant.

(e) Not later than 30 days after the approval of the Annual Budget for the ensuing fiscal year by the governing board of the Corporation, a copy of the Annual Budget for the ensuing fiscal year.

(f) At any time during the Fiscal Year, copies of (I) any board approved revisions to the annual budget, or (II) any correspondence to or from the IRS questioning or contesting the status of the Corporation as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the Bonds, promptly upon receipt.

(g) Within 30 days of receipt of any Occupancy Certificate for any portion of the Project, a copy of the Occupancy Certificate.

(h) Within 45 days of achieving Stable Occupancy with respect to the Independent Living Units included in the Project, notice that Stable Occupancy has been achieved.

(i) Promptly upon the occurrence of any of the following Listed Events as determined by the Corporation, notice of such Listed Event, or promptly upon the determination by the Corporation of failure to give such notice:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;

- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Corporation;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Each submission listed above is required to be submitted to EMMA in readable PDF or other acceptable electronic form. The Corporation's obligations under the Continuing Disclosure Agreement with respect to the Bonds shall terminate upon the defeasance, prior redemption or payment in full of all the Bonds or if Rule 15c2-12 shall be revoked or rescinded by the SEC or declared invalid by a final decision of a court of competent jurisdiction. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for a form of the Continuing Disclosure Agreement of the Corporation.

The Corporation has filed the annual reports required under previous undertakings with respect to Rule 15c2-12 on a timely basis. During the past five years, the Corporation has complied in all material respects with its previous undertaking with regard to Rule 15c2-12 to provide financial information and data, operating data or notices of material events.

MISCELLANEOUS

The summaries or descriptions of provisions of the Bonds, the Loan Agreement, the Indenture, the Deed of Trust, the Regulatory Agreement, the Contract of Insurance, the Continuing Disclosure Agreement 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 Bonds, the Loan Agreement, the Indenture, the Deed of Trust, the Regulatory Agreement, the Contract of Insurance and the Continuing Disclosure Agreement for a full and complete statement of the provisions thereof. Such documents are on file at the offices of the Underwriters and following delivery of the Bonds will be on file at the offices of the 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 Bonds.

It is anticipated that CUSIP identification numbers will be printed on the 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 Bonds.

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

The Corporation has 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 Corporation.

Approved by:

MONTECEDRO INC.

By _____
Its: _____

APPENDIX A
INFORMATION CONCERNING
MONTECEDRO INC.

*The information contained herein as Appendix A
to this Official Statement has been obtained from
MonteCedro Inc.*

DRAFT

APPENDIX A
MONTECEDRO INC.
D/B/A MONTECEDRO

The Information in this Appendix has been provided by
MonteCedro Inc.

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INTRODUCTION

MonteCedro Inc. ("the Community") was established through the merger of Sophie Miller Foundation ("Foundation") and MonteCedro LLC on February 1, 2014. See "**Merger**" herein. The Community was established as a nonprofit 501 (c) (3) corporation to operate a continuing care retirement community ("CCRC") in Altadena, California providing housing specially designed for older adults, with arrangements for residents' healthcare and financial security, and otherwise to promote the interest and serve the needs of older adults, provided that such activities are consistent with its exempt purposes.

The Community is designed to include 206 total accommodations, including 132 residential living accommodations (the "Residential Living Accommodations"), 10 assisted living accommodations (the "Assisted Living Accommodations") and 10 memory care assisted living accommodations (the "Memory Care Assisted Living Accommodations" in the three and four story main building. Three additional four story 'villa' buildings are designed to contain a total of 54 Residential Living Accommodations. Below grade parking will occupy 80,015 square feet of space.

The sole member of the Community is Episcopal Communities & Services for Seniors ("ECS"), a California nonprofit public benefit corporation established in 1923. ECS is a California nonprofit public benefit corporation that owns and operates two CCRCs, is the sole member of two nonprofit limited liability companies, namely ECS Management LLC and Artful Home Care LLC. In addition, ECS is the sole member of Sophie Miller Foundation (referred to below as the New Foundation) and Community Housing Management Services, both nonprofit public benefit corporations. See the organizational chart set forth under the heading "**EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS**" for additional information on ECS and its affiliates.

ECS is providing development and marketing services to the Community for the development of the Community. New Life Development and Martino & Binzer provide sales and marketing services, respectively, to the Community. The project team also includes James Doyle (the "Project Consultant") Perkins Eastman (the "Architect"), Tom Brod (the "Financial Advisor"), Intelysn (the "Construction Consultant"), and DPR (the "General Contractor"). ECS Management LLC will manage the operations of the Community. See "**DEVELOPMENT OF THE COMMUNITY**" and "**MANAGEMENT OF THE COMMUNITY**" herein.

SENIOR MANAGEMENT

The members of the executive management team are listed below.

Martha Tamburrano, President and Chief Executive Officer. Mrs. Tamburrano has 37 years of executive experience in the field of senior living, serving a number of large nonprofit communities in the mid-west and California. She became President & Chief Executive Officer of ECS in 2005 after having served the Community as Vice President of Operations since 2001. She is a past president of The Kansas Association of Homes and Services for the Aging. Over the course of her career in senior living, she has participated in the development of six major campus renovations and new developments. In the last six years of economic turbulence, she has led the Community through a merger, the establishment of a foundation, a corporate re-Community, the sale of the Community's first CCRC, which had provided services since 1923, and the development process of a new CCRC, that will be owned by MonteCedro.

James Rothrock, M.B.A., C.P.A., Vice President of Finance and Chief Financial Officer. Mr. Rothrock has served as Vice President of Finance and Chief Financial Officer since 2003. Prior to joining the Corporation in January 2003, Mr. Rothrock was a Financial Healthcare Consultant for Trilogy Healthcare Group, Inc. He provided consulting services to chief financial officers throughout the United States, giving professional assistance with Medicare and Medicaid cost reports, as well as operational financial analysis. Prior to Trilogy, Mr. Rothrock was the Chief Financial Officer of Grace Village, a

CCRC in Winona Lake, Indiana. Mr. Rothrock received his M.B.A. with a concentration in finance and B.A.S. in Organizational Management from Pepperdine University and Goshen College, respectively. He is a licensed Certified Public Accountant in the State of Indiana. He served in the U.S. Navy and received a Letter of Commendation during his service in the Navy.

Ms. Tamburrano also serves as President of the Foundation, CHMS and MonteCedro Inc. Mr. Rothrock also serves as Chief Financial Officer of the Foundation and CHMS as well as Vice President of Finance of MonteCedro Inc.

Senior Management of ECS Management LLC

Gregory D. Bearce, Chief Operating Officer and Vice President of Operations. Mr. Bearce began his employment with the Corporation providing operational oversight as Vice President, Operations in 2008. Previously, Mr. Bearce worked for Southern California Presbyterian Homes (“SCPH”), Glendale, California, for 21 years; his final position at SCPH was Executive Vice President and Chief Operations Officer. In this role, he was responsible for 36 operational sites including six CCRCs and 25 communities subsidized by the U.S. Department of Housing and Urban Development.

Stacie Ocampo, Vice President of Human Resources. Ms. Ocampo joined the Corporation in 2003. She has a Bachelor of Arts in Political Science & History from the University of California, San Diego and a Certificate in Human Resources Management from the UCSD Extension Program. She is a certified Senior Professional in Human Resources (SPHR). She has 15 years of experience in Human Resources.

Barbara Calderone, Vice President of Risk Management & Health Strategies. Ms. Calderone joined the Corporation in 2005. She is a Registered Nurse, Certified Professional in Healthcare Risk Management and RCFE Administrator. She holds a Bachelor of Science in Nursing from the University of Phoenix. She has almost 20 years of experience in nursing and staff development and four years of experience in healthcare risk management.

Management Team – The Community and ECS Management LLC

ECS, as the sole member, has delegated authority for the management and daily operation of the Community to senior management of ECS Management LLC through a management agreement between the Community and ECS Management LLC. See “**MANAGEMENT OF THE COMMUNITY – Senior Management of ECS Management LLC**” herein for certain biographical information relating to such senior management.

Conflict of Interest Policy

From time to time, the Community may conduct business transactions with organizations or corporations with which one or more members of the ECS Board may be affiliated. The Community has a conflict of interest policy which requires that any such duality of interest or possible conflict of interest on the part of any member of the ECS Board be disclosed and be made a matter of record. In addition to disclosure, the policy requires that additional specified steps be taken, as appropriate, to ensure that the conflict does not impact objective deliberation or vote.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

ECS, a California 501(c)(3) nonprofit corporation, operates two CCRCs known as The

Canterbury in Rancho Palos Verdes, California, and The Covington in Aliso Viejo, California. ECS formerly operated Scripps Kensington in Alhambra, California.

During 2012, ECS was reorganized and two new entities were created, ECS Management, LLC (“ECS LLC”) and MonteCedro, LLC. Both ECS LLC and MonteCedro LLC were organized as single-member LLC’s with ECS as the sole member. ECS LLC was created on November 5, 2012, with operations effective January 1, 2013 to provide administrative, programmatic, and other forms of support to ECS, and any of its sisters, subsidiaries and affiliated organizations, provided they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and are deemed publicly supported charities under Section 509(a)(1) or 509(a)(2) of the IRC. MonteCedro LLC was created on November 5, 2012, to develop and operate housing specially designed for older adults in Altadena, California, with arrangements for residents’ health care and financial security, and otherwise to promote the interest and serve the needs of older adults, provided that such activities are consistent with its exempt purposes.

ECS established the Foundation on July 27, 2009, as a supporting organization in order to enhance its fundraising efforts and to oversee the investment and distribution of its restricted and unrestricted donor funds. The Foundation was established by ECS, exclusively for the benefit of, to perform the functions of, and to carry out the purposes of ECS.

The affiliation of ECS and Community Housing Management Services (“CHMS”) was effected on April 1, 2012, to further ECS’s mission and enhance its delivery of charitable services. CHMS is a single-member entity of ECS and a California nonprofit corporation, which provides development, management, and consulting services to affordable senior, disabled, and low-income housing facilities.

Artful Home Care, LLC (“Artful LLC”) was created as a nonprofit, single-member entity of ECS on June 14, 2013. The organization was created to develop and operate home care services, and promote the interests and serve the needs of older adults. Operations for Artful LLC began on July 1, 2013.

Merger of Sophie Miller Foundation and MonteCedro LLC

In order to enhance the governance of and to facilitate the financing of the Community, MonteCedro LLC merged into the Foundation and the Foundation was renamed MonteCedro Inc. on February 1, 2014. In addition, the board of directors of ECS authorized the formation of a new foundation (“New Foundation”) named “Sophie Miller Foundation” and the transfer of the Foundation’s pre-merger net assets to the New Foundation subject to its incorporation and required notices to the Attorney General and certain donors. The transfer of net assets is anticipated to be accomplished on or before June 30, 2014. The pre-merger net assets totaled \$30,859,003 as of December 31, 2014.

Governance

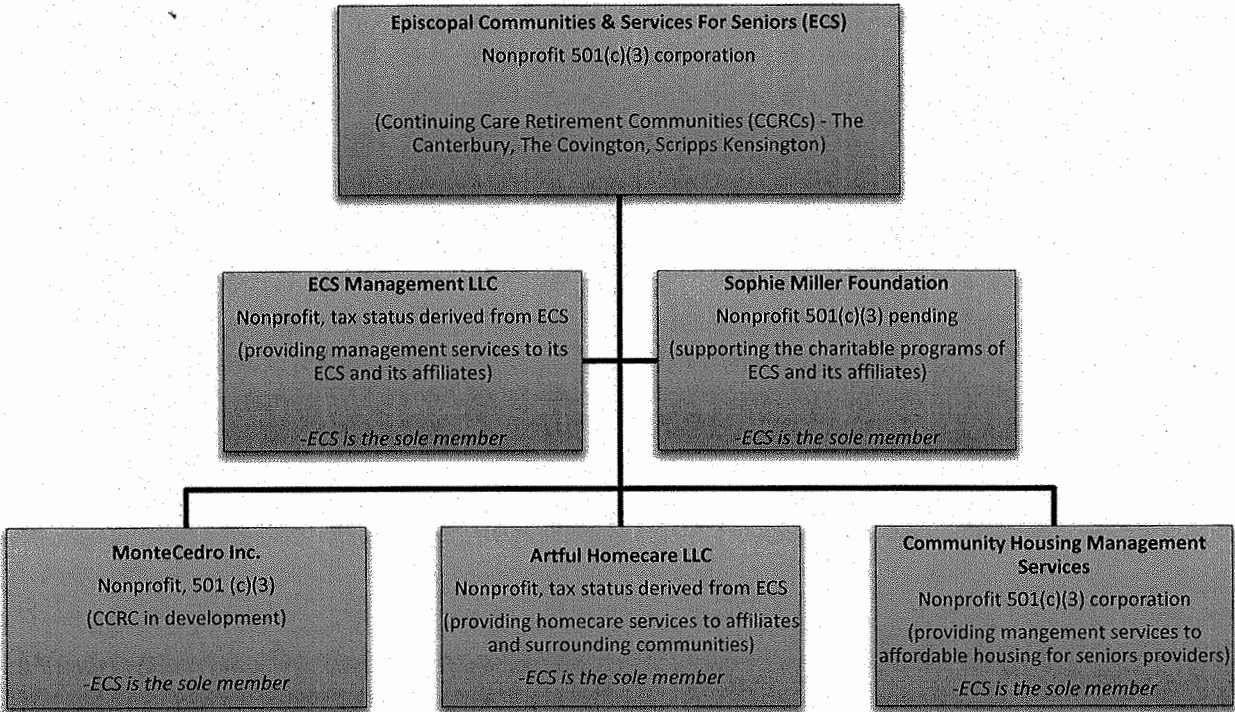
The governance of ECS and the limited liability company affiliates administered by ECS’s self-perpetuating Board of Directors consisting of at least seven (7) and up to eleven (11) directors, including directors selected from the community at large and two ex-officio directors: the President of the Corporation and the Bishop of the Diocese or the Bishop’s designee. As of the date of this Official Statement, there are no vacancies on the Board. Board members are elected to three-year terms for a

maximum of six consecutive years. The directors, their professional affiliations and the expiration of their terms as directors are listed below.

ECS Board of Directors

<u>Name</u>	<u>Position</u>	<u>Professional Affiliation</u>	<u>Term Ends January,</u>
Rebecca Thyne	Chair	Partner, Lagerlof, Sencal, Gosney & Kruse LLP	2016
J. Jon Bruno's Designee, Mary Glasspool	<i>Ex Officio</i>	The Right Reverend, Bishop Suffragan, LA, CA	<i>Ex Officio</i>
Evelyn Danowitz	Director		2017
Scott Darrell	Director	Director of Resident Services, Jamboree Housing Corporation	2017
Edgar Johnson	1st Vice Chair	Managing Director, Janas Consulting	2016
Benjamin Lemon	Director	Financial Advisor	2017
Susan Long	2 nd Vice Chair	Former Event Coordinator and Board Liaison	2015
Allen W. Mathies, Jr., M.D.	Treasurer	President Emeritus, Huntington Memorial Hospital, Dean Emeritus, Keck School of Medicine, USC	2016
Martha Tamburrano	<i>Ex Officio</i>	President and CEO, Episcopal Communities and Services	<i>Ex Officio</i>
Thomas Willis, CPA	Secretary	Owner, Guill, Blankenbaker & Lawson	2015

Organizational Chart



THE COMMUNITY

General Description

The Community will include four new, separate senior living residential buildings on an 8.2 acre site in Altadena, California. All four buildings will be California licensed as Retirement Care Facilities for the Elderly (RCFE). The residential living facility is intended to allow for aging in place, with residents expected to have mobility impairment in the years ahead. The assisted living facility is on a single level, at grade at the southwest wing of the main building, and is intended for residents with memory impairment.

The main building will be three and four stories in height, with the majority of the structure over a predominantly below grade parking garage. Area of the main building totals approximately 244,000 square feet occupied space plus 89,834 square feet in the garage, and includes 132 Residential Living Accommodations, 10 memory care Assisted Living Accommodations and 10 Assisted Living Accommodations. Three additional four story 'villa' buildings total 87,200 square feet and contain 54 Residential Living Accommodations. The Community will contain a total 331,200 square feet occupied space and 89,834 square feet in the garage.

Mass excavation of the site began September 29, 2013, and construction is anticipated to commence in March 2014 with occupancy of the first Residential Living Accommodations expected approximately 23 months later in December 2015. See the inside front cover of this Official Statement for a location map and site plan of the Community.

Land

The ground on which the Community will be located is owned by ECS. In keeping with ECS's intentions and in accordance with ECS's 2012 Master Trust Indenture dated December 1, 2012, ECS will transfer its interest in the property to the Community prior to the issuance of the Series 2014 Bonds (as defined below).

Residential Living Units

The 132 Residential Living Accommodations in the Community will be in one- and two-bedroom configurations within a three and four-story building. The common areas include, residential, administrative and support areas, private and group dining rooms, informal social areas, a multi-purpose room, a library/business center and a fitness center. Additionally, residents of the 54 Residential Living Accommodations, within the three, four-story villa buildings, will have access to the commons areas associated with the main residential living structure.

The following table summarizes the unit types and approximate square footage of the Residential Living Units.

Residential Living Unit Configuration	Number of Units	Approximate Square Footage
One Bedroom	30	750
One Bedroom/ Den	38	1,000
Two Bedroom	31	1,240
Two Bedroom/Den	33	1,580
One Bedroom – Villa	23	1,020
Two Bedroom – Villa	<u>31</u>	1,450
Overall Total/Weighted Average	186	1,180

Each of the Residential Living Units will be furnished with a full kitchen with refrigerator/freezer, range with oven, microwave oven, dishwasher, washer/dryer (in Residential Living Apartments only), window, and floor coverings, fire and smoke alarms, fire sprinkler system, emergency call system and individually controlled heating and air conditioning units. Residential Living Units also include a balcony or patio. Telephone and cable television jacks will also be installed. All utilities, except telephone, internet service and premium cable television services, are included in the monthly service fee (the “Monthly Service Fee”).

By entering into a Care and Residence Agreement (as hereinafter defined), a resident (the “Residential Living Resident”) will be entitled to continuing care services. See “**CARE AND RESIDENCE AGREEMENT – Services to Residential Living Residents**” herein for a further description of the services provided to Residential Living Residents of the Community and “**CARE AND RESIDENCE AGREEMENT – Resident Fee Structure**” for a description of the types of fees paid by Residential Living Residents. In addition, underground garage parking spaces will be made available to Residential Living Residents of the Residential Living Accommodations.

Assisted Living

The assisted living facility will consist of 10 Assisted Living Accommodations and 10 Memory Care Assisted Accommodations and will have separate central common areas. The Assisted Living Accommodations are designed to foster the continued independence of Residential Living Residents who require varying amounts of assistance with activities of daily living. The Assisted Living Accommodations will be private one-bedroom apartments with kitchenettes and full baths and will be furnished with amenities similar to the Residential Living Units, but do not include the kitchen range with oven, dishwasher, or washer and dryer. The Assisted Living Accommodation’s common areas will include a lobby, lounge, arts and crafts area, multi-purpose room, dining room and administrative and support areas.

The Memory Care Assisted Living Accommodations will be private one-bedroom residences with full baths that will be furnished with amenities similar to the Assisted Living Accommodations, but without kitchenettes. The Memory Care Assisted Living Accommodations will have secured access and separate common areas which include similar amenities as the Assisted Living common areas.

Admission to Assisted Living Facility will be provided for Residential Living Residents of the Community in accordance with the terms of the Care and Residence Agreement. Assisted Living will be available for occupancy by persons other than Residential Living Residents of the Community (“Direct Admit Residents”). Direct Admit Residents will be admitted, pursuant to the terms of a separate admissions agreement, on an as-available basis to the extent the Assisted Living Apartments or Memory Care Assisted Living Suites are not required to accommodate Residential Living Residents of the

Community. Direct Admit Residents will pay a monthly service fee (the "Direct Admit Monthly Service Fee") and have access to Assisted Living as described below.

Summarized below is the Direct Admit Monthly Service Fee planned to be effective through July 30, 2016 for Direct Admit Residents, and the types of Assisted Living Accommodations and Memory Care Assisted Living Accommodations and approximate square footage of each residence type.

<u>Accommodation Type</u>	<u>Number of Apartments</u>	<u>Approximate Square Footage</u>	<u>Direct Admit Monthly Service Fee</u>
Assisted Living	10	250	\$7,840
Assisted Living/Memory Support	10	250	\$9,010
Overall Total/Weighted Average	20	250	\$8,425

Future Plans

The master plan for the Community anticipates a second phase of development on 2.1 acres of the property. The type and number of accommodations have not yet been determined. Development of the expansion will depend, in part, on the market demand at the time of development. The expansion has not been included in management's forecast in the Feasibility Study. There is no assurance that any of the Phase II improvements will be built.

Governance

The governance of the Community is administered by a self-perpetuating Board of Directors consisting of at least seven (7) and up to eleven (11) directors, including directors selected from the community at large. As of the date of the Official Statement, there are no vacancies on the Board. Board members are elected to three-year terms for a maximum of six consecutive years. The directors, their professional affiliations and the expiration of their terms as directors are listed below.

<u>Name</u>	<u>Position</u>	<u>Professional Affiliation</u>	<u>Term Ends January,</u>
Robert A. Long	Chair	Retired managing partner of the law firm, Latham & Watkins, LLP	Pending
Ronald J. Apel	Director	Retired co-owner of Western Insurance Associates, Inc.	Pending
Allen Mathias	Director	President Emeritus, Huntington Memorial Hospital, Dean Emeritus, Keck School of Medicine, USC	Pending
Jennifer DeVoll	Director	Executive Director of the Pasadena Community Foundation	Pending
Martha Tamburrano	Director	President and Chief Executive Officer	

Reserved Powers to ECS

In the Community's organizational documents, ECS reserves the right to approve any: (a) merger, consolidation or dissolution; (b) amendment, repeal, or restatement of the Articles of Community or the Bylaws; (c) lending or borrowing for any purpose; (d) purchase, sale, lease, disposition, hypothecation, exchange, gift, pledge, encumbrance or mortgage of any real property, and of any personal property (e) appointment of an independent auditor or (f) designating management of the Community.

REGULATIONS, PERMITS AND APPROVALS

The various approvals and permits necessary for the Community to begin construction and commence operations are outlined below.

California Department of Social Services

The accommodations at the Community will be licensed by the Continuing Care Licensing Division of the California Department of Social Services ("DSS") as a Residential Care Facility for the Elderly ("RCFE"). The Community currently holds a permit to accept deposits, issued by the Continuing Care Contracts Branch of DSS, to accept deposits in anticipation of entering into continuing care contracts. The Community has applied for a Certificate of Authority ("COA") to enter into continuing care contracts with residents. The basis for issuance of a COA is DSS's determination of compliance with the specific requirements of certain statutes and regulations. Management of the Community anticipates that its COA will be issued in due course and in a timely manner.

Zoning

The site is zoned to permit development of the Community as planned. The California Building Code (CBC) Occupancy Classification is Mixed Use, Separated. Residential areas, the predominant use in the project, are R-2.1, the CBC designation for RCFE facilities. While a Residential occupancy, the R-2.1 requirements include enhanced life safety protections such as smoke compartments and greater fire ratings. Construction is noncombustible Type I-B; garage and 1F public areas are cast in place concrete while residential areas are typically light gauge steel stud and joist construction.

Building Permits

The permits necessary for construction of the Community are under the lead jurisdiction of the County of Los Angeles Department of Public Works, Division of Building and Safety. Plan check documents were submitted to the County in two phases: November, 2012 for rough grading and offsite civil engineering, and February, 2013 for all building and related onsite disciplines. The controlling approval for land use entitlements, the Revised Exhibit A, was approved by LA County Regional Planning on September 11, 2013. On September 25, 2013 the Rough Grading Permit was issued. Of the remaining agency reviews, the majority of approvals have been received from the County, including architecture and structure.

On March 13, 2014 the Community received final permit approvals from the County of Los

Angeles.

Environmental Study/Geotechnical Testing

A Phase 1 Environmental Site Assessment was completed in April 2008 and revealed less than significant adverse environmental conditions requiring mitigation. On October 1, 2008 the Los Angeles County Department of Regional Planning determined that August 2008 Mitigated Negative Declaration was the appropriate environmental document for the project, finding that with the mitigation measures set forth in and carried out through the Mitigation Monitoring Program, there was no substantial evidence that the project would have a significant effect on the environment.

The Community must obtain numerous licenses, permits and approvals from various governmental agencies, both for construction work and to operate various portions of the Community after completion. Applications for some approvals may not be made until certain site work and detailed plans have been prepared or construction is completed. In some cases, approvals may only involve an administrative review to ensure compliance with approvals already obtained or payment of a fee and in other cases approvals may involve the exercise of discretion by governmental authorities. See [**"RISK FACTORS – Regulation"**] in the front of this Official Statement.

DEPOSIT AGREEMENT

In order to reserve a Residential Living Accommodation at the Community, a prospective resident must execute a Deposit Agreement ("Deposit Agreement"), complete health and financial assessments, and deposit an amount equal to 10% of the Entrance Fee (as hereinafter defined) on the selected Residential Living Accommodation. To qualify to be a Resident at the Community, the prospective Resident must meet health and financial parameters as established by the Community. The Community utilizes an actuarial based software program to financially qualify prospective Residents. The Deposit Agreement reserves the right of the prospective resident to choose his or her specific Residential Living Accommodation and to indicate his or her intent to execute a Care and Residence Agreement upon the opening of the Community. The Deposit Agreement also provides each prospective resident guaranteed direct admission, upon payment of the full Entrance Fee due, to an Assisted Living Accommodation or Memory Care Assisted Living Accommodation.

CARE AND RESIDENCE AGREEMENT

The Care and Residence Agreement is a contract under which the Community is obligated, if a prospective Residential Living Resident establishes occupancy, to provide certain services to that prospective Residential Living Resident. See "**Services to Residential Living Residents**" below.

The Community considers applications for residency at the Community based upon the guidelines for the acceptance of Residential Living Residents described below and maintains sole discretion on the decision to accept a Residential Living Resident. An application for residence at the Community will be accepted only if the applicant demonstrates the ability to live independently or with minor assistance and to meet the financial obligations as a Residential Living Resident of the selected Residential Living Accommodation. The Residential Living Resident must be at least 62 years of age at or before the date in which the Resident's accommodation is available for occupancy. In the event of two Residential Living Residents, only one must be 62 years of age at or before the Resident's accommodation is available for occupancy. No dependent children may reside in the Community unless otherwise agreed by the Community.

Persons who have not executed a Care and Residence Agreement may be admitted to the Assisted Living facility as Direct Admit Residents if accommodations are available in excess of those needed to satisfy the needs of Residential Living Residents. Residential Living Residents requiring care in the Assisted Living facility will have priority utilization over Direct Admit Residents.

Resident Fee Structure

There are two types of residency fees required of all Residential Living Residents executing Care and Residence Agreements: an Entrance Fee and ongoing Monthly Service Fees. The Entrance Fee is a lump sum, one-time payment based on the type of Residential Living Accommodation to be occupied by the Residential Living Resident and the type of Entrance Fee Plan selected. To reserve a Residential Living Accommodation, a prospective Residential Living Resident must make an initial payment equal to 10% of the Entrance Fee ("Reservation Deposit") prior to or upon execution of the Care and Residence Agreement and pay the remaining 90% of the Entrance Fee on or before the date of occupancy. There is no additional Entrance Fee required for a second Residential Living Resident living in a Residential Living Accommodation.

The Monthly Service Fees are based on the type of Residential Living Accommodation selected by the Residential Living Resident. In addition to the first resident's Monthly Service Fee, an additional Monthly Service Fee is payable for a second Residential Living Resident. Monthly Service fee are increased annually at the beginning of the fiscal year, July 1. A limited number of initial depositors (see "**Charter Member Benefits**" below) will receive the first increase to their fee on July 1, 2016. There were a total of 62 Charter Members as of October 31, 2013.

The Community offers three residency agreement plans to Residential Living Residents, which differ based on the percentage of re-occupancy benefit. Plan I is a 90% re-occupancy benefit agreement ("Plan I"), Plan II, a 75% re-occupancy benefit agreement ("Plan II") and Plan III, a nonrefundable agreement ("Plan III").

Plan I is offered for all unit types, Plan II is offered for all one-bedroom and one-bedroom with den residences and 23 of the two-bedroom residences and Plan III is available on nine residences and only until a total of 140 residences have been reserved with 10% deposits for all plans. The nonrefundable amounts for all plans are amortized into income over the life expectancy of individual residents.

There are four levels of entrance fee pricing, (1) entrance fee amounts offered to the first 140 Residential Residents “Pre-Construction”, (2) entrance fee amounts offered to Residential Residents in excess of the first 140 Residential Residents until December 31, 2014 (“Phase I”), (3) entrance fee amounts offered to Residential Residents executing a deposit agreement on or after January 1, 2015 (“Phase II”), and entrance fee amounts offered to Residential Residents executing a deposit agreement on or after January 1, 2016 but before June 30, 2016 (“Opening”).

The following tables illustrate the planned Monthly Service Fees and Entrance Fees:

**Monthly Service Fees
Opening
Fiscal Year 2016**

<u>Unit Style</u>	<u>of Units</u>	<u>Monthly Service Fees</u>	<u>Charter Member Monthly Service Fees</u>
One Bedroom	30	\$3,480	\$2,980
One Bedroom/ Den	38	4,560	3,890
Two Bedroom	31	5,240	4,480
Two Bedroom/Den	33	5,970	5,110
One Bedroom & One Bedroom/Den- Villa	23	4,300	3,670
Two Bedroom & Two Bedroom/Den - Villa	31	5,660	4,840
Overall Total/Weighted Average	186	\$4,900	\$4,189

Entrance Fee Agreements

Plan/Residence Type	Pre-Construction Average Entrance Fee	Phase I Construction Average Entrance Fee	Phase II Construction Average Entrance Fee	Fiscal Year 2016 Opening Average Entrance Fee
Plan I				
One Bedroom	\$354,830	\$372,575	\$381,890	\$400,985
One Bedroom/ Den	550,000	577,500	591,940	621,534
Two Bedroom	708,225	743,635	762,230	800,339
Two Bedroom/Den	951,820	999,410	1,024,395	1,075,614
One Bedroom & One Bedroom/Den- Villa	556,304	584,120	598,725	628,659
Two Bedroom & Two Bedroom/Den - Villa	897,740	942,630	966,195	1,014,504
Weighted Average	\$674,920	\$708,665	\$726,380	\$762,701

Plan/Residence Type	Pre-Construction Average Entrance Fee	Phase I Construction Average Entrance Fee	Phase II Construction Average Entrance Fee	Fiscal Year 2016 Opening Average Entrance Fee
Plan II				
One Bedroom	\$312,253	\$337,702	\$346,145	\$363,450
One Bedroom/ Den	484,000	523,446	536,532	563,360
Two Bedroom	629,000	680,480	697,492	723,365
Weighted Average	\$464,025	\$501,900	\$514,449	\$555,700

Plan/Residence Type	Pre-Construction Average Entrance Fee	Phase I Construction Average Entrance Fee	Phase II Construction Average Entrance Fee	Fiscal Year 2016 Opening Average Entrance Fee
Plan III				
One Bedroom	\$213,375	N/A	N/A	N/A
One Bedroom/ Den	311,000	N/A	N/A	N/A
Weighted Average	\$256,765			

Charter Member Benefits

To encourage early commitments to residency at the Community, the Community offers a package of benefits ("Charter Resident Benefits") to those Residential Residents who reserved an Accommodation by June 30, 2012. Charter Resident Benefits include, the following: (i) Pre-Construction entrance Fee pricing ; (ii) no increase in Monthly Service Fees through June 30, 2016; (iii) three months of complimentary monthly service fees if occupancy occurs within the first 60 days of opening; (iv) interest paid at such a rate as is earned on the escrow account on the Entrance Fee deposit until the date the Residential Living Unit is ready for occupancy; (v) a \$2,500 upgrade credit toward customization of their Residential Living Accommodation.

Other Resident Benefits

To continue incentivizing prospective residents, the Community established the following benefits: (i) up to three months of complimentary monthly services fees from the available occupancy date with the requirement of move-in within the first 60 days from opening; (ii) up to \$2,000 in dining credits as a referral bonus; (iii) an opportunity to customize the residential unit by utilizing up to \$2,500 upgrade credit; (iv) entrance fee credit of \$5,000 as a referral bonus to current resident and \$5,000 entrance fee credit to new depositor who have been referred.

Financial Assistance

It is the Community's policy that the Care and Residence Agreement will not be terminated solely because of the resident's financial inability to continue to pay the Monthly Fees or other charges payable under the terms the Care and Residence Agreement through no fault of their own or by reason of circumstances beyond the resident's control; provided, this policy is not construed to qualify or limit the Community's right to terminate the Care and Residence Agreement in accordance with its terms, as summarized under the caption "**Termination and Refund**". Pursuant to the terms of the Care and Residence Agreement, if a Residential Living Resident becomes unable to pay the Monthly Fees or other charges promptly, the Company may, in its sole discretion, agree to grant the resident an extension of the time to make any payments that are due or to work out another mutually acceptable alternative payment arrangement so long as such arrangement can be made without impairing the ability of the Community to attain its objectives while operating on a sound financial basis. Before a resident may qualify for any alternative payment arrangement, the resident must first apply for, and seek the benefits of, any public assistance program for which the resident might qualify.

In the event the Community determines to provide the resident with any financial assistance or subsidy, the resident must agree that any deferral of subsidization of the Monthly Service Fees or other charges shall be deemed a loan to the resident by the Community, shall be a lien against the resident's estate and the Community may charge such amounts against the refund of the Entrance Fee, including interest income lost as a result of applying a portion of the Entrance Fee to pay such amounts. The Community may require the resident to move to a smaller or less expensive residence.

The cost of any such financial assistance provided in excess of the refundable portion of the resident deposit shall be accrued and remain the resident's obligation and the obligation of the resident's estate. If the resident's financial situation improves, the Community's subsidy to the resident may be

decreased or eliminated, as determined by the Community in its sole discretion. If the resident's financial situation improves to the extent that the resident is able to repay all or part of the Community's assistance, the resident will be required to make such repayment at a rate and on terms as established by the Community in its sole discretion. Upon repayment of all of the Community's assistance, the Community will execute appropriate documents to release its lien.

In addition to the foregoing, in the event that the Community determines to provide the resident with any financial assistance or subsidy, the resident must do all of the following: (a) report promptly to the Community any material increase in the resident's assets or their value; (b) refrain from transferring material portions of the resident's assets or income for less than fair market value; (c) refrain from transferring assets or reducing the size of his/her estate in order to retain such alternative payment arrangement; (d) make arrangements at the Community's request for the preservation and management of the resident's assets by others, including conservators and trustees; (e) execute any documents that the Community deems necessary to secure the resident's obligation to repay the Community for such financial assistance or subsidy; and (f) provide documentation necessary for an annual recertification of the resident's assets and income.

Nondiscrimination

The Community will be operated on a non-discriminatory basis, and will provide the facilities and services described in the Care and Residence Agreement to individuals without unlawful discrimination due to race, color, religion, sex, age, national origin, ancestry, disability or any other unlawful reason.

Services to Residential Living Residents

Upon payment in full of the Entrance Fee and ongoing payment of the Monthly Service Fee, each Residential Living Resident will be provided a Residential Living Residence and receive certain basic services. Services provided include: (i) 20 meal credits per person per month; (ii) all utilities, except telephone, internet services and premium cable television services; (iii) scheduled housekeeping of the Residential Living Accommodation two times per month; (iv) scheduled cleaning and changing of bed linens two times per month; (v) maintenance of all common areas and equipment; (vi) regular observation of health status; (vii) regularly scheduled local transportation; (viii) 24-hour monitoring of the emergency call system; (ix) a variety of recreational, religious, educational, cultural, and social programs; (x) use of the fitness and wellness center, dining rooms, lounges, social and recreational rooms and other common activity facilities; (xi) use of one designated underground parking space; (xii) use of one individual storage locker per apartment; and (xiii) limited tray service during illness.

Termination and Refunds

Termination Prior to Occupancy. Prior to occupancy, prospective Residential Living residents will be entitled to reimbursement of their Reservation Deposit ("Deposit") in full with interest at the prevailing rate on the escrow account, within 10 days after receipt of notice under the following provisions:

If (i) before the start of construction of the Community, the Residential Living resident terminates the Deposit Agreement by written notice, or (ii) after the Community has received the Preliminary Certificate of Authority from the Department of Social Services, the Residential Living resident fails to pay the balance of the entrance fee due.

If a Residential Living resident terminates the Deposit agreement after the start of construction and (1) has deposited more than one thousand dollars (\$1,000) or five percent (5%) of the Entrance Fee, whichever is greater; and (2) has been notified by the Community that construction has commenced, the Residential Living resident will not be entitled to a refund of the Deposit until ten (10) days after (i) DSS issues the PCOA; or (ii) another depositor has reserved the Accommodation and paid the necessary deposit; or (iii) a determination is made that Residential Living resident no longer meets the financial or health requirements for admission; or (iv) DSS determines that the Community has failed to meet the requirements of California Health and Safety Code Sections 1786 and 1786.2, which pertain to the issuance of a PCOA or COA to operate the Community as a CCRC.

Deposits shall remain in escrow until: (i) DSS approves the release of escrow deposits to the Community in accordance with California Health and Safety Code Section 1783.3; or (ii) the Deposit is refunded to Residential Living resident.

Termination After Occupancy.

Cancellation Period. There is a cancellation period of 90 days after the first date of occupancy (the "Cancellation Period") during which either the Community or the resident(s) (the "Resident") may cancel the Care and Residence Agreement with or without cause. If either party elects to cancel they must provide the other with a 30 day advance written notice. In the event of such cancellation, the Resident shall be entitled to a rebate of 100% of the entrance fee paid, without interest and less any costs or unpaid charges incurred by or on behalf of the Resident, to be paid within 14 days after functional availability (emptied, cleaned, repaired and ready to be marketed) of the Accommodation.

After the Cancellation Period by the Resident (for Nonrefundable Agreements). The Resident may terminate the Care and Residence Agreement at any time after the Cancellation Period for any reason by giving the Community 90 days' written notice. The Entrance Fee is amortized over a period of thirty-six (36) months from the effective date of the Care and Residence Agreement. Upon termination of the Care and Residence Agreement the Community will rebate the Entrance Fee, minus 2.78% of the Entrance Fee for each month or partial month from the effective date of the Care and Residence Agreement until the effective date of termination or until the resident or estate makes the Residence available to the Community, whichever is later. After thirty-six (36) months, no rebate is provided. The rebate will be paid within the later of ninety (90) calendar days after the resident gives the Community notice of termination or fourteen (14) calendar days after the resident makes Residence available to the Community. The Community shall deduct from the rebate the amount of any unpaid monthly fees, deferred charges, unpaid financial assistance, and certain clean up and restoration fees. The Resident shall remain responsible for monthly fees until the Termination Date and until the Accommodation is inspected and all costs related to repairs and restoration are assessed by the Community.

After the Cancellation Period by the Resident (for Re-occupancy Benefit Agreements). The Resident may terminate the Care and Residence Agreement at any time after the Cancellation Period for any reason by giving the Community 90 days' written notice. In the event that the Resident so terminates the Care and Residence Agreement or in the event that the Community terminates the Care and Residence Agreement for cause (as described below), and depending on the Resident's re-occupancy benefit percentage per their agreement, the Community will rebate to the Resident the re-occupancy benefit portion of their entrance fee, which ranges from 75% to 90%, of the entrance fee, without interest, less any costs and unpaid charges incurred by or on behalf of the Resident, payable 14 days after the date an entrance fee and executed Care and Residence Agreement has been received from a new resident for that Accommodation.

After the Cancellation Period by the Community. The Community may terminate the Care and Residence Agreement at any time after the Cancellation Period for good cause, upon giving the Resident 90 days' written notice. Good cause shall include but not be limited to: (i) failure by the Resident to perform his/her obligations under the Care and Residence Agreement, including, but not limited to, the payment of fees and other charges or a refusal to transfer in accordance with the Care and Residence Agreement, which such refusal may also, at the Community's option, shorten the ninety (90) day notice period; (ii) failure by the Resident or the Resident's family or guests to abide by the rules and regulations of the Community; (iii) the Resident's creation of a disturbance within the Community or a condition or behavior that is detrimental to the health, safety or peaceful lodging of the Community, the Resident, staff or other residents; (iv) the discovery of material omissions or misstatements in the Resident's application, financial report, medical history and examination or any other document filed with the Community by the Resident or on his/her behalf; (v) misconduct or breach of the Care or Residence Agreement insofar as it relates to receipt or eligibility for financial assistance; (vi) refusal to comply with the Community's requests made in compliance with the Care or Residence Agreement; (vii) permanent transfer to an outside facility; or (viii) refusal to permit the Community access to the Accommodation or the ability to assess the Resident's health status. It shall not constitute good cause for termination and the Community will not discriminate or retaliate against the Resident if the Resident or his/her representative files or lodges a formal or informal complaint with, or otherwise contacts, DSS or any other state, county, or city agency, or any elected or appointed government official or other appropriate authority and/or the Resident participates in an organization or affiliation of Residents, or engages in any similar lawful activity.

If the Community terminates the Care and Residence Agreement after the Cancellation Period, the Community will rebate to the Resident a portion of the entrance fee in accordance with the Care and Residence Agreement type as described above, without interest, less any costs and unpaid charges incurred by or on behalf of the Resident within 14 days after the Accommodation is functionally available to the Community.

After the Death of the Resident. The Care and Residence Agreement shall terminate upon the death of the Resident. If there are two residents, this termination applies upon the death of the remaining resident. If such event occurs during the Cancellation Period, the Community shall rebate 100% of the entrance fee without interest, less any costs and unpaid charges incurred by or on behalf of the Resident within 14 days after the Apartment functionally available. If such event occurs after Cancellation Period, the Community shall rebate to the Resident the applicable portion as described herein of the entrance fee, less any costs and unpaid charges incurred by or on behalf of the Resident within 14 days after the Apartment is functionally available or within 14 days after the date an entrance fee and executed Care and Residence Agreement have been received from a new resident for the Accommodation, whichever is later.

MARKETING

Marketing Program

ECS began Sales and Marketing efforts for the Community in September 2010 when it engaged Martino & Binzer to provide marketing and sales support, appointed a director of sales and began furnishing a marketing office in Pasadena, California. The Community received approval from the State of California – Health and Human Services Agency Department of Social Services to accept deposits on December 8, 2010.

The Community began taking 10% deposits in March 2011 under a stepped deposit program requiring an initial payment of 2.5% of the entrance fee on the date of signing the Deposit Agreement, an

additional 2.5% payment on or before September 30, 2012 and the remaining 5% payment by December 31, 2012. The stepped-deposit program was discontinued on December 31, 2012 and all new depositors on or after January 1, 2013 require a full 10% deposit.

The following table depicts the net and cumulative deposits.

Net and Cumulative Deposits

Period	Number of Units Reserved	Number of Cancellations/ Refunds	Net Reservations	Cumulative Units Reserved	Cumulative % of Total Units
Calendar Year 2011:					
Quarter ⁽¹⁾	5	0	5	5	3%
Quarter 2	33	0	33	38	20%
Quarter 3	9	4	5	43	23%
Quarter 4	13	2	11	54	29%
Calendar Year 2012:					
Quarter 1	16	3	13	67	36%
Quarter 2	11	4	7	74	40%
Quarter 3	15	2	13	87	47%
Quarter 4	20	3	17	104	56%
Calendar Year 2013:					
Quarter 1	11	9	2	106	57%
Quarter 2	11	2	9	115	62%
Quarter 3	10	10	0	115	62%
Quarter 4	26	1	25	140	75%
Calendar Year 2014:					
Quarter 1	10	3	7	147	79%
Quarter 2	1	1	0	147	79%

(1) The Community began accepting deposits on March 17, 2011

The data submitted by applicants for residency is evaluated and reviewed by the Community to determine the suitability of such applicant for residency. A description of the criteria used to evaluate prospective residents' applications is described under the caption "CARE AND RESIDENCE AGREEMENTS" herein. Each applicant is subsequently notified of the Community's decision to accept or reject his or her application. In the case of applicants accepted for residency, a Deposit Agreement (or Care and Residence Agreement after opening of the Community) is executed by the prospective resident and the Community. In the case of applicants rejected for residency, their initial 10% Entrance Fee deposit is refunded within 10 days.

Health Services

The Community has not yet initiated marketing for services contemplated for the Assisted Living Facility. The Community anticipates that it will initiate a comprehensive health care oriented training of marketing personnel, direct marketing and presentations to the network of senior caregivers in the San Gabriel Valley area and personal contact with hospital discharge planners and physicians shortly before completion of construction of that portion of the Community.

DEVELOPMENT OF THE COMMUNITY

ECS is developing the Community and has entered into agreements with outside professionals for architectural and engineering, marketing and sales, project coordination, construction, legal and financial services. The following section summarizes the development services ECS is providing.

ECS – Development Services

ECS provides certain development administrative support services in connection with development of the Community. ECS is authorized by its governing body to (a) prepare the budgets, schedules, and strategies contained therein; (b) coordinate financing efforts; (c) provide information necessary for the Community's agents to prepare applications for any federal, state and local licenses, permits or approvals necessary for development and construction; (d) select and engage architects, engineers, and other design professionals; (e) review development requests for proposal and identifying firms to present their qualifications to the Community; (f) review the work of the design consultants and determine that all such design and architectural work meets agreed upon standards; (g) select and oversee the Community's project coordinator and design consultant; (h) review the selection of a preconstruction consultant; (i) provide administrative support, including human resources, accounts payable, general ledger, information technology and risk management services.

In addition, ECS provides planning, development, marketing, management and strategic consulting services related to all areas critical to the senior housing and services business. ECS is responsible for planning, coordinating and implementing a development plan relating to the construction and financing of the Community, and for the services and activities of the residents. ECS employs, trains and supervises the marketing and sales staff for the Community, and is responsible for the payroll-related expenses, sales commissions and payroll tax liabilities for these staff.

ECS provided funds for the pre-financing costs ("Pre-finance Capital") of the Community through a board designated fund administered by the Foundation. Pre-finance Capital in the amount of \$23 million is anticipated to be expended prior to the Closing Date. In addition to the Pre-finance Capital, ECS contributed land with an appraised value in December 2007 of \$17 million to the Community.

MANAGEMENT OF THE COMMUNITY

The Community has entered into a Management Agreement with ECS Management LLC, an affiliate of ECS.

ECS Management LLC

ECS Management LLC operates its communities from its corporate headquarters in a leased office space in Pasadena, California, where it employs approximately personnel. The finance department conducts centralized financial reporting, accounts payable and payment posting for all 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. Periodically conducts administrative meetings, often in conjunction with the quarterly Board meetings of and of its managed affiliates, 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.

Management Agreement

On January 1, 2013, the Community entered into the Management Services Agreement (the "Management Agreement"), between the Community and ECS Management Services LLC ("Manager").

Under the terms of the Management Agreement, Manager will provide the Community with professional, administrative, management and operational services including: (a) supervision of the staffing and employment of team members; (b) supervision of the maintenance of the Community; (c) supervision of invoicing and collection services for residents of the Community; (d) supervision of processing and payment of all accounts payable; (e) supervision of payroll processing; (f) supervision of all patient/resident care regulations and standards; (g) supervision of the timely payment of all operating costs before delinquency or penalty; (h) supervision for all team members and staff, establishing staffing schedules, recruiting and training personnel, establishing salary and compensation scales, and other personnel policies and guidelines; (i) supervision of the purchasing of all supplies; (j) supervision of all necessary bookkeeping and accounting for the operation of the Community; (k) supervision to ensure compliance with all material statutes, rules and regulations of governmental authorities; (l) obtaining and maintaining all licenses, permits, and approvals; (m) preparing monthly operating statements and submitting them to the Community within 15 working days after the end of each month; (n) preparing and submitting an annual plan and budget to cover all projected revenues and expenses; (o) contracting for utilities and other operation and maintenance services; (p) purchasing and keeping the Community furnished with all necessary furnishings, fixtures, equipment and supplies; (q) selecting and maintaining appropriate computer equipment and accounting software; (r) assisting in obtaining necessary technical and professional assistance to meet local, state and federal regulatory requirements; (s) retaining professionals and consultants, as necessary; (t) engaging certified public accountants to cause annual audits of the books, records and accounting procedures; (u) assisting in engaging counsel and causing such legal proceedings to be instituted, as necessary, to enforce payment of charges or compliance with other terms of care and residence agreements; and (v) supervision of the ongoing marketing and sales program.

The term of the Agreement commenced on the January 1, 2013, and continues in effect until terminated. Subject to approval by sole member (ECS), the Community may terminate the agreement for cause upon 90 days' notice. Manager will begin assessing management fees when the Community starts the hiring process for operating personnel.

Management fees are assessed based on agreed upon cost allocations of administrative, programmatic and other forms of support provided to the Community and are payable to Manager in advance on a monthly basis.

In addition, the Community agrees to reimburse Manager for reasonable, documented third-party costs and expenses incurred by Manager on behalf of the Community in rendering the Services. The expenses include, without limitation, insurance, legal and audit fees, supplies, and consulting, marketing and training costs.

Manager shall cause each person performing services chargeable to Community to maintain records adequate to support the invoices submitted to the Community and permit audit or review of such invoices. Prior to the end of each calendar month during the term hereof, Manager shall submit to the Community an invoice for the services to be rendered during the next calendar month, including a summary of charges and the total amount payable for the services. Within five (5) business days after receipt of an invoice that meets these requirements, the Community shall remit payment of the invoice.

Obligation _____ and the Series 2014 Bonds are solely the obligation of the Community. Neither nor any of its affiliates, other than the Community, is obligated to make payments on Obligation _____ or under the Loan Agreement or with respect to the Series 2014 Bonds or the Bond Indenture.

GUARANTEE/LIQUIDITY SUPPORT

The New Foundation..... [pending CalMortgage requirements]

OTHER PROFESSIONAL SERVICES

The General Contractor

DPR Construction is a unique technical builder with a passion for results. Ranked in the top 50 general contractors in the country over the last 15 years, DPR is a national commercial contractor and

Construction Contract

The Community has entered into a guaranteed maximum price construction contract (the "Construction Contract") with the General Contractor. The sum of the cost of the Work (as defined therein) and the General Contractor's Fee is guaranteed by the General Contractor not to exceed \$104,588,258, including an approximately 3% contingency, subject to additions and deductions by change order as provided in the Construction Contract.

If the General Contractor fails to achieve Substantial Completion of the Work (as defined in the Construction Contract) by agreed upon date (subject, however, to extensions of time, if any, duly granted in the manner and for causes specified in the General Conditions), then General Contractor shall be charged by the Community as ascertained damages as follows:

Number of Days of Delay Per Phase of Turnover	Ascertained Damages Per Day of Delay	Total Ascertained Damages Per Day of Delay
31-60	27% of daily debt service	\$ 5,000
61 and over	100% of daily debt service	\$20,000

The Construction Contract requires the General Contractor to execute and deliver to the Community a Performance Bond for 100% of self-performed work, and subcontractor default insurance for 100% of subcontractor performed work performed pursuant to the Construction Contract, and showing the Insurer, Lender, and the Bond Trustee as additional obligees. The General Contractor shall furnish performance and payment bonds with a surety qualified to do business in California.

The Marketing Consultant

Martino & Binzer

Since 1988, Martino & Binzer has worked with more than 160 CCRC and senior living organizations in 36 states, and dozens of companies related to senior marketing, such as Sodexo Senior Services, The CT Alzheimer's Disease Foundation, The Masonic Health System and United HealthCare. M&B has a team of 37 professionals providing comprehensive sales training, effective lead generation (online and offline marketing) and a suite of technology solutions in one integrated platform—all specifically designed for the senior living industry.

Martino & Binzer is a premier sponsor of Leading Age and has received more than 80 awards over the past six years from the National Mature Media Awards™ Program, presented annually by the Mature Market Research Center.

Company Information

Founded: October 1, 1980

First CCRC: Seabury Retirement Community, 1988

Current CCRC Clients: 60

Employees: 37

Offices: CT, PA, VA, WA

Departments:

Sales Consulting, Creative/Production, Account Service, Public Relations, Web/Digital Marketing, Research

Recent Projects (Start Ups and Expansions):

Independence Ridge, TX

Independence Square, KY

Karmel, IL

Landmark on the Sound, WA

La Vida Llana, NM

Legacy at Mills River, NC

Rosecliff, NJ

Saint John's on the Lake, WI

Seabury, CT

SearStone, NC*

Simpson House, PA*

The Stayton, TX

Lenbrook, Atlanta, GA
Longwood at Oakmont, PA
Lutheran Village at Miller's Grant, MD*
Mirador, Corpus Christi, TX
MonteCedro, CA*
Quarryville, PA
Rose Villa, OR*

Village at Crystal Spring, MD*
Village at Orchard Ridge, VA*
Village Cove, WA
Overlook, MA
Providence Point, PA
Rockwood, WA

* Start up or expansion projects currently underway by Martino & Binzer.

The Sales Consultant – New Life

New Life Experience:

New Life specializes in the planning, development, marketing and management of progressive residential communities that meet the needs of today's older adults. New Life was formed by professionals with many years of experience in continuing care retirement communities. The principals of New Life have developed and managed non-profit communities throughout the United States. New Life is based in La Canada, California, with a distributed work force of staff based throughout the country. New Life has developed, managed or marketed more than 70 continuing care retirement communities in 25 states, which contain over 18,000 independent living units, assisted living units and nursing beds. To date, New Life has consulted on projects with conventional and tax-exempt bond financings totaling in excess of \$1.5 billion.

New Life Officers:

DeWayne McMullin, *President*, DeWayne McMullin began his career in senior living in 1981 with John Knox Village in Lee's Summit, Missouri, when he was hired to restructure the organization, which at the time was experiencing severe financial difficulties. Mr. McMullin subsequently went to work for one of the international accounting firms in their senior living consulting practice. He specialized in financial restructuring for large multi-service providers including United Methodist Homes of New Jersey, Presbyterian Homes and Services of New Jersey, and Southern California Presbyterian Homes. An active member of Leading Age and state associations for the past twenty years, Mr. McMullin has served a key role in developing a national certification program for retirement housing professionals to raise the skills of individuals within the retirement living industry. The program is currently run by the University of North Texas within its Gerontology Department. Mr. McMullin is a frequent speaker at financial, regional, and national seminars. Mr. McMullin has long-standing experience in the credit rating process, tax-exempt bond structure and negotiation, development of an offshore captive liability insurance company to provide insurance coverage, risk management, technology, accounting and fiscal policies, and standards of management. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants, and the California Institute of Certified Public Accountants. Mr. McMullin obtained two undergraduate degrees in business from the University of Maine, an M.B.A. from Syracuse University, and an M.A. in Gerontology from the University of Southern California.

Mary McMullin, *President*, Mary McMullin is responsible for marketing and marketing consultation services at New Life. Her extensive industry experience includes direct responsibility for the successful marketing of several premier retirement communities, as well as program management oversight of the national senior living accreditation association. At New Life, Ms. McMullin is responsible for all phases of the marketing process, including: market plan development, implementation and oversight; sales and sales training; recruitment; project planning; survey and focus group design; and budget development. She has a wide range of expertise in project planning and feasibility, marketing audits, and marketing planning and strategy for new, as well as established, retirement communities. In addition, Ms. McMullin has experience in developing media and public relations programs, sales operations management, moderating focus groups, and training sales personnel. She has conducted comprehensive workshops and seminars around the country and is a frequent speaker at national conferences. Ms. McMullin received her Bachelor of Arts degree from Drew University in Madison, New Jersey.

The Architect – Perkins Eastman

The architect for the Project is Perkins Eastman (the “Architect”) founded in 1981 and headquartered in New York. The Architect is an international architecture, urban design, and interior design firm offering programming, planning, design, strategic planning, and consulting services. For more than 25 years, the Architect has designed residential and care environments for aging adults. The Architect and its principals have received special recognition for their design of Alzheimers and assisted living care environments as well as numerous awards from industry and peer organizations. The Architect is one of the top 25 largest architectural firms in the world (World Architecture Magazine), in the top 10 largest architectural practices in the United States (Building Design and Construction), one of the top 100 design firms (Engineering News Record), in the top 20 Design Giants (Interior Design), and in the top 25 green design firms (Green Source). The Architect’s philosophy has produced award-winning projects and has earned the respect of numerous senior living clients throughout the world. The following is a brief list of recently completed continuing care retirement community projects:

Job Description	Owner	Location
6-story, 108 independent living units	C.C. Young: The Overlook	Dallas, TX
21-story, 88 independent living units	Saint John’s On The Lake	Milwaukee, WI
60 memory care and skilled nursing units	The Bivins Foundations: Childers Place	Amarillo, TX
Repositioning of two self-contained campuses	Air Force Villages	San Antonio, TX
Repositioning and addition of 23 assisted living units	Westminster Village	Scottsdale, AZ
222 independent living units, 24 enriched housing units, 42 skilled nursing units	The Kendal Corporation: Kendal on the Hudson	Sleepy Hollow, NY

The Construction Consultant - Intelisyn

Marc Strange; Principal, As co-founder, Mr. Strange established and incorporated Intelisyn, Inc in May of 1988. Since that time Intelisyn is positioned as one of the leading Project Development firms in the industry. Through a multitalented staff of licensed architects, engineers, building inspectors and general contractors, the firm has provided the management of \$5.6 billion in litigation free capital projects. Intelisyn specializes in Healthcare and Senior Living Communities. The California service area maintains a corporate office in Torrance, CA and a satellite office in San Diego. Intelisyn provides a full range of planning, design and project management services through the flexibility to select from a menu of services specifically tailored to the owner and/or project team's needs. The corporate culture within Intelisyn mirrors the methodology used to create successful project teams and produce a quality product. As with the delivery process, Intelisyn provides a clear understanding of one's role, responsibility, and expectation. The nurturing of predictable and accountable systems/people embeds ownership on individual tasks which energizes the individual and team. Intelisyn also encourages balance in ones work and personal life as illustrated through several programs from wellness incentives to our "be prudent, then generous" philanthropic programs. Intelisyn has successfully managed the hard business requirements of scope, schedule, and cost control with the sensitive understanding of who is impacted throughout the capital projects implementation program. Drawing from 35 years of experience, Mr. Strange has committed himself to the ideals of advanced planning, development of procedures, and the successful delivery of contracting options. Implementation of these ideals required the pioneering of Project Development processes and management techniques, including software innovations, and cost effective "value added" services from project conception to close-out. Mr. Strange graduated cum laude from California Polytechnic University, Pomona with a B.S. in Construction Management and furthered his education with an MBA from Pepperdine University. Intelisyn is a company built on a sound ethical foundation, committed to service superiority and product delivery.

The Project Development Consultant – James M. Doyle

Mr. Doyle is a senior living consultant in the areas of project development, acquisitions, divestitures and financing. As Project Coordinator for Episcopal Senior Communities, he is currently leading the project team to design, entitle, market and construct a \$135M expansion/re-development of the Spring Lake Village campus in Napa Valley, California. Construction began in January 2013. As CFO/Head of Project Development for Virginia Lutheran Homes from 2003 until January 2013, he spearheaded a financial turnaround of a \$2.5M annual operating deficit into a \$3M annual surplus. Additionally, he led the effort that tripled Days Cash on Hand and improved Debt Service Coverage from less than 1x to as much as 2x. He created and led project teams to design, entitle, finance, construct and successfully market a 25% increase in IL residences on the Brandon Oaks LifeCare campus in Roanoke, Virginia and led a project team to purchase a free-standing assisted living facility and successfully convert it into a 62-bed SNF. From July 2002 to January 2003 he served as the interim CFO for Episcopal Communities & Services. From 1998 to 2001 Mr. Doyle was Managing Director, Project Development and Acquisitions for The Internext Group (now known as Front Porch), and from 1992 to 1998 was the Chief Financial Officer of California Lutheran Homes. During his tenure at California Lutheran Homes and The Internext Group, Mr. Doyle was responsible for the redevelopment of Carlsbad By The Sea, a continuing care retirement community, and the development of England Oaks and Cecil Pines, new senior living communities on former military bases. Prior to California Lutheran Homes, he was Vice President and head of corporate banking in the credit department of Agicole's Los Angeles office. Mr. Doyle was also the Vice President in the Los Angeles office of National Australia Bank (1984-1988) and was employed by Chemical Bank (1978-1984) in New York and Los Angeles. Mr. Doyle received his B.B.A. degree in Marketing from Notre Dame in 1969 and then served in the Peace Corps in Brazil. In 1978, Mr. Doyle completed his M.B.A. coursework at the University of California at Berkeley.

The Financial Advisor – Thomas L. Brod

Mr. Brod is an independent consultant, owner of North Shores Consulting, who provides strategic and financial consulting for continuing care retirement communities in connection with strategic planning, new financings, and financing restructuring based on experience in operations, development and capital finance. Tom Brod has served as a financing owner's representative reporting to boards of directors for both new financings and restructurings and has served as a virtual chief financial officer for a management team with no experience in capital planning or borrowing. From 2008 to 2010 Mr. Brod was the Executive Vice President of Finance for Erickson Retirement Communities in Baltimore, Maryland. Prior to being VP of Finance, Mr. Brod was a Managing Director of Senior Living Finance Group for Ziegler Capital Markets in Chicago, Illinois. He served as investment banker to the senior living industry on the East Coast and managed the Mid-Atlantic Region from his office in Columbia, Maryland.

COMPETITION AND SERVICE AREA

Information with respect to the service area and competition of the Community can be found under the caption **“Summary of Significant Forecast Assumptions and Accounting Policies – Underlying Utilization Assumptions and Rationale”** in the Feasibility Study, which is attached as **APPENDIX** to the Official Statement. **THE FEASIBILITY STUDY SHOULD BE READ IN ITS ENTIRETY, INCLUDING MANAGEMENT’S NOTES AND ASSUMPTIONS SET FORTH THEREIN.**

APPENDIX B
FINANCIAL FEASIBILITY REPORT

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by MonteCedro Inc., a California nonprofit public benefit corporation (the "Corporation"), as of June __ 2014. The Corporation covenants and agrees as follows:

Section 1. Definitions. Any capitalized terms used herein but not defined herein shall have the meanings assigned to them in the Regulatory Agreement, and the following capitalized terms shall have the following meanings:

"Annual Budget" shall mean the operating budget of the Corporation in the form required by the Section XXIV of the Regulatory Agreement.

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

"Authority" shall mean the Los Angeles County Regional Financing Authority.

"Bonds" means, collectively, the \$ _____ Los Angeles County Regional Financing Authority Senior Living Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project), \$ _____ Los Angeles County Regional Financing Authority Senior Living Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS-85SM)) (MonteCedro Inc. Project), \$ _____ Los Angeles County Regional Financing Authority Senior Living Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS-75SM)) (MonteCedro Inc. Project), \$ _____ Los Angeles County Regional Financing Authority Senior Living Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS-65SM)) (MonteCedro Inc. Project), \$ _____ Los Angeles County Regional Financing Authority Senior Living Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS-55SM)) (MonteCedro Inc. Project) and \$ _____ Los Angeles County Regional Financing Authority Senior Living Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS-45SM)) (MonteCedro Inc. Project), authorized by, and at any time outstanding pursuant to, the Indenture.

"Bondholders" shall mean the owners and beneficial owners from time to time of the Bonds.

"Disclosure Agreement" shall mean this agreement.

"Dissemination Agent" shall mean (i) the Corporation or any Dissemination Agent designated in writing by the Corporation and which has filed with the Corporation a written acceptance of such designation, and (ii) initially, the Corporation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB accessible at <http://emma.msrb.org> or such other information repository as may be determined by the SEC from time to time.

"Indenture" shall mean the Indenture, dated as of June 1, 2014, between the Authority and the Trustee, as acknowledged by the Corporation, pursuant to which the Bonds were issued.

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

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

“Loan Agreement” shall mean the Loan Agreement, dated as of June 1, 2014, between the Corporation and the Authority relating to the Bonds.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any successor entity as described in the Rule.

“Offering Document” shall mean the final Official Statement, dated June __, 2014 relating to the Bonds.

“Office” means the Office of Statewide Health Planning and Development of the State of California.

“Quarterly Report” shall mean any quarterly report provided by the Corporation pursuant to and as described in Sections 3 and 4 of this Disclosure Agreement.

“Regulatory Agreement” shall mean the Regulatory Agreement, dated as of June 1, 2014, among the Corporation, the Authority and the Office.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

“Trustee” means U.S. Bank National Association, as trustee under the Indenture.

“Underwriters” shall mean B.C. Ziegler and Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated, or any additional Purchaser of the Bonds required to comply with the Rule in connection with an offering of the Bonds.

Section 2. Purpose of the Disclosure Agreement. The purpose of this Disclosure Agreement is to assist the Underwriters in complying with the Rule in connection with the Bonds. In its actions under this Disclosure Agreement, if any, the Dissemination Agent shall be entitled to the same protections afforded to the Trustee under the Indenture.

Section 3. Provision of Annual Reports, Annual Budgets, Quarterly Reports and Monthly Reports.

(a) The Corporation shall, or shall cause the Dissemination Agent to, within 30 days of the receipt by the Corporation of its audited financial statements and in any event no later than 120 days after the completion of each fiscal year of the Corporation (beginning with the fiscal year ending [June 30, 2014]), provide or cause to be provided to EMMA an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement.

(b) The Corporation shall, or shall cause the Dissemination Agent to, as soon as practicable after the information is available but in no event later than 45 days after the completion of each fiscal quarter of the Corporation, beginning with the first full fiscal quarter following the date that Stable Occupancy with respect to the Independent Living Units included in the Project is achieved, provide or

cause to be provided to EMMA a Quarterly Report that is consistent with the requirements of Section 4 of this Disclosure Agreement.

(c) The Corporation shall, or shall cause the Dissemination Agent to, as soon as practicable after the information is available but in no event later than 45 days after the completion of each month until the end of the fiscal quarter in which the Corporation achieves Stable Occupancy with respect to the Independent Living Units included in the Project, provide or cause to be provided to EMMA a Monthly Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Corporation need not deliver any Monthly Report after the end of the fiscal quarter in which Stable Occupancy with respect to the Independent Living Units included in the Project has been achieved and the Corporation has commenced delivery of the Quarterly Reports in accordance with Sections 3 and 4 of this Disclosure Agreement.

(d) In each case the Annual Report, Quarterly Report and Monthly Report may be submitted as a single document or as a package comprising separate documents. Any or all of the items constituting the Annual Report may be incorporated by reference from other documents that have been submitted to EMMA or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so incorporated by reference. The Corporation shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Corporation and shall have no duty or obligation to review such Annual Report.

(e) The Dissemination Agent shall (if the Dissemination Agent is other than the Corporation) file a report with the Corporation certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB and the Dissemination Agent.

(f) With respect to each Annual Report, Quarterly Report or Monthly Report required to be submitted to EMMA in this Section 3, the Corporation agrees to deliver such information or, alternatively, a notice of the Corporation's intent to act as its own Dissemination Agent with respect to such information, to the Dissemination Agent at least five (5) Business Days prior to the date required for dissemination. If the Dissemination Agent does not receive an Annual Report, Quarterly Report or Monthly Report or a notice of the Corporation's intent to act as Dissemination Agent with respect to such information on or before such date, then the Dissemination Agent shall file with EMMA a Notice of Failure to file in the form attached as Exhibit A hereto. If the Corporation is unable to provide to EMMA an Annual Report, Quarterly Report or Monthly Report by the dates required in this Section 3 and the Dissemination Agent has not filed with EMMA a related Notice of Failure to file in the form attached as Exhibit A hereto, the Corporation shall send or cause to be sent a notice of such fact to EMMA or the MSRB.

(g) Each Annual Report, Annual Budget, Quarterly Report and Monthly Report submitted hereunder shall be in readable PDF or other acceptable electronic form.

(h) The Corporation shall, or shall cause the Dissemination Agent to, provide or cause to be provided to EMMA the following additional information:

(1) Within six (6) months of the completion of the Project, a final project audit and recorded notice of completion completed by an Accountant;

(2) Not later than 30 days after the approval of the Annual Budget for the ensuing fiscal year by the governing board of the Corporation, a copy of the Annual Budget for the ensuing fiscal year;

(3) At any time during the Fiscal Year, copies of (I) any board approved revisions to the annual budget, or (II) any correspondence to or from the Internal Revenue Service questioning or contesting the status of the Corporation as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the Bonds, promptly upon receipt;

(4) Within 30 days of receipt of any Occupancy Certificate for any portion of the Project, a copy of the Occupancy Certificate; and

(5) Within 45 days of achieving Stable Occupancy with respect to the Independent Living Units included in the Project, notice that Stable Occupancy has been achieved.

Section 4. Content of Annual, Quarterly Reports and Monthly Reports.

(a) The Annual Report to be delivered under Section 3(a) shall include the audit of the Corporation for the fiscal year immediately preceding the due date of the Annual Report, prepared in accordance with generally accepted accounting principles and audited by an independent certified public accountant, together with, and prepared in accordance with generally accepted accounting principles, a balance sheet as of the end of such fiscal year, a statement of changes in fund balances for such fiscal year, a statement of revenues and expenses, a statement of cash flows for such fiscal year and other financial reports and schedules as may have been delivered to the Corporation in connection with such financial statements. The Annual Report shall also include:

(1) (I) A report and opinion of an Accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such Accountants' examination was performed in accordance with generally accepted accounting standards, and (II) [a separate written statement of the Accountants auditing such report containing calculations of the Debt Service Coverage Ratio for said Fiscal Year, Days Cash on Hand as of the last day of such Fiscal Year and Current Ratio as of the last day of such Fiscal Year and if such accountants shall have obtained knowledge of any default or defaults in any of the financial covenants included in this Agreement or the financial reporting requirements of Section XXIV of the Regulatory Agreement, they shall disclose the default or defaults and the nature thereof in a statement to the Trustee which statement shall comply with the reporting standards promulgated by the American Institute of Certified Public Accountants]; and

(2) An Officer's Certificate of the Corporation (I) stating that the Corporation is in compliance with all of the terms, provisions and conditions of this Agreement and that no event which constitutes a Loan Default Event (as that term is defined in the Indenture) or which with the giving of notice or the passage of time or both would constitute a Loan Default Event has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Corporation to cure such default, (II) calculating and certifying the marketing and occupancy percentages, Cumulative Cash Operating Loss, Days Cash on Hand, Debt Service Coverage Ratio and Current Ratio, if required to be calculated for such Fiscal Year by this Agreement, as of the end of such fiscal period or Fiscal Year, as appropriate, and (III) comparing the audited financial statements delivered in the Annual Report with the operating budget for the preceding Fiscal Year.

(b) The Quarterly Report to be delivered under Section 3(b) shall contain:

(1) Quarterly unaudited financial statements of the Corporation (including a report with respect to the fourth quarter of each fiscal year), including a statement of revenues and expenses and statement of cash flows during such period and a balance sheet as of the end of each such fiscal quarter with a comparison to the operating budget,

(2) A calculation of Days Cash on Hand as of the last day of such quarter, the Debt Service Coverage Ratio (calculated as required by Section XXVI of the Regulatory Agreement) for such quarter, the Current Ratio for such quarter and the Cumulative Cash Operating Loss, if required to be calculated or submitted for such fiscal quarter, and

(3) A calculation of the marketing/reservation levels for the Project as of the end of each month in the quarter, including the number of units that have been reserved or cancelled during that month and on an aggregate basis and occupancy levels of the Project as of the end of each such month including the number of units that were Occupied and vacated during that month and on an aggregate basis; all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Corporation, with a management's discussion and analysis of results.

(c) The Monthly Report to be delivered under this Section 3(c) shall contain:

(1) Prior to the issuance of the initial Occupancy Certificate for any portion of the Project, (I) a calculation of the marketing/reservation levels for the Project as of the end of such month, including the number of units that have been Reserved or cancelled during that month and on an aggregate basis; (II) a summary statement as to the status of construction; (III) unaudited financial reports on the development costs of the Project incurred during that month and on an aggregate basis; and (IV) statements of the balances for each fund and account required to be held under the Indenture as of the end of such month (to the extent available from the applicable trustee), all in reasonable detail, certified by an officer of the Corporation, and

(2) After the issuance of the initial Occupancy Certificate for any portion of the Project, (I) a calculation of the marketing/reservation levels for the Project as of the end of such month, including the number of units that have been Reserved or cancelled during that month and on an aggregate basis; (II) occupancy levels of the Project as of the end of such month including the number of units that were Occupied and vacated during that month and on an aggregate basis; (III) a summary statement on the status of construction until the issuance of the last Occupancy Certificate for the Project; (IV) [unaudited financial reports on the development costs incurred during that month and on an aggregate basis until the issuance of the last Occupancy Certificate for the Project;] (V) an unaudited statement of revenues and expenses and statement of cash flows of the Corporation for such month with a comparison to the operating budget and an unaudited balance sheet of the Corporation as of the end of such month; (VI) a calculation of the Cumulative Cash Operating Loss as of the end of such month, (VII) statements of the balances in each fund and account required to be held under the Indenture as of the end of such month (obtained from the applicable trustee), and (VIII) a statement showing the amount of the Bonds that have been redeemed in the aggregate and during that calendar month, all in reasonable detail and certified by an officer of the Corporation.

Section 5. Reporting of Listed Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

(1) principal and interest payment delinquencies;

- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (Internal Revenue Service Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of security holders, if material;
- (8) bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the securities, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Corporation;
- (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) In the occurrence of a Listed Event, the Corporation shall promptly file a notice of such occurrence with EMMA or the MSRB. If the Corporation determines that it failed to give notice as required by this Section, it shall promptly file a notice of such occurrence in the same manner.

Section 6. Termination of Reporting Obligation. The Corporation's obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the defeasance, prior redemption or payment in full of all the Bonds or if the Rule shall be revoked or rescinded by the SEC or declared invalid by a final decision of a court of competent jurisdiction.

Section 7. Dissemination Agent. From time to time, the Corporation may appoint or engage a Dissemination Agent to assist the Corporation in carrying out its obligations under this Disclosure Agreement, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Corporation shall be the Dissemination Agent. The initial Dissemination Agent shall be the Corporation. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The

Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the Corporation. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the Corporation.

Section 8. Amendment; Waiver; Modification. The Corporation may amend or waive any provision of this Disclosure Agreement, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule or adjudication of the Rule by a final decision of a court of competent jurisdiction. The Corporation may modify from time to time the specific types of information provided in an Annual Report to the extent necessary as a result of a change in legal requirements, change in law or change in the nature of the Corporation or its business, provided that any such modification will be done in a manner consistent with the Rule and will not, in the opinion of the Trustee, materially impair the interests of the Bondholders.

Section 9. Additional Information. The Corporation may from time to time choose to disseminate other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or include other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Regulatory Agreement, the Indenture or the Loan Agreement, and the sole remedy of Bondholders under this Disclosure Agreement in the event of any failure of the Corporation to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Underwriters and the Bondholders, and shall create no rights in any other person or entity.

Section 12. Responsible Officer. The Corporation's Chief Financial Officer shall be the officer, agency, or agent of the Corporation responsible for providing Annual Reports and giving notice of Listed Events, to the extent required hereunder, and any inquiries regarding this Disclosure Agreement should be directed to the Corporation, to the attention of its Chief Financial Officer.

[Signature appears on the following page]

IN WITNESS WHEREOF, the Corporation caused this Disclosure Agreement to be executed by its duly authorized officer as of the date first set forth above.

MONTECEDRO INC.

By: _____
Chief Financial Officer & Vice President of Finance

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE

Name of Issuer: Los Angeles County Regional Financing Authority

Name of Obligor: MonteCedro Inc.

Name of Bond Issue:

\$ _____
LOS ANGELES COUNTY
REGIONAL FINANCING AUTHORITY
SENIOR LIVING INSURED REVENUE BONDS

\$ _____ Series 2014A	\$ _____ Series 2014B-1 (Tax Exempt Mandatory Paydown Securities (TEMPS-85 SM))	\$ _____ Series 2014B-2 (Tax Exempt Mandatory Paydown Securities (TEMPS-75 SM))	\$ _____ Series 2014B-3 (Tax Exempt Mandatory Paydown Securities (TEMPS-65 SM))	\$ _____ Series 2014B-4 (Tax Exempt Mandatory Paydown Securities (TEMPS-55 SM))	\$ _____ Series 2014B-5 (Tax Exempt Mandatory Paydown Securities (TEMPS-45 SM))
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Date of Bond Issuance: _____, 2014

NOTICE IS HEREBY GIVEN that MonteCedro Inc. (the "Obligor") has not provided an [Annual Report][Quarterly Report][Monthly Report] with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of June 1, 2014, between the Obligor and the Dissemination Agent named therein. The Obligor has informed the Dissemination Agent that the Obligor anticipates the [Annual Report][Quarterly Report] [Monthly Report] will be filed by _____.

Dated: _____

[_____], as Dissemination Agent

By: _____

cc: MonteCedro Inc.

APPENDIX F
FORM OF CONTRACT OF INSURANCE

CONTRACT OF INSURANCE

LOAN NO. 1003

STATE OF CALIFORNIA
OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

THIS CONTRACT OF INSURANCE, dated as of June 1, 2014, and effective as of June __, 2014, is by and among MONTECEDRO INC., a California nonprofit public benefit corporation (the “Corporation”), the OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT OF THE STATE OF CALIFORNIA (the “Office”) and the LOS ANGELES COUNTY REGIONAL FINANCING AUTHORITY, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State of California (the “Authority”);

WHEREAS, the Office is authorized to enter into this Contract of Insurance pursuant to California Health and Safety Code Sections 127045 and 129105;

WHEREAS, the Director of the Office is authorized to enter into this Contract of Insurance on behalf of the Office pursuant to California Health and Safety Code Section 127010 and California Government Code Section 11150, et seq.;

WHEREAS, the undersigned Deputy Director of the Office was appointed by the Director of the Office to act on the Director’s behalf pursuant to Delegation Order 12-04, effective May 7, 2012, and is so authorized by California Health and Safety Code Section 7 and California Government Code Sections 1194, 7 and 18572;

WHEREAS, the Corporation is authorized to enter into this Contract of Insurance pursuant to the Corporation’s resolution dated _____, 2014;

WHEREAS, the Authority is authorized to enter into this Contract of Insurance pursuant to the Authority’s resolution dated May 20, 2014;

WHEREAS, the Authority desires to issue its (a) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project), (b) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), (c) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), (d) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), (e) \$_____ Los Angeles County Regional

Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project) and (f) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project), in the aggregate principal amount of _____ (\$_____) (the “*Bonds*”), pursuant to an Indenture, dated as of June 1, 2014 (the “*Indenture*”), by and between the Authority and U.S. Bank National Association, as trustee (the “*Trustee*”), and to lend the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of June 1, 2014 (the “*Loan Agreement*”), between the Authority and the Corporation, which shall be secured by a deed of trust, dated as of June 1, 2014 (the “*Deed of Trust*”), on certain of the Corporation’s property and a pledge of the Corporation’s Gross Revenues;

WHEREAS, the Corporation desires to obtain the Health Facility Construction Loan Insurance (the “*Insurance*”) insuring the payment of the Bonds, and the Office is willing to extend the Insurance;

WHEREAS, the Office has reviewed the final form of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust and the Chicago Title Company title insurance policy (issued by _____) insuring the Corporation’s fee title to that property which is subject to the Deed of Trust and naming the Trustee and the Office as beneficiaries, as their interests may appear;

WHEREAS, the Office has approved the Corporation’s application for insurance of the Bonds; and

WHEREAS, in consideration of the Insurance and in order to comply with the requirements of Chapter 1, Part 6, Division 107 of the Health and Safety Code of the State of California, cited as the “California Health Facility Construction Loan Insurance Law,” as now in effect and as it may, from time to time, hereafter be amended or supplemented (the “*Insurance Law*”), the Corporation, the Office and the Authority have entered into a Regulatory Agreement, dated as of June 1, 2014, and effective as of June __, 2014 (the “*Regulatory Agreement*”), regulating the terms and conditions of the Insurance of the Bonds;

NOW, THEREFORE, in consideration of these presents and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto mutually agree, and agree for the benefit of the holder of the Bonds from time to time and the Trustee, as follows:

Section 1. Definitions. Unless the context clearly otherwise requires, all capitalized terms used herein shall have the meanings assigned to such terms in the Regulatory Agreement or in the Indenture.

Section 2. Insurance. The Office hereby declares and agrees that the Bonds are eligible for the Insurance under the Insurance Law and that the payment to the Trustee of the principal of and the accrued and unpaid interest on the insured principal of the Bonds and, such other costs and expenses required by the Insurance Law, are insured. However, payments from the Trustee to the Bondowners are not insured.

Section 3. Incontestability. Pursuant to Insurance Law Section 129110, such Insurance shall be incontestable from the date of the execution of this Contract of Insurance. The Office hereby waives its right pursuant to Insurance Law Section 129110 to contest the Insurance in case of fraud or misrepresentation on the part of the Lender (as defined in Insurance Law Section 129010(j)).

Section 4. Approval of Documents. The Office approves the execution and delivery of the Loan Agreement, the Indenture and the Deed of Trust.

Section 5. Completion of Project. The Corporation shall finance the Project with all practical dispatch and in an economic manner.

Section 6. Disbursement of Proceeds. Prior to each disbursement of funds to the Corporation pursuant to the provisions of the Indenture, the Corporation shall apply to the Office by submission of the Office's Form OSH-CM-134 and supporting documentation, for an authorization of the disbursement of funds to the Corporation pursuant to the Indenture, and to Insurance Law Section 129030. Certification by the Office of the Form OSH-CM-134 submitted to the Office by the Corporation shall constitute the Office's authorization and consent to the disbursement of funds to the Corporation.

Section 7. Compliance with Law and Documents. The Authority and the Corporation shall, to the extent they are respectively obligated thereunder, comply with the Insurance Law and the terms, conditions and covenants of the Bonds, the Loan Agreement, the Indenture, the Deed of Trust, the Regulatory Agreement and this Contract of Insurance.

Section 8. Premium Payment. Simultaneously with the execution and delivery of this Contract of Insurance, the Corporation has paid a one time premium for the Insurance of \$ _____ to the Office which premium is wholly earned on the inception of the Contract of Insurance.

Section 9. Termination of Insurance. The Insurance provided herein may be terminated by the Office only upon the occurrence of any of the following:

(a) *Payment of Insurance by the Office.* Upon the payment in full by the Office of the Insurance of the Bonds pursuant to the Insurance Law.

(b) *Payment of Bonds; Defeasance.* Upon the payment in full of the principal of and the accrued and unpaid interest on the Bonds (including defeasance of the Bonds) and all other amounts owing to the Owners and the Trustee under the Indenture so that the Bonds are not Outstanding.

(c) *Joint Request.* Upon the joint written request of the Authority, the Corporation and all the Owners as provided in Insurance Law Section 129185.

(d) *Foreclosure or Conveyance; Surrender of Bonds.* If the Deed of Trust is judicially foreclosed as to such property, or the Authority, the Trustee or the Bondholders

non-judicially foreclose or otherwise acquire such property after a Loan Default Event and the Authority and the Trustee do not execute and deliver to the Office a grant deed, trustee deed or quitclaim deed covering such property within sixty (60) days of such foreclosure or other acquisition; or if any Bonds are surrendered to the Trustee to be exchanged for debentures and such Bonds are not surrendered to the Office within sixty (60) days of receipt by the Trustee; *provided* that, if the required conveyance or surrender is restrained, enjoined, or otherwise prevented by any court or governmental body or agency, then the Authority and the Trustee shall have sixty (60) days to make the conveyance or surrender from the date such restraint or injunction is vacated, dismissed or discharged.

Section 10. Successors Bound. This Contract of Insurance shall bind, and the benefits shall inure to, the respective parties hereto, their legal representatives, successors in office or interest, and assigns, and shall be directly enforceable by the Trustee. The Office hereby consents to the Authority's assignment of its rights under this Contract of Insurance to the Trustee.

Section 11. Severability of Invalid Provisions. The invalidity of any clause, part, or provision of this Contract of Insurance shall not affect the validity of the remaining portions hereof so long as the Insurance remains in effect.

Section 12. Agreement Represents Complete Agreement; Amendments. Except as otherwise provided herein, this Contract of Insurance represents the entire contract among the parties. This Contract of Insurance may be amended, changed or modified by the written agreement of the Office and the Corporation, *provided* that such amendment, change or modification shall not materially adversely affect the Owners.

Section 13. Headings and References. The headings or titles of the several sections, subsections and subdivisions hereof shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Contract of Insurance. All references herein to "sections," "subsections" and other subdivisions are to the corresponding sections, subsections or subdivisions of this Contract of Insurance. The words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Contract of Insurance as a whole and not to any particular section, subsection or subdivision hereof. Words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 14. Governing Law; Venue. The laws of the State of California shall govern this Contract of Insurance, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Contract of Insurance shall be brought, commenced or prosecuted in [any court of competent jurisdiction within the State].

Section 15. Attorneys' Fees. In the event of any action at law or in equity between the parties hereto to interpret or enforce any of the provisions of this Contract of Insurance, the non-prevailing party or parties to such litigation shall pay to the prevailing party or parties all costs and expenses, including reasonable fees of the Trustee for Bondowners, and actual attorneys' fees, incurred therein by such prevailing party or parties; and if such prevailing party or parties

shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees may be included in and as part of such judgment. The prevailing party shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment. A party not entitled to recover its costs of suit shall not recover attorneys' fees.

Section 16. Execution in Counterparts. This Contract of Insurance may be executed in any number of counterparts, each of which shall be deemed for all purposes to be an original and all of which shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Contract of Insurance as of the day and year first above written.

MONTECEDRO INC.

By _____
[title]

OFFICE OF STATEWIDE HEALTH PLANNING AND
DEVELOPMENT

By: Robert P. David, Director

By _____
Carl A. McLaney, MPA
Deputy Director

LOS ANGELES COUNTY REGIONAL FINANCING
AUTHORITY

By _____
Chairman

AFTER RECORDATION PLEASE RETURN TO:

Chapman and Cutler LLP
111 West Monroe Street
Chicago, Illinois 60603
Attention: John F. Bibby, Jr.

REGULATORY AGREEMENT

STATE OF CALIFORNIA
OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT
HEALTH FACILITY CONSTRUCTION LOAN INSURANCE

Dated as of:	June 1, 2014
2014 Office Loan No.	1003
Amount of Bonds:	\$_____
Borrowing Corporation:	MonteCedro Inc.
Guarantor	Sophie Miller Foundation
Trustee:	U.S. Bank National Association
Date of Bonds:	June __, 2014
Deed of Trust Recorded in:	County of Los Angeles, California
Date Deed of Trust Recorded:	_____, 2014
Regulatory Agreement Recorded in:	County of Los Angeles, California
Date Regulatory Agreement Recorded:	_____, 2014
Title Insurance Policy Authority:	_____
Title Insurance Policy Number:	_____
Corporation's Fiscal Year:	From July 1 through June 30
Type of Facilities:	Continuing Care Retirement Facility
Project:	Finance the construction and equipping of senior living facilities

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REGULATORY AGREEMENT

This Regulatory Agreement (“*Regulatory Agreement*”), dated as of the date set forth on the cover hereof, and effective as of _____, 2014, is by and among MonteCedro Inc., a California nonprofit public benefit corporation (the “*Corporation*”), the Office of Statewide Health Planning and Development of the State of California (“*Office*”), and the Los Angeles County Regional Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State of California (the “*Authority*”).

WHEREAS, the Office is authorized to enter into this Regulatory Agreement pursuant to California Health and Safety Code Sections 127045 and 129105;

WHEREAS, the Director of the Office is authorized to enter into this Regulatory Agreement on behalf of the Office pursuant to California Health and Safety Code Section 127010 and California Government Code Section 11150, *et seq.*;

WHEREAS, the undersigned Deputy Director of the Office was appointed by the Director of the Office to act on the Director’s behalf pursuant to Delegation Order 12-04, effective May 7, 2012, and is so authorized by California Health and Safety Code Section 7 and California Government Code Sections 1194.7 and 18572;

WHEREAS, the Corporation is authorized to enter into this Regulatory Agreement pursuant to the Corporation’s resolution dated _____, 2014;

WHEREAS, the Authority is authorized to enter into this Regulatory Agreement pursuant to the Authority’s resolution dated May 20, 2014;

WHEREAS, the Corporation has requested that the Office insure the Bonds (as hereinafter defined) and the Office has agreed to so insure the Bonds;

NOW, THEREFORE, in consideration of the insurance by the Office of the Bonds, the proceeds of which will be used by the Corporation for the Project (hereinafter defined) of the Corporation; and in order to comply with the requirements of the Insurance Law (hereinafter defined), the Corporation, the Authority and the Office agree for themselves, their successors and assigns, that in connection with the Facilities (hereinafter defined) so long as the Contract of Insurance (hereinafter defined) continues in effect and thereafter if and so long as the Office shall be the owner of the security interest created pursuant to the Loan Agreement (hereinafter defined) and the Deed of Trust (hereinafter defined):

SECTION I. DEFINITIONS.

A. Unless the context clearly otherwise requires, all capitalized terms not defined below and used herein shall have the meanings assigned to such terms in the Indenture hereinafter defined.

B. As used in this Regulatory Agreement the term:

1. “*Accountant*” means any Independent certified public accountant or firm of such accountants with a national or regional reputation selected by the Corporation and acceptable to the Office, and so long as such Accountant is acceptable to the Office. The initial Accountant of Martin Werbelow LLP is acceptable to the Office.

2. “*Adjusted Annual Operating Revenues*” means operating revenue and investment income of the Corporation, less contractual allowances, allowance for bad debts and free services for any Fiscal Year, all as determined in accordance with generally accepted accounting principles.

3. “*Affiliate*” means a Person which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Corporation.

4. “*Aggregate Debt Service*” means, as of any date of calculation and with respect to any period, the sum of amounts of Debt Service for all Long-Term Indebtedness for such period.

5. “*ALTA*” means American Land Title Association.

6. “*Authority*” means the Los Angeles County Regional Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State, or its successors and assigns.

7. “*Board*” means the Board of Directors of the Corporation.

8. “*Bond Counsel*” means Independent counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the Corporation and acceptable to the Authority and the Office.

9. “*Bonds*” means, collectively, the Series 2014A Bonds, the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B -5 Bonds.

10. “*Business Day*” means any day other than a Saturday, Sunday, or a day on which banking institutions in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed or a day on which the Federal Reserve System is closed.

11. “*CERCLA*” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.(c) § 9601 *et seq.*), as heretofore or hereafter amended from time to time.

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

13. “*Contract of Insurance*” means that contract of insurance entered into by and among the Corporation, the Office and the Authority dated as of June 1, 2014, as amended, modified and supplemented from time to time.

14. “*Corporation*” means, collectively, the Borrowing Corporation named on the cover hereof, a corporation formed under or subject to the Nonprofit Public Benefit Corporation Law of the State that is organized for the purpose of owning and operating a health facility and that also meets the requirements of Section 501(c)(3) of the Code, as required by Insurance Law section 129010(o), and any corporation which may become obligated under the Loan Agreement pursuant to Section VI of this Regulatory Agreement, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under this Regulatory Agreement.

15. [“*Cumulative Cash Operating Loss*” means, commencing with the earliest date a resident has taken physical possession of one of the units included in the Project, (a) the sum on a cumulative basis of (i) resident service revenues (excluding amortization of Entrance Fees), (ii) other operating revenues, (iii) non-operating revenues, (iv) Entrance Fees (excluding Initial Entrance Fees), and (v) investment earnings (including realized gains and losses, but excluding unrealized gains and losses and temporary or other than temporary impairments) minus (b) the sum of (i) Entrance Fees refunded to residents and (ii) the aggregate of all operating expenses, including Debt Service, [development fees] and capital expenditures paid from the Working Capital Fund; excluding (x) depreciation and amortization and other non-cash expenses, (y) letter of credit fees or any remarketing agent fees, if any, which are paid from the proceeds of Bonds and (z) any funded interest or expenses which are paid from amounts held under the Indenture.]

16. “*Current Ratio*” means a ratio of current assets to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation’s audited financial statements for any Fiscal Year.

17. “*Debt Service,*” when used with respect to any Long-Term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of:

a. the interest falling due on such Long-Term Indebtedness during such period (except to the extent that such interest is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), and

b. the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-Term Indebtedness during such period (except to the extent such principal is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), computed on the assumption that no portion of such Long-Term Indebtedness shall cease to be outstanding during such period except by reason of the application of such scheduled payments, *provided, however,* that for purposes of such computation:

(1) if Long-Term Indebtedness is

(a) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least fifty million dollars (\$50,000,000) and whose unsecured securities are rated in one of the two highest short-term or long-term Rating Categories (without regard to numerical modifier) by each rating agency then rating the Bonds, or

(b) insured by an insurance policy or surety bond issued by an insurance company rated at least A+ by Alfred M. Best Company in Best's Insurance Reports,

principal payments or deposits with respect to such Long-Term Indebtedness nominally due in the last Fiscal Year in which such Long-Term Indebtedness matures may, at the option of the Corporation, be treated as if they were due as specified in any loan agreement or installment sale/purchase agreement issued in connection with such letter of credit, line of credit, insurance policy or surety bond or pursuant to the repayment provisions of such letter of credit, line of credit, insurance policy or surety bond (or, if such loan agreement or installment sale/purchase agreement or repayment provisions provide for repayment over less than 20 years and the Trustee receives a Statement of the Corporation to the effect that the Corporation intends to refinance such Long-Term Indebtedness prior to maturity, as if they were amortized over a 20-year period with substantially level debt service) and interest on such Long-Term Indebtedness after such Fiscal Year shall be assumed to be payable at an interest rate equal to a rate per annum equal to the 25-year revenue bond index most recently published preceding the date of calculation in The Bond Buyer (subject to any adjustment for errors therein which may be acknowledged by the publishers thereof);

(2) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of

(a) the average rate of interest borne (or which would have been borne) by such Long-Term Indebtedness during the Fiscal Year immediately preceding the date of calculation plus one percent (1%), or

(b) the average rate of interest borne by such Long-Term Indebtedness during the three full calendar months immediately preceding the date of calculation plus one percent (1%);

(3) if interest is capitalized with respect to Long-Term Indebtedness, Debt Service on such Long-Term Indebtedness shall be included in computations of Maximum Aggregate Annual Debt Service under this Regulatory Agreement

only in proportion to the amount of interest payable in any Fiscal Year from sources other than amounts funded to pay such capitalized interest;

(4) with respect to a Guarantee, there shall be included in the Debt Service of the Corporation

(a) twenty-five percent (25%) of the Corporation's maximum possible monetary liability under the Guarantee in any Fiscal Year unless the Guarantee is drawn upon, and

(b) one hundred percent (100%) of the Corporation's monetary liability under the Guarantee which has been drawn upon, until such time as all amounts drawn upon the Guarantee have been repaid to the Corporation, and for two Fiscal Years thereafter; and

(5) if moneys or [Investment Securities] described in Subsections (a), (b), (e) or (f) of the definition thereof contained in Section 1.01 of the Indenture (not callable by the Authority thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service.

18. "*Debt Service Coverage Ratio*" means the ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service described in Section VII.(a) hereof.

19. "*Deed of Trust*" means that certain Deed of Trust with Fixture Filing and Security Agreement, dated the same date as this Regulatory Agreement, to be executed by the Corporation, as trustor, in favor of the Deed Trustee for the benefit of the Office and the Trustee for the benefit of the Owners, as beneficiaries, as amended, modified and supplemented from time to time, and such other deeds of trust that the Office may require.

20. "*Deed Trustee*" means the Person at the time serving as such under the Deed of Trust.

21. "*Entrance Fees*" means fees, other than security deposits, monthly rentals or monthly service charges, paid to the Corporation 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).

22. “*Environmental Claim*” means any accusation, allegation, notice of violation, claim, demand, abatement order or other order or direction (conditional or otherwise) by any governmental authority or any person for any damage, including, without limitation, personal injury (including sickness, disease or death), tangible or intangible property damage, contribution, indemnity, indirect or consequential damages, damage to the environment, nuisance, pollution, contamination or other adverse effects on the environment, or for fines, penalties or restrictions, resulting from or based upon:

a. the existence of a Release (whether sudden or nonsudden or accidental or non-accidental) of, or exposure to, any Hazardous Material, in, into or onto the environment at, in, by, from or related to the Facilities,

b. the use, handling, transportation, storage, treatment or disposal of Hazardous Materials in connection with the operation of the Facilities, or

c. the violation, or alleged violation, of any statutes, ordinances, orders, rules, regulations, permits, licenses or authorizations of or from any governmental authority, agency or court relating to environmental matters connected with the Facilities.

23. “*Environmental Indemnities*” means the indemnities executed by the Corporation, as indemnitor, in favor of the Office, the Authority, the Trustee and the other parties named therein, as indemnitees, each setting forth certain indemnification obligations relating to Hazardous Materials.

24. “*Environmental Laws*” means all present and future federal, state or local laws, rules or regulations relating to environmental matters, permits, pollution, waste disposal, industrial hygiene, land use and other requirements of governmental authorities relating to the environment or to any Hazardous Material or Hazardous Material Activity (including, without limitation, CERCLA and the applicable provisions of the California Health and Safety Code and the California Water Code) or the protection of human or animal health or welfare, including, without limitation, those related to any Release or threatened Release of Hazardous Materials and to the generation, use, storage, transportation, or disposal of Hazardous Materials, in any manner applicable to the Corporation or the Facilities.

25. “*Facilities*” means

a. the real property described in Exhibit A attached hereto and all real property required to be added, from time to time, to this definition of Facilities pursuant to Section XX(H) entitled “Lien on Future Acquired Real Property” of this Regulatory Agreement;

b. all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired; and

c. all tangible personal property owned by the Corporation, whether now existing or hereafter constructed, installed or acquired, and used in, around or about the

aforesaid real property, including but not limited to the personal property described in Exhibit B attached hereto.

26. “*Fiscal Year*” means the period set forth on the cover hereof, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Corporation.

27. “*Gross Revenues*” means all revenues, income, receipts and money received in any period by the Corporation, including, but without limiting the generality of the foregoing, the following:

a. gross revenues derived from its operation and possession of and pertaining to its properties,

b. proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of this Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of this Regulatory Agreement to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt), (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and

c. rentals received from the lease of the Corporation’s properties or space in its Facilities;

provided, however, that there shall be excluded from Gross Revenues (i) any amounts received by the Corporation as a billing agent for another entity, except for fees received for serving as billing agent, (ii) gifts, grants, bequests, donations and contributions to the Corporation heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (iii) any moneys received by the Corporation from prospective residents or commercial tenants in order to pay for customized improvements to those independent living units or other areas of the Corporation’s facilities to be occupied or leased to such residents or tenants, (iv) payments or deposits under a residency agreement that by its terms or applicable law are required to be held in escrow or trust for the benefit of a resident until the conditions for the release of such payment or deposit have been satisfied, and (v) all deposits and/or advance payments made in connection with any residency of the independent living units or other areas of the Corporation’s facilities to be occupied by residents or tenants and received prior to receipt of such certificate and licenses for occupancy of such units.

28. “*Guarantee*” means any obligation of the Corporation guaranteeing in any manner, whether directly or indirectly, any obligation of any Persons which would, if such Persons were the Corporation, constitute Long-Term Indebtedness.

29. “*Guarantor*” means Sophie Miller Foundation, a California nonprofit public benefit corporation, and any successor thereto.

30. “*Hazardous Material Activity*” means any actual, proposed or threatened storage, holding, existence, release, emission, discharge, generation, processing, abatement, removal, disposition, handling or transportation of any Hazardous Materials from, under, into or on the Facilities or the Project or surrounding property.

31. “*Hazardous Materials*” means

- a. any chemical, material or substance now or in the future defined as or included in the definition of “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” “infectious waste,” “toxic pollutant” or “toxic substances” or any other term intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, “TCLP toxicity,” “EP toxicity” or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including, without limitation, Environmental Laws,
- b. any oil, petroleum or petroleum-derived substance,
- c. any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources,
- d. any flammable substances or explosives,
- e. any radioactive materials,
- f. asbestos in any form which is or could become friable,
- g. urea formaldehyde foam insulation,
- h. electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million,
- i. pesticides, and
- j. any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority as one that may or could pose a hazard to the health and safety of the owners, occupants or any persons in the vicinity of the Facilities.

32. “*Indebtedness*” means

a. any Guarantee, and

b. any indebtedness or obligation of the Corporation (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles.

Indebtedness shall not include Non-recourse Indebtedness.

33. “*Indenture*” means that certain Indenture, dated as of June 1, 2014, by and between the Authority and the Trustee, as amended, modified or supplemented from time to time.

34. “*Independent,*” when referring to an Accountant, legal counsel, Management Consultant or Person, means an Accountant, legal counsel, Management Consultant or Person who

a. is independent of and not under the control of the Corporation,

b. does not have any substantial interest, direct or indirect, in the Corporation, and

c. in the case of an individual, is not connected, including through a spouse, with the Corporation as a director, officer or employee of the Corporation, and in the case of a firm, is not connected with the Corporation as a partner, director, officer or employee of the Corporation, but who may be regularly retained by the Corporation.

35. “*Independent Living Units*” means the newly-constructed independent living units that are part of the Project.

36. “*Initial Entrance Fees*” means Entrance Fees received upon the initial occupancy of any Independent Living Unit (including any such fees collected for the purpose of obtaining a parking space) not previously occupied.

37. “*Insurance Law*” means Chapter 1, Part 6, Division 107 of the Health and Safety Code of the State, cited as the “California Health Facility Construction Loan Insurance Law” as now in effect and as it may from time to time hereafter be amended or supplemented.

38. “*Loan Agreement*” means that certain Loan Agreement, dated as of June 1, 2014, by and between the Authority and the Corporation, as amended, modified and supplemented from time to time.

39. “*Long-Term Indebtedness*” means Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Corporation for a period greater than one (1)

year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

40. “*Management Agent*” means that Person or those Persons with whom the Corporation has entered into a contract, whether as an independent contractor or employee, for managerial services, relating to the management or operation of all or substantially all of the Facility. In the event the Corporation does not have a separate management contract, then “*Management Agent*” shall mean all of those Persons serving as the Corporation’s Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, or other similar officers. In the event the Corporation does not have such officers, then “*Management Agent*” shall mean all of those Persons that manage or operate all or substantially all of the Facilities.

41. “*Management Consultant*” means an Independent Person of national or regional reputation qualified to report on questions relating to the financial condition and projections of health facilities, selected by the Corporation and acceptable to the Office and so long as such Management Consultant is acceptable to the Office.

42. “*Maximum Aggregate Annual Debt Service*” means, as of any date of calculation, the Aggregate Debt Service as computed for the then current or any future Fiscal Year in which such sum shall be largest.

43. “*Maximum Annual Debt Service,*” when used with respect to any item of Long-Term Indebtedness, means, as of any date of calculation, the maximum amount of Debt Service to become due on such Long-Term Indebtedness in the current or any future Fiscal Year after the date of calculation.

44. “*Net Income Available for Debt Service*” means, with respect to any period, the excess of revenues (including non-operating revenues and Entrance Fees other than Initial Entrance Fees) over expenses from operations of the Corporation for such period, determined in accordance with generally accepted accounting principles, to which shall be added interest, amortization, depreciation expense and other non-cash charges, each item determined in accordance with generally accepted accounting principles, and excluding

a. any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt,

b. gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service or operating expenses,

c. the net proceeds of insurance (other than business interruption insurance) and condemnation awards,

d. changes in net unrealized gain (loss) on investments,

- e. non-cash revenues; and
- f. Initial Entrance Fees.

45. “*Non-recourse Indebtedness*” means any indebtedness of the Corporation, which is not a general obligation of the Corporation and is secured by a lien on property of the Corporation, liability for which is effectively limited to the property subject to such lien (which property is not integral to the operation of the Facilities) with no recourse, directly or indirectly, to any other property of the Corporation.

46. “*Occupancy Certificate*” means the initial, temporary or final certificate of occupancy issued by the appropriate governmental entities having jurisdiction over the Project permitting occupancy of the Project.

47. “*Occupied*” means (i) with respect to any Independent Living Unit, any unit for which a Residency Agreement has been executed, and related Entrance Fee has been paid or a promissory note for such Entrance Fee has been executed, and the occupant of such Independent Living Unit continues to reside therein or (ii) with respect to any other type of unit/bed, physical possession of such unit/bed by a resident (other than a resident temporarily transferred from another unit/bed within the community). If two or more units have been combined into a single unit, all such units shall continue to be considered separate units for the purpose of calculating the percentage of units occupied.

48. “*Office*” means the Office of Statewide Health Planning and Development of the Health and Human Services Agency of the State, or its successors.

49. “*Parity Debt*” means Long-Term Indebtedness which is incurred by the Corporation in accordance with the provisions of Section XII of this Regulatory Agreement and secured equally and ratably with the obligations of the Corporation under the Loan Agreement by a lien on and security interest in the Gross Revenues and the Deed of Trust.

50. “*Permitted Encumbrances*” means and includes:

- a. undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), *provided* that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

- b. notices of *lis pendens* or other notices of or liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), *provided* that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

c. the lien of taxes and assessments which are not delinquent, or, if delinquent, are being contested in good faith, provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

d. minor defects and irregularities in title to the Facilities which in the aggregate do not materially adversely affect the value or operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

e. easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

f. rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities which do not materially impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

g. present or future valid zoning laws and ordinances;

h. the rights of the Authority, the Corporation, the Office, the Trustee and holders of Parity Debt under the Loan Agreement, the Indenture, this Regulatory Agreement and the Deed of Trust and the lien and charge of the Indenture, this Regulatory Agreement and the Deed of Trust;

i. liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness;

j. purchase money security interests and security interests existing on any personal property prior to the time of its acquisition by the Corporation through purchase, merger, consolidation or otherwise, whether or not assumed by the Corporation, or placed upon property being acquired by the Corporation to secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles;

k. statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by the Corporation;

l. the lease or license of the use of a part of the Facilities for use in performing professional or other services necessary for the proper and economical operation of the Facilities in accordance with customary business practices in the health and residential care industries;

m. liens or encumbrances existing as of the date of initial execution and delivery of the Bonds as listed on Exhibit D attached hereto;

n. liens securing Parity Debt on a parity with the obligations of the Corporation hereunder;

o. statutory rights of the United States of America to recover against the Corporation by reason of federal funds made available under 42 U.S.(c) § 291 *et seq.*, and similar rights under other federal and state statutes;

p. other liens and encumbrances specifically approved in writing by the Office; and

q. any liens arising from or in connection with assistance provided by the Federal Emergency Management Agency.

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

52. “*Project*” means the Project set forth on the cover of this Regulatory Agreement.

53. “*Release*” means any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, leaching, or migration into the indoor or outdoor environment (including, without limitation, the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Materials), or into or out of the Facilities, including the movement of any Hazardous Material through the air, soil, surface water, groundwater or property.

54. “*Required Information Recipients*” means the Office, the Trustee, Merrill Lynch, Pierce, Fenner & Smith Incorporated and B.C. Ziegler and Company, as the initial purchasers of the Bonds, the Authority, and EMMA or any other nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission.

55. “*Reserved*” means an Independent Living Unit (a) that is Occupied or (b) for which the Corporation has received a deposit equal to not less than ten percent (10%) of the Entrance Fee related to such Independent Living Unit or some other amount required by the Corporation in order to hold such Independent Living Unit for a prospective resident.

56. “*Residency Agreement*” means any written agreement or contract, as amended from time to time, between the Corporation and a resident or potential resident of a facility giving the resident certain rights of occupancy in the facility, including without limitation, independent living units, assisted living units, memory support units, nursing beds or specialty care beds and providing for certain services to such resident including any reservation agreement or other agreement or contract reserving rights of occupancy.

57. “*Risk Management Consultant*” means an Independent Person having experience and a favorable reputation in consulting on the insurance requirements of health facilities in the State of the general size and character of the Facilities, selected by the Corporation and acceptable to the Office, and so long as such Risk Management Consultant is acceptable to the Office. The initial Risk Management Consultant of _____ is acceptable to the Office.

58. “*Series 2014A Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project), authorized to be issued under the Indenture.

59. “*Series 2014B-1 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under the Indenture.

60. “*Series 2014B-2 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under the Indenture.

61. “*Series 2014B-3 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under the Indenture.

62. “*Series 2014B-4 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under the Indenture.

63. “*Series 2014B-5 Bonds*” means the \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS- __SM)) (MonteCedro Inc. Project), authorized to be issued under the Indenture.

64. “*Short-Term Indebtedness*” means Indebtedness having an original maturity less than or equal to one year and not renewable at the option of the Corporation for a term greater than one year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Short-Term Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

65. “*SMF Guaranty*” means _____.

66. “*Stable Occupancy*” means, with respect to the Independent Living Units financed with the proceeds of the Bonds and included in the Project, the date on which the total

percentage of such Independent Living Units which are Occupied is equal to or greater than 95%, calculated as of the last day of any fiscal quarter.

67. “*State*” means the State of California.

68. “*Statement*” means a written certification, certificate or statement or other appropriate written instrument normally provided in the applicable circumstance where required by this Regulatory Agreement to be provided or delivered by the Accountant, counsel, insurance agent, the Risk Management Consultant, the Management Consultant, the Corporation, the Office or other appropriate Person. The Statement shall be dated and signed by a person authorized to execute the Statement.

69. “*Trustee*” means the Trustee named on the cover hereof, as trustee, together with the Trustee’s permitted successors as trustee, under the Indenture.

SECTION II. GENERAL COVENANTS.

A. *Security of Gross Revenues Pledged and Deed of Trust.* 1. In order to secure full and faithful performance of the obligations of the Corporation to the Office hereunder and under the Contract of Insurance, the Corporation hereby pledges to the Office and grants to the Office a security interest in and to the Gross Revenues, including, but not limited to, future interest on any and all revenues or incomes of any nature or kind which accrue to the Corporation or the Facilities, as well as other collateral, all as set forth in Exhibit E hereto. The Corporation shall execute and deliver to the Office upon the effective date of this Regulatory Agreement UCC-1 Financing Statements and such additional UCC-1 Financing Statements, continuation statements, control agreements, and other documentation as demanded by the Office in order to further evidence, perfect and maintain the security interest granted hereby. The Corporation further covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days’ notice of such change to the Office and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Office in the Gross Revenues.

2. In addition, full and faithful performance of the obligations hereunder and under the Contract of Insurance by the Corporation to the Office is hereby deemed further secured by the lien on the Facilities created by the Corporation pursuant to the Deed of Trust. The Corporation covenants and agrees that the lien of the Deed of Trust shall be subject only to:

a. liens, conditions, covenants and restrictions, easements, taxes, and assessments of record approved by the Office as exceptions to the ALTA title insurance policy identified on the first page of this Regulatory Agreement, and

b. Permitted Encumbrances.

3. The Corporation hereby pledges to the Office and grants to the Office a security interest in and to, revenues (including Gross Revenues), moneys, accounts, accounts receivable, contract rights, general intangibles, documents, instruments, chattel paper, and other rights to

payment of whatever kind. Notice is hereby given that the lien of the above stated pledges created by this Regulatory Agreement is perfected pursuant to California Health and Safety Code Sec. 129052, which reads in pertinent part:

“The revenues, moneys, accounts, accounts receivable, contract rights, general intangibles, documents, instruments, chattel paper, and other rights to payment of whatever kind pledged by or to the office or its assignees shall immediately be subject to the lien of the pledge without physical delivery or further act. The lien of such pledge shall be valid and binding against all parties, irrespective of whether the parties have notice of the lien. The indenture, trust agreement, resolution, or another instrument by which such pledge is created need not be recorded or the security interest otherwise perfected.”

B. *Use of Proceeds of Bonds.* The proceeds of the Bonds together with other available funds shall be used exclusively by the Corporation for the following purposes: (a) to finance the Project, (b) pay a portion of the interest on the Bonds, (c) to fund a Debt Service Reserve Account, and (d) to pay the insurance premium and other expenses related to the execution and issuance of the Bonds.

NONE OF THE PROCEEDS OF THE BONDS SHALL GO DIRECTLY OR INDIRECTLY TO ANY PRESENT OR FORMER OFFICER, DIRECTOR, MEMBER, EMPLOYEE OR RELATIVE OF ANY OFFICER, DIRECTOR, MEMBER OR EMPLOYEE OF THE CORPORATION.

C. *Bond Maturity Date; Economic Life.* Pursuant to Insurance Law Section 129050(d) the Bonds shall have a maturity date or dates not exceeding thirty (30) years from the beginning of the amortization of the Bonds, as provided in the Bonds and the Indenture, which term does not exceed 75% of the Office’s estimate of the economic life of the Facilities.

D. *Periodic Payments.* The Loan Agreement and the Indenture contain complete amortization provisions requiring periodic payments by the Corporation, as provided in the Bonds and the Loan Agreement, which provisions are acceptable to the Office.

E. *Interest on Bonds.* The Bonds bear interest on the amount of the principal obligation outstanding at any time, at the rates provided in the Bonds, which rates are acceptable to the Office.

F. *Payment on Principal.* The Indenture provides for the application of a portion of the Corporation’s periodic payments to amortization of the principal of the Bonds as provided in the Indenture and the Bonds.

G. *Documents Acceptable to Office.* The Indenture and the Loan Agreement are acceptable to the Office.

H. *Section 129050(i) Limitation.* To the extent Insurance Law Section 129050(i) applies, the Bonds shall be in a principal amount not in excess of the amount set forth on the cover of this Regulatory Agreement, which amount does not exceed 90 percent of the “total construction cost” of the Project plus the sum of the amounts set forth in Section 3.02 of the Indenture.

I. *Payments.* The Corporation and the Authority, through the Trustee pursuant to the Indenture, shall promptly make all payments for which they are, respectively, obligated under the Bonds, the Loan Agreement and the Indenture, as the case may be.

J. *Debt Service Reserve Account.* As provided in the Indenture, the Trustee shall establish and continue to maintain a debt service reserve account (*i.e.*, the Debt Service Reserve Account established pursuant to the Indenture), which shall be subject to the terms and conditions specified in the Indenture and which may be disbursed only on order of the Office as provided in the Indenture.

K. *Compliance with Law and the Corporation’s Articles of Incorporation and Bylaws.* The Corporation shall comply with all applicable laws including, specifically, the provisions of the Insurance Law, and the Corporation’s articles of incorporation and bylaws.

L. *Compliance with Agreements; No Amendment without Office Consent.* The Corporation, the Trustee (as assignee of the Authority) and the Authority shall abide by all of the terms of the Loan Agreement, the Bonds, the Deed of Trust, the Regulatory Agreement and the Indenture by which they are respectively bound, none of which may be modified, amended or supplemented without the prior or concurrent consent of the Office in writing, except as provided therein.

M. *Office Attendance at Meetings.* The Office has the right to attend and participate in all meetings of the members of the governing board of the Corporation including, but not limited to, executive committee, subcommittee meetings and all other committee meetings, but excluding meetings at which attendance by the Office would abrogate the attorney-client privilege between the Corporation and its legal counsel. Upon prior written request of the Office, the Corporation shall give the Office, prior to any such meetings, the same notice of such meetings as it gives to its board members and shall give the Office a copy of all documents given to its board members at the same time they give the documents to its board members, and shall give the Office copies of any other documents presented at such meetings.

N. *Prohibition of Forward Purchase Agreements.* Notwithstanding any other provision in this Regulatory Agreement or the Indenture, the Corporation shall not enter into or instruct the Trustee to enter into any agreement, including, without limitation, any investment or sale agreement involving the sale of future interest income or forward delivery agreement or forward purchase contract or forward purchase supply contract, which provides for an upfront payment to the Corporation, in connection with the investment of any of the funds or accounts established under the Indenture and held by the Trustee.

SECTION III. NEGATIVE COVENANTS.

The Corporation shall not, without the prior written consent of the Office:

A. *Alter Facilities.* Remodel, reconstruct, or demolish any part of the Facilities (except in the ordinary course of business) or subtract from any real property of the Corporation except for the maintenance described in the regulations of the relevant State licensing agencies, which may be accomplished without limitation.

B. *Pay Officers or Directors.* Pay any compensation or make any distribution of income or other assets to any of its officers or directors other than as compensation to such persons in their capacities as officers, directors, employees, contractors or suppliers of the Corporation or the reimbursement of ordinary out-of-pocket expenses.

C. *Amend Articles and Bylaws.* Amend the Corporation's articles of incorporation or bylaws in any material respect.

D. *Affiliations.* Except for affiliations or contracts with public agencies, health maintenance organizations and other health care plans and providers entered into by the Corporation in its ordinary course of business, establish, maintain, or affiliate with a Person in conjunction with which the Corporation will carry on its activities; transfer control of any of the Facilities to any other Person; or assume, either directly, indirectly or through intermediaries, the management or control of any other Person, unless in each such case

1.the Contract of Insurance remains in full force and effect after such act, and

2. no event of default under this Regulatory Agreement has occurred and is continuing or will, as a result of such act, occur.

E. *Cease to Operate as a Health Facility.* Operate the Facilities such that the Facilities no longer qualify as a "health facility" as defined in Insurance Law Section 129010, except to the extent permitted by the Insurance Law.

F. *Amend Contracts.* Amend any architectural or construction contract for the Project except for customary change orders for which moneys are available in the Project Fund.

SECTION IV. MAINTENANCE OF THE FACILITIES.

The Corporation shall maintain the Facilities in good and substantial repair and condition; *provided* that, in the event all or any of the Facilities shall be destroyed or damaged by fire or other casualty, the money derived from any insurance on the property shall be applied in accordance with the terms of this Regulatory Agreement and the Indenture.

SECTION V. BANKRUPTCY; INSOLVENCY; RECEIVER.

A. The Corporation shall not file any petition in bankruptcy or in insolvency, or for a receiver or reorganization or composition; or make any assignment for the benefit of creditors or to a trustee for creditors; or permit an adjudication in bankruptcy, the taking possession of the Facilities or any part thereof by a receiver, or the seizure and sale of the Facilities or any part thereof under judicial process or pursuant to any power of sale (except as provided in the Deed of Trust) and fail to have such adverse actions set aside within forty-five (45) days.

B. The Corporation immediately shall give notice to the Office of the filing of any petition, or commencement of any proceedings, in bankruptcy, or for a receiver or insolvency or for reorganization or composition, or any assignment for the benefit of creditors to a trustee for the benefit of creditors, relating to the Corporation or the Facilities.

C. If the Corporation, or its creditors, file a petition alleging insolvency, requesting reorganization or a composition of creditors, or for an assignment for the benefit of creditors, in any court, the Office shall have the right to participate in, or vote on, any plan or reorganization, agreement for a composition of creditors, and on any assignment for the benefit of creditors. If there is a proceeding to effect a receivership for the Corporation, the Office shall have the right to select the receiver.

So long as the Contract of Insurance is in full force and effect and the Office is not in default thereunder, the Office shall represent Bondholders in all bankruptcy proceedings and may take such action or consent to any agreement on behalf of Bondholders, provided that any such action or consent shall in no way impair the rights and benefits due Bondholders under the Contract of Insurance.

SECTION VI. MAINTENANCE OF EXISTENCE; AFFILIATION, MERGER, CONSOLIDATION, SALE OR TRANSFER UNDER CERTAIN CONDITIONS.

A. The Corporation shall maintain its existence as a nonprofit public benefit corporation of the State, operating a health facility, as defined in Insurance Law Section 129010, and meeting the requirements of Section 501(c)(3) of the Code, and shall not dissolve, sell or otherwise dispose of all or substantially all of its assets or affiliate with, consolidate with or merge into another Person or permit one or more other Persons to affiliate with, consolidate with or merge into it; *provided*, that the Corporation may, without violating the covenants contained in this Section, affiliate with, consolidate with or merge into another Person, or permit one or more other Persons to affiliate with, consolidate with or merge into it, or sell or otherwise transfer to another Person such assets, if:

1. The Corporation obtains the written consent of the Office to such transaction and a Statement of the Office to the effect that the Contract of Insurance remains in full force and effect after such transaction;

2. The Office, the Authority and the Trustee shall have received an Opinion of Bond Counsel to the effect that such affiliation, merger, consolidation, sale or other

transfer will not cause the interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code;

3. The surviving, resulting or transferee Person:

a. assumes in writing, if such Person is not the Corporation, all of the obligations of the Corporation under this Regulatory Agreement, the Loan Agreement and the Contract of Insurance, and agrees to fulfill and comply with the terms, covenants and conditions thereof, and further consents to the terms of the Indenture;

b. is not, after such transaction, otherwise in default under any provision of this Regulatory Agreement, the Loan Agreement or the Indenture;

c. is an organization meeting the requirements of Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect; and

d. shall have fund balances at least equal to the fund balances of the Corporation prior to such transaction;

4. The Trustee and the Office shall have received the report of a Management Consultant to the effect that Net Income Available for Debt Service of the surviving, resulting or transferee Person (after giving effect to such merger, consolidation, sale or other transfer) for each of the first two full Fiscal Years following such merger, consolidation, sale or other transfer is forecasted to be not less than the greater of Net Income Available for Debt Service of the Corporation for each of the two most recent Fiscal Years for which audited financial statements are available, as certified by an Accountant;

5. The Trustee and the Office shall have received a report of an Accountant to the effect that the net worth of the surviving, resulting or transferee Person, after giving effect to such merger, consolidation, sale or other transfer, is at least equal to 100 percent of the net worth of the Corporation immediately prior to such merger, consolidation, sale or other transfer; and

6. The Trustee, the Authority and the Office shall have received an Opinion of Counsel to the effect that the Loan Agreement, the Contract of Insurance and this Regulatory Agreement constitute the legal, valid and binding obligations of the surviving, resulting or transferee Person, as the case may be, enforceable against such Person in accordance with their respective terms.

B. Notwithstanding the foregoing, the Corporation may, without complying with the provisions of Subsection A of this Section, transfer substantially all of its assets to an Affiliate *provided* that:

1. The Corporation obtains the written consent of the Office to such transaction and the Contract of Insurance remains in full force and effect after such transaction;

2. The Office, the Authority and the Trustee shall have received an Opinion of Bond Counsel to the effect that such proposed transfer(s) will not cause the interest on the Bonds to be included in the gross income for federal income tax purposes under Section 103 of the Code;

3. Such Affiliate agrees to become a co-obligor and jointly and severally liable with the Corporation under this Regulatory Agreement, the Contract of Insurance and the Loan Agreement; and

4. After such transaction, the Corporation and the Affiliate are in compliance with the provisions of this Regulatory Agreement and the Loan Agreement.

In the event of such a transfer to an Affiliate, references in this Regulatory Agreement to indebtedness of the Corporation shall apply to the combined indebtedness of the Corporation and the Affiliate, and references to the financial condition or forecasted results of operations of the Corporation shall apply to the consolidated financial condition or results of operations of the Corporation and the Affiliate.

C. If an affiliation, merger, consolidation, sale or other transfer is effected, as provided in this Section, the provisions of this Section shall continue in full force and effect, and no further affiliation, merger, consolidation, sale or transfer shall be effected except in accordance with the provisions of this Section.

SECTION VII. RATES AND CHARGES; DEBT COVERAGE; CURRENT RATIO; DAYS CASH ON HAND.

A. The Corporation shall operate the Facilities as revenue producing health care facilities. Commencing with the Fiscal Year ending [June 30, 2016,] the Corporation shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year.

B. The Corporation shall maintain, as of the end of each Fiscal Year, commencing with the first full Fiscal Year following the issuance of the Occupancy Certificate for the Independent Living Units included in the Project, a Current Ratio of at least 1.50:1.0.

C. The Corporation shall maintain, (i) as of the end of the Fiscal Year ending [June 30, 2017, until the end of the Fiscal Year in which the conditions for the release of the SMF Guaranty have been satisfied] at least one hundred fifty (150) Days Cash on Hand and (ii) as of the end of each Fiscal Year, commencing with the first Fiscal Year after the conditions for the release of the SMF Guaranty have been satisfied] at least one hundred seventy-five (175) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year. For purposes of this requirement, "Days Cash on Hand" shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Corporation's cash and cash equivalents (including board designated funds and funded depreciation but excluding donor restricted funds and proceeds of short term indebtedness) as of the end of such Fiscal Year by (2) the quotient of dividing (a) the Corporation's operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (b) the number of days in such Fiscal Year.

D. Within one hundred twenty (120) days after the end of each Fiscal Year [(commencing with the first Fiscal Year after the Closing Date)], the Corporation shall compute (1) the Net Income Available for Debt Service and Maximum Aggregate Annual Debt Service, (2) the Current Ratio and (3) the Days Cash on Hand for such Fiscal Year and promptly furnish to the Authority, the Trustee and the Office a Statement setting forth the results of such computation.

The Corporation further covenants and agrees that if, at the end of any Fiscal Year, (i) the Debt Service Coverage Ratio shall have been less than as required by Subsection (a) of this Section VII, (ii) the Current Ratio shall have been less than as required by Subsection (b) of this Section VII, or (iii) the Days Cash on Hand shall have been less than as required by Subsection (c) of this Section VII, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result in producing (x) a Debt Service Coverage Ratio as required by Subsection (a) of this Section VII in the current Fiscal Year, (y) a Current Ratio as required by Subsections (b) of this Section VII in the current Fiscal Year and (z) Days Cash on Hand as required by Subsection (c) of this Section VII in the current Fiscal Year; *provided, however*, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; *provided, however*, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fails to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the covenants contained in this Section VII for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio, the Current Ratio or the Days Cash on Hand shall be less than the amount required under Subsections (a), (b) or (c) of this Section VII; *provided*, that (1) this sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under this Regulatory Agreement or be construed as constituting a waiver of any other event of default under this Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

E. Notwithstanding the foregoing, the Corporation may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Board, to the extent necessary for maintaining its tax-exempt status or to establish or maintain its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by the Management Consultant.

SECTION VIII. LIMITATION ON ENCUMBRANCES.

The Corporation shall not create, assume, adopt or suffer to exist, and shall immediately satisfy or release, any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facilities or the Gross Revenues; *provided, however*, that notwithstanding the foregoing provision, the Corporation may create, assume, adopt or suffer to exist Permitted Encumbrances.

SECTION IX. LIMITATION ON INDEBTEDNESS.

A. The Corporation shall not incur any indebtedness or financial obligations, including without limitation, by borrowing money, by assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, except the Corporation may incur the following:

1. Obligations and liabilities under this Regulatory Agreement, the Loan Agreement, or the Indenture, including any supplements or amendments thereto or hereto in connection with the issuance of any additional series of Bonds;
2. Contractual liabilities (other than liabilities for borrowed money or liabilities which would otherwise be considered indebtedness under generally accepted accounting principles) for which moneys are available in the Project Fund under the Indenture or otherwise;

3. Short-Term Indebtedness with the prior written consent of the Office and *provided* that no amount of Short-Term Indebtedness shall be outstanding for a period of thirty (30) consecutive days during each Fiscal Year. The aggregate amount incurred by the Corporation under this Subsection shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

4. Liabilities for contributions to self-insurance programs;

5. Long-Term Indebtedness (which may be Parity Debt) incurred for the purpose of refinancing outstanding Long-Term Indebtedness *provided* that:

a. the Office has consented in writing to the incurring of such indebtedness, and

b. the issuance of such Long-Term Indebtedness does not increase Maximum Aggregate Annual Debt Service by more than ten percent (10%), as certified by a written report of an Accountant which shall be filed with the Trustee and the Office;

6. Long-Term Indebtedness (which may be Parity Debt), *provided* that:

a. the Office has consented in writing to the incurring of such indebtedness, and

b. (1) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Authority, the Trustee and the Office for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

(2) (a) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Trustee and the Office, for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness then outstanding, and

(b) Net Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee and the Office, for each of the first two Fiscal Years following the incurrence of such Long-Term Indebtedness (or, if such Long-Term Indebtedness is incurred to finance additional facilities, in each of the first three Fiscal Years following the Fiscal Year when it is proposed that such Facilities will be completed and placed

in service) is forecasted to be at least 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

7. Long-Term Indebtedness (which may be Parity Debt), incurred to complete the Project or any other project if the Board certifies that the Corporation cannot complete such project unless such Long-Term Indebtedness is incurred, *provided* that:

a. the Office has consented in writing to the incurring of such indebtedness, and

b. in the case of a project other than the Project, the aggregate principal amount of such indebtedness does not exceed ten percent (10%) of the principal amount of Long-Term Indebtedness incurred to finance such project;

8. Long-Term Indebtedness (excluding Parity Debt) *provided* that:

a. the Office has consented in writing to the incurring of such indebtedness, and

b. the aggregate amount incurred by the Corporation under this Subsection, Subsection 3 and Subsection 9 and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

9. Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; *provided* that the aggregate amount incurred by the Corporation under this Subsection, Subsection 3 and Subsection 8 and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

10. Non-recourse Indebtedness, *provided* that the Office has approved in writing the incurrence of such indebtedness and such indebtedness does not encumber the Facilities;

11. Repayment obligations under reimbursement or similar agreements with banks or insurance companies relating to letters or lines of credit or other credit facilities used to secure Long-Term Indebtedness;

12. Indebtedness, not for borrowed money, incurred in the ordinary course of business; and

13. Any indebtedness or obligations of the Corporation consented to in writing by the Office.

SECTION X. LIMITATIONS ON DISPOSITION OF PROPERTY.

A. *Disposition of Cash.* The Corporation shall not dispose of any cash or cash equivalents unless:

1. The Corporation receives an asset or service of reasonably equivalent value for such cash or cash equivalents; or

2. prior to such disposition, there is filed with the Office and the Trustee a Statement of the Corporation to the effect that either

a. the ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service for the most recent Fiscal Year for which audited financial statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below a ratio of 2.0:1.0 (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year), or

b. the average ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service, as forecasted in such Statement of the Corporation for the two Fiscal Years immediately following such disposition, will be not less than a ratio of 2.0:1.0; and

c. such disposition has been consented to by the Office in writing.

B. *Disposition of Real Property.* The Corporation shall not sell, lease (other than to residents), sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the real property described in Exhibit A, including the buildings and structures thereon and fixtures and improvements of such real property, without the prior written consent of the Office.

C. *Disposition of Personal Property.* The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facilities not included in the preceding subsections A and B, other than in the "ordinary course of business," unless the Office gives its prior written consent to such disposition. "Ordinary course of business" shall be defined during the term of this Regulatory Agreement by the Office in the exercise of its sound and reasonable discretion, by the Office giving written notice thereof to the Corporation, which determination will become effective on receipt of such notice by the Corporation.

Except as provided in Section VI of this Regulatory Agreement concerning a disposition of substantially all of the Corporation's assets, in no event shall the Corporation dispose of any part or parts of its Facilities in any Fiscal Year aggregating in excess of two and one-half percent (2-1/2%) of the Corporation's net property, plant and equipment (as shown on the Corporation's

most recent audited financial statements), unless the Office gives its prior written consent to such disposition.

D. *Execution of Releases.* In connection with a disposal of property, including cash, permitted by this Section, upon receipt of such consent by the Office or Statement of the Corporation required by this Section, the Office, the Authority and the Trustee shall execute and deliver releases from security interests or other documents reasonably requested by the Corporation.

SECTION XI. LIMITATION ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT.

The Corporation shall not acquire additional property, plant and equipment (except (1) in the ordinary course of business, (2) with the proceeds of indebtedness permitted by Section IX of this Regulatory Agreement, or (3) as part of a merger or consolidation permitted by Section VI of this Regulatory Agreement) by gift (other than gifts of cash or personal property or gifts of real property if either [(i) its use is residential] or (ii) it is subject of a Phase I environmental report indicating no contaminants), purchase, construction, merger or consolidation, unless the Office gives its prior written consent to such acquisition.

SECTION XII. PARITY DEBT.

The Corporation may incur Parity Debt, subject, however to compliance with Section IX of this Regulatory Agreement and the following conditions:

1. The Trustee shall act as trustee for the Parity Debt;
2. The agreement under which Parity Debt is issued shall require that:
 - a. A Loan Default Event shall constitute an event of default under such agreement and this Regulatory Agreement;
 - b. Rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders of Bonds under the Indenture, except if the Parity Debt is not covered under the Contract of Insurance, the holders of Parity Debt shall have no right under the Contract of Insurance for payments made with respect thereto; and
 - c. Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, this Regulatory Agreement and the Loan Agreement, and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interest) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Bondowners shall be equally protected;
3. Any collateral given or to be given to secure Parity Debt shall also secure the Bonds on a *pari passu* basis; *provided* that the Debt Service Reserve Account shall

only secure the Bonds and the Corporation may but need not establish similar reserve accounts for debt service of Parity Debt;

4. The Parity Debt shall be prepayable in accordance with terms substantially in the form of and under the conditions prescribed in Section 4.01(A) of the Indenture; and

5. Any Parity Debt shall be insured by the Office under the Insurance Law or, if the Parity Debt can be issued as such without being insured under the Insurance Law, with the consent of the Office.

SECTION XIII. COMPLIANCE WITH LAW; MAINTENANCE OF FACILITIES.

A. *In Accordance with the Law.* The Corporation shall operate and maintain the Facilities in material accordance with all applicable governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws, including the Insurance Law, and such rules and regulations thereunder as may be binding upon the Corporation. The Corporation shall make all disclosures required by the Securities and Exchange Commission and shall indemnify the Office and the Authority for any costs, fees, fines, or other penalties imposed on the Office or the Authority which arise from, or are incurred from, the Corporation's negligent or other failure to disclose annual financial and operating information as required by the Securities and Exchange Commission.

B. *In Good Repair.* The Corporation shall maintain and operate the Facilities 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 hereafter at any time constituting part of the Facilities, in good repair, working order and condition, and the Corporation shall from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements; in each case to the extent necessary so that the efficiency and value of the Facilities shall not be impaired.

SECTION XIV. TAXES, ASSESSMENTS AND GOVERNMENTAL CHARGES.

The Corporation shall pay and discharge all 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 Facilities, the Gross Revenues or the interests therein of the Trustee (as assignee of the Authority) or of the Holders of the Bonds, 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 Facilities or any part thereof, and, upon request, shall furnish to the Trustee receipts for all such payments, or other evidences satisfactory to the Trustee; *provided, however*, that the Corporation shall not be required to pay any tax, assessment, rate or charge as herein provided as long as it shall in good faith contest the validity thereof, *provided* that the Corporation shall have set aside adequate reserves with respect thereto.

SECTION XV. INSURANCE.

A. *Maintain Insurance.* The Corporation shall keep the Facilities and its operations adequately insured at all times, and, shall carry and maintain, or cause to be carried and maintained, and will pay, or cause to be paid, in timely fashion the premiums for, at least the following coverages with the limits as stated. The following coverages and limits may be varied only with the prior written consent of the Office.

1. *Property Insurance.*

a. *Buildings and Structures.* All buildings and structures constituting part of the Facilities shall, at a minimum, be insured using a form at least as broad as the most recent revision of the Property Special Form coverage adopted by the Insurance Services Office (ISO), subject to a reasonable deductible per occurrence, and in an amount equal to at least the lesser of the full replacement value of the property insured, or the aggregate principal amount of the Outstanding Bonds and Parity Debt. The replacement value of the Facilities shall be determined from time to time at the request of the Corporation or the Trustee (but not less frequently than once in every twenty-four months) by an architect, contractor, appraiser or appraisal company selected by the Corporation and acceptable to the Office. The policy form shall also include a Joint Loss Endorsement as respects Boiler & Machinery insurance.

b. *Business Personal Property.* All business personal property, including computers and electronic data processing equipment, at any location forming part of the Facilities shall be insured using a form at least as broad as the most recent revision of the Property Special Form coverage adopted by the ISO, subject to a reasonable deductible per occurrence and in an amount equal to at least the lesser of the full replacement value of the property insured or the aggregate principal amount of the Outstanding Bonds and Parity Debt.

c. *Earthquake.* All buildings, structures, and the contents thereof, shall be insured against damage resulting from earthquake and related perils in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds and Parity Debt then outstanding, subject to reasonable deductibles. The Corporation shall acquire earthquake insurance unless the Office agrees in writing to waive earthquake insurance.

d. *Flood.* All buildings, structures, and the contents thereof, shall be insured against damage resulting from flood and rising water in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds and Parity Debt then outstanding, subject to reasonable deductibles. The Corporation shall acquire flood insurance unless the Office agrees in writing to waive flood insurance.

2. *Builder's Risk.* During the course of any substantial addition, extension, alteration, or improvement to the Facilities, the Corporation shall maintain or cause to be maintained builder's risk insurance in the amount of the full completed value of such construction work, subject to reasonable deductibles per occurrence, covering all risk of physical loss or damage with such exclusions as are acceptable to the Office.

3. *Boiler and Machinery or Equipment Breakdown Insurance.* The Corporation shall maintain boiler and machinery or equipment breakdown insurance providing coverage against loss of property and liability for damage to persons or property from explosion of, or accident to, boilers, tanks, pipes, pressure vessels, engines, wheels, electrical machinery, or apparatus connected therewith or operating thereby in an amount not less than \$1,000,000, subject to deductibles not exceeding \$10,000 per occurrence. The policy form shall also include Joint Loss Endorsement.

4. *Commercial General Liability Insurance.* The Corporation shall maintain Commercial General Liability Insurance for bodily injury and property damage in a form at least as broad as the most recent revision of the Commercial General Liability Policy adopted by the ISO, including non-owned and hired automobile coverage, with limits no less than with \$1,000,000 per occurrence and annual aggregate limits equal to \$3,000,000.

5. *Automobile Insurance.* The Corporation shall maintain insurance for vehicles owned, non-owned or hired by the Corporation with at least a \$1,000,000 per accident limit.

6. *Professional Liability.* The Corporation shall maintain professional liability insurance with per occurrence and general aggregate limits equal to \$10,000,000, subject to reasonable deductibles or self-insured retention, unless otherwise agreed to in writing by the Office.

7. *Fidelity Bonds.* The Corporation shall maintain fidelity bonds or other insurance covering dishonesty, including computer fraud, covering all Corporation officers and employees who collect or have custody of or access to revenues, receipts or income of the Corporation, with limits equal to \$5,000,000, unless otherwise agreed to in writing by the Office.

8. *Business Interruption.* The Corporation shall maintain business interruption insurance covering actual losses to the Corporation of gross operating earnings which result directly from the necessary interruption of business caused by damage to or destruction of any real or personal property constituting part of the Facilities from risks covered by the insurance required above under subsection 1. Property Insurance, less charges and expenses which do not necessarily continue during such interruption of business, for such period of time as may be required, with exercise of due diligence and dispatch, to reconstruct, repair or replace such damages or destroyed property, with limits equal to at least Maximum Aggregate Annual Debt Service.

9. *Extra Expense.* The Corporation shall maintain extra expense insurance covering additional expenses for continuing operations or to resume normal business incurred by the Corporation which result directly from damage to or destruction of any real or personal property constituting part of the Facilities from the risks covered by the insurance required above under subsection 1, Property Insurance, with limits equal to at least Maximum Aggregate Annual Debt Service.

10. *Directors and Officers.* The Corporation shall maintain insurance to cover wrongful acts of the directors and officers, including entity coverage, to the extent available in a non-profit directors and officers policy form in an amount not less than \$10,000,000, unless otherwise agreed to by the Office in writing.

B. *Risk Management Consultant.* The Corporation shall employ a Risk Management Consultant to review the insurance requirements of the Corporation from time to time (but not less frequently than once every twenty-four (24) months). If the Risk Management Consultant makes recommendations for the increase of any of the coverage required by Subsection A of this Section, the Corporation shall increase such coverage in accordance with such recommendations, subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Corporation. Notwithstanding anything in this Section to the contrary, the Corporation shall have the right, without the giving rise to an event of default under this Regulatory Agreement solely on such account,

1. with the prior written consent of the Office, to maintain insurance coverage below that required by Subsection A of this Section, *provided further* that the Corporation shall furnish to the Trustee and the Office a Statement of the Risk Management Consultant or other evidence, satisfactory to the Office, that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Risk Management Consultant are reasonable in connection with reasonable and appropriate risk management, or

2. with the prior written consent of the Office, to adopt alternative risk management programs which the Board determines to be reasonable and which shall not have a material adverse impact on the Corporation's reimbursement from third party payers, including, without limitation, to self-insure in whole or in part, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs;

all as may be approved in writing as reasonable and appropriate risk management by the Risk Management Consultant. A copy of any such approval shall be furnished to the Trustee and the Office.

SECTION XVI. WORKERS' COMPENSATION AND INSURANCE LAW.

The Corporation shall at all times comply with California's Workers' Compensation, Insurance and Safety Act, including the Workers' Compensation and Insurance Law at Division 4 of the California Labor Code, or any successor statute or statutes, and shall maintain insurance or self-insurance for workers' compensation claims as required by Labor Code section 3700.

SECTION XVII. INSURERS; POLICY FORMS AND LOSS PAYEES.

The Corporation shall obtain such insurance coverage as is required by this Regulatory Agreement only from insurers admitted to do business in the State by the Department of Insurance of the State, unless the Office gives its prior written consent. All policies shall name the Corporation, the Authority, the Office and the Trustee, as insured parties, beneficiaries or loss payees as their interest may appear. Each policy shall be in such form and contain such provisions as are generally considered standard for the type of insurance involved, subject to the specific requirements of Section XV above, and shall contain (a) a provision to the effect that the insurer shall not cancel or substantially modify the policy provisions without first giving at least thirty (30) days written notice thereof to the Corporation, the Office and the Trustee and (b) a severability of interests (cross liability) provision. Nothing herein shall preclude more than one coverage or class of insurance from being included in a single policy. The Corporation shall file at least annually on or before **[July 1]** of each year with the Trustee and the Office, a Statement setting forth the coverages maintained pursuant to this Regulatory Agreement, the names of the insurers and insured parties, the amounts of such insurance and applicable deductibles, the risks covered thereby and the expiration dates thereof and a similar description of any self-insurance or alternative risk management program adopted by the Corporation, and stating whether the insurance described therein satisfies the requirements of this Regulatory Agreement. The Trustee shall be protected in relying upon such Statement without independent investigation into the matters covered therein. The Corporation also shall file with the Trustee and the Office a copy of any insurance review or recommendations received by the Corporation from the Risk Management Consultant pursuant to Section XV of this Regulatory Agreement.

SECTION XVIII. TITLE INSURANCE.

The Corporation shall obtain, at its own cost and expense, an ALTA Lender's policy of title insurance, with such endorsements as may be required by the Office, at the time of and dated as of the date of delivery of the Bonds or Parity Debt, in an aggregate amount not less than the aggregate principal amount of the Bonds and Parity Debt to be outstanding after the issuance of such Bonds or Parity Debt, payable to the Office, the Trustee and the Authority, insuring the title of the Corporation to the site of the Facilities, subject only to Permitted Encumbrances, issued by a title insurance company admitted to do business in the State by the Department of Insurance of the State, and which is acceptable to the Office.

SECTION XIX. DISPOSITION OF INSURANCE AND CONDEMNATION PROCEEDS.

A. The proceeds of property and builder's risk insurance maintained by the Corporation pursuant to Section XV, the proceeds of any title insurance obtained pursuant to Section XVIII and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, as assignee of the Authority, for deposit in a special fund which the Trustee shall establish and maintain and hold in trust, to be known as the "Insurance and Condemnation Proceeds Fund." In the event the Corporation elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Office plans of the contemplated repair or replacement, accompanied by a Statement (a copy of which statement shall be delivered to the Trustee) of an architect or other qualified expert satisfactory to the Office estimating the reasonable cost of such repair or replacement and a Statement of the Corporation stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Corporation shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee, upon the request of the Corporation, for the purpose of repairing or replacing the property damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Project Fund to the extent the provisions thereof may reasonably be made applicable. Each such Requisition of the Corporation shall be sufficient evidence to the Trustee of the facts stated therein, and the Trustee shall have no duty to confirm the accuracy of such facts. In the event that the proceeds of any loss or damage to or condemnation of the Facilities shall be less than one and one-half percent (1-1/2%) of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements), and so long as an event of default under this Regulatory Agreement has not occurred and is not then continuing, the Trustee shall pay over such proceeds to the Corporation without requiring any of the documents referred to in this Subsection and without any formality whatsoever.

B. In the event the Corporation, with the consent of the Office, shall elect not to repair or replace the property damaged, destroyed or taken, as provided in Subsection A of this Section, the Trustee shall transfer all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account in order to prepay the Loan Repayments and redeem Bonds; *provided* that if any Parity Debt is then outstanding, any such transfer from the Insurance and Condemnation Proceeds Fund shall be deposited in part in the Special Redemption Account and in part in such other fund or account as may be appropriate (and used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the aggregate unpaid principal amount of such Parity Debt.

C. If all amounts in the Insurance and Condemnation Proceeds Fund and any special redemption account for the retirement of Parity Debt exceed one and one-half percent (1-1/2%)

of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements) but are not sufficient to retire all Bonds and Parity Debt then outstanding, the Trustee upon its receipt of an Officer's Certificate from the Corporation stating that such amounts are in excess of one and one-half percent (1-1/2%) of the Corporation's Adjusted Annual Operating Revenues, shall not transfer said amounts to the Special Redemption Account unless the Corporation shall file with the Trustee a report of a Management Consultant showing that projected Net Income Available for Debt Service will be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt. In the event such report of a Management Consultant shows that projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt, the Corporation shall apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the property damaged, destroyed or taken, as provided in Subsection A of this Section, unless the Corporation shall file a further report of a Management Consultant showing that even after making such repair and replacement, projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three Fiscal Years immediately following such repair and replacement, in which event the Trustee shall transfer all moneys in the Insurance and Condemnation Proceeds Fund to the Special Redemption Account and/or such other trust account for the retirement of Bonds and Parity Debt, as provided in Subsection B of this Section XIX.

SECTION XX. OPERATION OF THE FACILITIES.

A. *Income and Expenses from Other Businesses or Activities.* If the Corporation has any business or activity other than the operation of the Facilities, it shall maintain accurate and complete accounting records which segregate all income and expenses of the Facilities from any other income and expenses of the Corporation and from any other income and expenses of any other Person. Income and other funds of the Corporation shall be expended only for the purposes of the Corporation.

B. *Management of the Facilities.* The Corporation shall provide for the management of the Facilities in a manner satisfactory to the Office.

1. So long as the Corporation is not in default under this Regulatory Agreement or the Loan Agreement, it may enter into a contract with a Management Agent, which is not an independent contractor, without the prior written consent of the Office, so long as such contract contains the following provisions regarding benefits or payments (including payments over time) to the Management Agent upon severance of employment:

ALL BENEFITS OR PAYMENTS RESULTING FROM TERMINATION OR SEVERANCE OF THE EMPLOYMENT PROVIDED FOR IN THIS CONTRACT, WHICH ARE, OR MAY BE, PAID AFTER THE TERMINATION OR SEVERANCE OF SUCH EMPLOYMENT, MAY BE VOIDED OR TERMINATED BY THE OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT (OFFICE) SHOULD THE EMPLOYER DEFAULT IN THE DUE AND PUNCTUAL PAYMENT OF

ANY INSTALLMENT OF INTEREST, PRINCIPAL OR REDEMPTION PRICE, IF ANY, OF ANY BOND INSURED BY THE OFFICE. THE OFFICE MAY VOID OR TERMINATE ANY CONTRACT PROVISION PROVIDING FOR THE PAYMENT OF SUCH BENEFITS OR PAYMENTS IN ITS SOLE DISCRETION, WHETHER PRIOR TO, OR SUBSEQUENT TO SEVERANCE OF THE EMPLOYMENT PROVIDED FOR IN THIS CONTRACT.

2. The Corporation shall not enter into any contract with a Management Agent which is an independent contractor without the prior written consent of the Office.

3. If the Corporation is in default under the terms and conditions of this Regulatory Agreement, it shall not enter into, or terminate any contract with a Management Agent without the prior written consent of the Office.

4. Any contract entered into by the Corporation with a Management Agent, whether or not such Management Agent is an independent contractor, shall contain a provision that it shall be subject to termination, with or without cause and without penalty upon thirty (30) days' written notice of termination by the Office to the Corporation and the Management Agent. *Provided, however,* that so long as the Corporation is not in default under any obligation, term, or condition of this Regulatory Agreement to be performed by it, the Office will not exercise its right to replace such Management Agent without cause.

5. The Corporation shall not enter into any contract with a Management Agent, whether or not such Management Agent is an independent contractor, which compensates the Management Agent on a basis of a percentage of revenue.

[6. Development Fees]

C. *Examinations and Inspections by the Office.* The Facilities, equipment, buildings, plans, office apparatus, devices, books, contracts, records (except for patient records, credentialing records and peer review records that are confidential pursuant to federal, State or local law), documents, and other papers relating thereto or to the Corporation shall be subject to examination and inspection at any reasonable time by the Office or its duly authorized agents; *provided, however,* that those portions of the Facilities that are leased by resident(s) are not subject to inspection without the prior consent of such resident(s). The Corporation shall keep copies of all written contracts or other instruments which affect the Facilities, all or any of which may be subject to inspection and examination by the Office or its duly authorized agent.

D. *Maintain License.* The Corporation shall at all times, where required by the laws of the jurisdiction, maintain in full force and effect the applicable licenses to operate the Facilities from the State and/or other licensing authority. The Corporation shall notify the Office if any such licensing authority makes any determination which may affect the licensing of the Facilities. The Corporation shall at all times maintain in full force and effect all other governmental approvals, permits, qualifications and certificates necessary for the efficient functioning of the Facilities.

E. *Equip the Facilities.* The Corporation shall, pursuant to applicable licensing regulations from time to time in effect, suitably equip the Facilities to facilitate its overall operations. The Corporation shall perform all obligations of any chattel mortgage, conditional sale, lease or lease purchase agreement, or other type of financing arrangement designed to acquire equipment if failure to perform such obligations might have consequences that would materially and adversely affect the financial conditions, assets, properties or operations of the Corporation.

F. *Acquisition of Services, Supplies and Materials.* The Corporation shall make no payment from the Project Fund established under the Indenture (a) for services, supplies or materials without the prior written consent of the Office and (b) unless such services are rendered and such supplies and materials are delivered for the construction of the Project and are reasonably necessary for its completion or operation.

G. *Indebtedness on Loan Default Event.* During the continuance of a default under this Regulatory Agreement, a Loan Default Event under the Loan Agreement or an Event of Default under the Indenture, the Corporation shall not incur any additional Indebtedness or make any additional capital acquisition without the prior written consent of the Office.

H. *Lien on Future Acquired Real Property.* If the Corporation acquires any real property to be used or usable in connection with the operation of the Corporation while this Regulatory Agreement is in effect, such acquired real property (“*Acquired Property*”) shall be deemed to fall within the definition of Facilities and therefore shall be subject to this Regulatory Agreement. The Corporation shall convey a security interest (which need not give the Office a first lien position) in the Acquired Property for the benefit of the Office under the Deed of Trust, unless such requirement is waived in writing by the Office.

SECTION XXI. REMEDIES UPON DEFAULT.

A. *Notice and Declaration of a Default under this Regulatory Agreement.* Upon a violation of any of the provisions of this Regulatory Agreement by the Corporation, the Office may give written notice thereof to the Corporation by registered or certified mail, addressed to the address stated in this Regulatory Agreement, or such other address as may subsequently, upon appropriate written notice thereof to the Office, be designated by the Corporation as its legal business address. If such violation is not corrected to the satisfaction of the Office within thirty (30) days, or in the event the default is the result of the failure of the Corporation to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Corporation, then five (5) days, after the date such notice is mailed or within such further time as the Office determines in the Office’s sole discretion is necessary to correct the violation, without further notice the Office may declare a default under this Regulatory Agreement effective on the date of such declaration of default.

B. *Office Directives to the Corporation.* Upon an event of default under this Regulatory Agreement, the Deed of Trust, the Indenture, or the Loan Agreement, the Office shall have the remedies provided by California Health and Safety Code section 129173 which are incorporated herein, as well as the following: The Office may conduct an evaluation of, and

direct the Corporation with respect to, the management and operation of the Facilities and the expenses of the Office or any consultants associated with such evaluation and direction shall be reimbursed by the Corporation. The Corporation shall follow all such directives, which may at the option of the Office include immediately terminating and replacing the existing Management Agent with a new Management Agent selected by the Office at the expense of the Corporation. In the event of any such termination, the Management Agent shall not be entitled to compensation for more than thirty (30) days from the date of such termination. The Office may retain attorneys and consultants to assist in such evaluation and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any other expenses incurred by the Office in that connection. These remedies are in addition to those provided under Insurance Law Section 129173. The Office reserves its rights to exercise all its remedies under Insurance Law Section 129173, including, but not limited to, subsection (b) wherein the Office may remove and appoint members of the governing body of the Corporation sufficient such that the new members constitute a voting majority of the governing body.

C. *Payment from the Health Facility Construction Loan Insurance Fund.* (1) In any case in which an Event of Default under the Indenture shall have occurred and the Trustee shall have given notice to the Office at least 30 days prior to an interest payment date, or principal payment date with respect to a particular series of Bonds that:

a. available moneys in the related subaccounts of the Principal and Interest Accounts held by the Trustee pursuant to the Indenture will be insufficient to pay in full the next succeeding payment of interest and/or principal when due to the Owners of such series of Bonds under the Indenture, and

b. the amount by which the obligation to make such payment exceeds the amount available (the “*Shortfall*”),

the Office shall cause an amount equal to the Shortfall to be deposited into the related subaccounts of the Principal Account and/or Interest Account at least three (3) Business Days prior to the date on which said payment is due, as provided in the following Subsections 2 and 3.

2. Said deposit shall be made by the Office directing the Trustee to transfer an amount equal to the Shortfall out of the related subaccount of the Debt Service Reserve Account into the related subaccounts of the Principal Account and/or Interest Account. (However, if there are funds in the related subaccount of the Debt Service Reserve Account at the time the Office receives such notice of the Shortfall from the Trustee, nothing contained in this Subsection C.2 shall prevent the Office from then determining pursuant to Insurance Law Section 129145 that the lender and borrower have exhausted all reasonable means of curing the Event of Default and that it would be in the best interest of the State, the borrower and the lender to pay a portion or all of the Shortfall from the Health Facility Construction Loan Insurance Fund instead of the related subaccount of the Debt Service Reserve Account, and from paying such amount from the Health Facility Construction Loan Insurance Fund.)

3. If the Office, pursuant to Insurance Law Section 129145, determines, in the event the funds in the related subaccount of the Debt Service Reserve Account are insufficient to meet the Shortfall as provided in the preceding Subsection C.2, that

a. the lender and borrower will have exhausted all reasonable means of curing the Event of Default, and

b. a payment or payments from the Health Facility Construction Loan Insurance Fund to cure the Event of Default is now and will be at the time of the Event of Default in the best interest of the State, the borrower and the lender,

the Office may pay such amount required to meet the Shortfall from the Health Facility Construction Loan Insurance Fund to the related subaccounts of the Principal Account and/or Interest Account for the benefit of the lender within the time as provided in Subsection C.1.

4. Any payment made by the Office from the Health Facility Construction Loan Insurance Fund (Fund) shall be secured pursuant to Insurance Law Section 129145 by a pro rata share of the security held by the Trustee through the Deed of Trust and all applicable UCC-1s, and, upon such payment, the Corporation shall become liable for repayment of the amount thereof to the Office upon demand and shall be liable for interest on the unpaid balance thereof at the rate of ten percent (10%) per annum.

5. If the principal of all Bonds at the time Outstanding, and the interest accrued thereon have been declared immediately due and payable pursuant to the terms of the Indenture, the Office shall make payment from the Fund, or, if the fund is insufficient to make such payment, or if the Office determines it to be in the best interest of the State, the Corporation and the Authority, the Office shall request issuance of debentures as provided in subsection D of this Section.

D. Issuance of Debentures.

1. In any case in which

a. the Trustee shall have directed the foreclosure and taking possession of the Facilities under the Deed of Trust and under applicable statutes,

b. the Trustee, with the consent of the Office, shall have otherwise acquired the Facilities from the Corporation after default,

c. the Trustee, with the consent of the Office, shall have assigned to the Office the security interest created by the Deed of Trust,

d. the Trustee shall have tendered to the Office a satisfactory conveyance of title and transfer of possession of the Facilities directly from the Corporation, or other appropriate grantor, or

e. it has been determined that debentures should be issued pursuant to subsection C above,

the Trustee shall be entitled to receive the benefit of the insurance as provided in Insurance Law Sections 129125 through 129160, upon

a. the prompt conveyance to the Office of title to the Facilities or, with the consent of the Office, the security interest created by the Deed of Trust,

b. the assignment to the Office of all claims of the Trustee against the Corporation or others arising out of the sale of the Bonds, the loan transaction or the foreclosure proceedings, except such claims as may have been released with the consent of the Office, and

c. surrender to the Office of each Bond which has been surrendered to the Trustee, which Bond shall be returned to the Trustee upon issuance of debentures and canceled by the Trustee.

2. Upon such conveyance, assignment and surrender, the Office shall request the State Treasurer to issue to the Trustee for the benefit of the Owners so surrendered, a debenture or debentures having a total face value of and bearing interest at the rate on the respective surrendered Bonds which they replace and additional debentures equal to all additional amounts due under the Indenture as provided by Insurance Law Sections 129125 through 129160.

E. *Additional Remedies Available to the Office.* Notwithstanding any other provision in this Regulatory Agreement or provision of law relating to the acquisition, management or disposal of real property by the State, the Office shall have the power to do any or all of the following:

1. Possess, operate, complete, lease, rent, renovate, modernize, insure, or sell for cash or credit, in its sole discretion, any properties conveyed to it in exchange for debentures as provided in the Insurance Law;

2. Pursue to final collection by way of compromise or otherwise all claims against the Corporation assigned by the Trustee to the Office; or

3. Convey and execute in the name of the Office deeds of conveyance, deeds of release, assignments and satisfactions of the Deed of Trust, and any other written instrument relating to real or personal property or any interest therein acquired by the Office.

F. *Remedies Not Exclusive; No Waiver of Rights.* No remedy herein conferred upon or reserved to the Office is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other remedy given under this Regulatory Agreement, Loan Agreement and the

Deed of Trust, or now or hereafter existing at law or in equity or otherwise. In order to entitle the Office to exercise any remedy, to the extent permitted by law, reserved to it contained in this Regulatory Agreement, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

No delay in exercising or omitting to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein. Furthermore, the waiver of any provision by the Office shall not be construed as a waiver of any subsequent default. Every such right and power may be exercised from time to time and as often as may be deemed expedient.

In the event a receiver is appointed for the Corporation at the request of the Office, such receiver, if so requested by the Office, shall serve without bond.

SECTION XXII. NO DISCRIMINATION.

The Corporation shall comply fully with the provisions of any applicable federal, state or local laws prohibiting discrimination in employment or housing on the basis of race, color, religion, sex, sexual orientation, marital status, national origin, ancestry, familial status, source of income, disability or membership in a protected class. Upon failure or refusal to comply with such provision, the Office may take such corrective action as it may deem necessary to effect compliance, including, but not limited to, any remedy at law or in equity.

SECTION XXIII. FINANCIAL STATEMENTS.

A. The Corporation shall furnish or cause to be furnished to the Required Information Recipients until the end of the fiscal quarter in which the Corporation achieves Stable Occupancy with respect to the Independent Living Units included in the Project, a monthly statement of the Corporation as soon as practicable after the information is available but in no event more than 45 days after the completion of such month, including;

a. prior to the issuance of the initial Occupancy Certificate for any portion of the Project, (I) a calculation of the marketing/reservation levels for the Project as of the end of such month, including the number of units that have been Reserved or cancelled during that month and on an aggregate basis; (II) a summary statement as to the status of construction; (III) unaudited financial reports on the development costs of the Project incurred during that month and on an aggregate basis; and (IV) statements of the balances for each fund and account required to be held under the Indenture as of the end of such month (to the extent available from the applicable trustee), all in reasonable detail, certified by an officer of the Corporation, and

b. after the issuance of the initial Occupancy Certificate for any portion of the Project, (I) a calculation of the marketing/reservation levels for the Project as of the end of such month, including the number of units that have been Reserved or cancelled during that month and on an aggregate basis; (II) occupancy levels of the Project as of the end of such month including the number of units that were Occupied and vacated during

that month and on an aggregate basis; (III) a summary statement on the status of construction until the issuance of the last Occupancy Certificate for the Project; (IV) [unaudited financial reports on the development costs incurred during that month and on an aggregate basis until the issuance of the last Occupancy Certificate for the Project;] (V) an unaudited statement of revenues and expenses and statement of cash flows of the Corporation for such month with a comparison to the operating budget and an unaudited balance sheet of the Corporation as of the end of such month; [(VI) a calculation of the Cumulative Cash Operating Loss as of the end of such month,] (VII) statements of the balances in each fund and account required to be held under the Indenture as of the end of such month (obtained from the applicable trustee), and (VIII) a statement showing the amount of the Bonds that have been redeemed in the aggregate and during that calendar month, all in reasonable detail and certified by an officer of the Corporation.

The Corporation is not required to deliver any monthly statement described in this subsection (a) after the end of the fiscal quarter in which Stable Occupancy with respect to the Independent Living Units included in the Project has been achieved and the Corporation has commenced delivery of the quarterly reports required by subparagraph (b) below.

B. Beginning with the first full fiscal quarter following the date that Stable Occupancy with respect to the Independent Living Units included in the Project is achieved, the following information as soon as practicable after it is available but in no event more than 45 days after the completion of such fiscal quarter: (A) quarterly unaudited financial statements of the Corporation (including a report with respect to the fourth quarter of each fiscal year), including a statement of revenues and expenses and statement of cash flows during such period and a balance sheet as of the end of each such fiscal quarter with a comparison to the operating budget, (B) a calculation of Days Cash on Hand as of the last day of such quarter, the Debt Service Coverage Ratio (calculated as required by Section XXV) for such quarter and the Current Ratio for such quarter, and (C) a calculation of the occupancy levels of the Project as of the end of each such month including the number of units that were Occupied and vacated during that month and on an aggregate basis; all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Corporation, with a management's discussion and analysis of results.

C. The Corporation shall deliver to the Office within thirty (30) days of the receipt by the Corporation of its audited financial statements, and in any event within one hundred twenty (120) days of the end of each Fiscal Year, two copies of its audited financial statements as of the end of such year, including a balance sheet, a statement of revenues and expenses and statement of changes in fund balances, a statement of changes in financial position and other financial reports and schedules as may have been delivered to the Corporation in connection with such financial statements), together with (1) the report and opinion of an Accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles (with such exceptions as are not objected to by the Office) and that such Accountants' examination was performed in accordance with generally accepted accounting standards, and (2) [a separate written statement of the Accountants auditing such report containing calculations of the Debt Service Coverage Ratio for said Fiscal Year, Days Cash on Hand as of the last day of such Fiscal Year and Current Ratio as of the last day of such Fiscal Year and if such accountants

shall have obtained knowledge of any default or defaults in any of the financial covenants included in this Agreement or the financial reporting requirements of this Section XXIV, they shall disclose the default or defaults and the nature thereof in a statement to the Trustee which statement shall comply with the reporting standards promulgated by the American Institute of Certified Public Accountants.]

D. On or before the date of delivery of the financial reports referred to in subsection (c) above, an Officer's Certificate of the Corporation (A) stating that the Corporation is in compliance with all of the terms, provisions and conditions of this Agreement and that no event which constitutes a Loan Default Event (as that term is defined in the Indenture) or which with the giving of notice or the passage of time or both would constitute a Loan Default Event has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Corporation to cure such default, (B) calculating and certifying the marketing and occupancy percentages, Cumulative Cash Operating Loss, Days Cash on Hand, Debt Service Coverage Ratio and Current Ratio, if required to be calculated for such Fiscal Year by this Agreement, as of the end of such fiscal period or Fiscal Year, as appropriate, and (C) a comparison of the audited financial statements with the operating budget for the preceding Fiscal Year.

E. The Corporation also shall deliver to the Office within thirty (30) days of receipt by the Corporation, one copy of any management letter submitted to the Corporation by auditing Accountant in connection with each annual or interim audit of accounts of the Corporation made by such Accountant. The Corporation shall also provide the Office with copies of all action letters prepared in response to any auditors' management letters.

F. The Corporation shall prepare a preliminary budget not later than twenty (20) days prior to the close of its Fiscal Year in which the Corporation shall set forth its estimated revenues and expenses anticipated for the ensuing Fiscal Year. The budget shall be approved by the governing bodies of the Corporation not later than five (5) days before the close of the Fiscal Year. Within thirty (30) days after the approval of its budget by the governing boards of the Corporation, the Corporation shall deliver a copy of its approved budget to the Office.

G. At any time during the Fiscal Year, copies of (A) any board-approved revisions to the annual budget, or (B) any correspondence to or from the Internal Revenue Service questioning or contesting the status of the Corporation as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the Bonds, promptly upon receipt.

H. Within 30 days of receipt of any Occupancy Certificate for any portion of the Project, the Corporation will notify the Trustee and the Office that such Occupancy Certificate has been received and include a copy of the Occupancy Certificate with such notice.

I. Within 45 days of achieving Stable Occupancy with respect to the Independent Living Units included in the Project, the Corporation will notify the Trustee and the Office that Stable Occupancy has been achieved.

J. The Corporation shall provide to the Office a final project audit and recorded notice of completion within six (6) months of the completion of the Project, which audit shall be completed by an Accountant at the expense of the Corporation.

K. If the Corporation fails to provide audited financial statements to the Office as provided in this Section, the Office may at the Corporation's expense cause an audit to be performed and audited financial statements to be prepared.

SECTION XXIV. CAPITAL REPLACEMENT.

A. The Corporation shall certify to the Office, on an annual basis, that the Corporation's Board of Directors has discussed current and projected funding requirements which would be necessary to appropriately maintain the Corporation's physical plant and equipment. Such a certification shall be signed by the Treasurer of the Board of the Corporation and by the Chief Executive Officer of the Corporation and shall include:

1. the minutes of the meeting at which the discussion took place;
2. a capital replacement budget covering the ensuing five year period; and
3. a brief description of the source of funding for such a budget.

B. From time to time (but not less frequently than once every five years), the Corporation shall perform or cause to be performed a formal inspection of its physical plant resulting in a written report by a qualified professional recommending maintenance and repairs necessary to appropriately maintain the physical plant and equipment. Such report must include a discussion as to the implementation of recommendations made in the prior report. Such report shall be provided to the Corporation's Board of Directors and forwarded to the Office along with the certified report required in paragraph A above.

SECTION XXV. DEBT COVERAGE RATIO REPORTING.

Within forty-five (45) days after each September 30, December 31, March 31 and June 30 (each three-month period ending on each such date being referred to herein as a "*Fiscal Quarter*") commencing with the Fiscal Quarter ending [June 30, 2016], the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Quarter and for the twelve-month period ending on the last day of such Fiscal Quarter ("*Running Twelve-Month Period*") and promptly furnish to the Office a Statement setting forth the results of such computation. If at the end of such Fiscal Quarter the Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for such Running Twelve-Month Period, the Corporation shall, upon the request of the Office, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Facilities or the methods of operation of the Facilities which will result in producing Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Quarter. Copies of the recommendations of the Management Consultant shall be provided to the Office. The Office also may retain attorneys and consultants

to assist in an evaluation of the operation and management of the Facilities and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any expenses incurred by the Office in that connection.

SECTION XXVI. ENVIRONMENTAL DISCLOSURE AND INSPECTION.

A. The Corporation shall exercise all due diligence in order to comply and cause all Persons on or occupying the Facilities to comply with all Environmental Laws.

B. The Office may, from time to time and in its reasonable discretion, retain, at the Corporation's expense, an independent professional consultant to review any report relating to Hazardous Material prepared by or for the Corporation and to conduct its own investigation of the Facilities. The Corporation hereby grants to the Office, its agents, employees, consultants and contractors the right, upon reasonable notice and during reasonable hours, to enter into or onto the Facilities to perform such tests on such property as are reasonably necessary to conduct such a review and/or investigation.

C. The Corporation shall promptly advise the Office and the Trustee in writing and in reasonable detail of

1. any Release of any Hazardous Material required to be reported to any federal, state or local governmental or regulatory agency under any applicable Environmental Laws,

2. any and all written communications with respect to Environmental Claims or any Release of Hazardous Material required to be reported to any federal, state or local governmental or regulatory agency,

3. any remedial action taken by the Corporation or to the Corporation's knowledge, by any other person in response to

a. any Hazardous Material on, under or about any Facilities, the existence of which could result in an Environmental Claim having a material adverse effect upon the business, operations, properties, assets, or condition (financial or otherwise) of the Corporation, or

b. any Environmental Claim that could have a material adverse effect upon the business, operations, properties, assets, or condition (financial or otherwise) of the Corporation,

4. The Corporation's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Facilities that could cause the Facilities or any part thereof to be classified as "border-zone property" or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use thereof under any Environmental Laws, and

5. any request for information from any governmental agency that indicates such agency is investigating whether the Corporation may be potentially responsible for a Release of Hazardous Materials.

D. The Corporation shall promptly notify the Office and Trustee of any proposed acquisition of stock, assets, or property by the Corporation, that could reasonably be expected to expose the Corporation to, or result in, Environmental Claims that could have a material adverse effect upon the business, operations, properties, assets, or condition (financial or otherwise) of the Corporation, and any proposed action to be taken by the Corporation to commence manufacturing, industrial or other operations not in the ordinary course of business as conducted prior to the date of recording of this Regulatory Agreement that could reasonably be expected to subject the Corporation to additional laws, rules or regulations, including, without limitation, laws, rules and regulations requiring additional environmental permits or licenses.

E. The Corporation shall execute, on the effective date of this Regulatory Agreement and from time to time as requested by the Office, the Authority or the Trustee, Environmental Indemnities in the form attached hereto as Exhibit C.

SECTION XXVII. NOTICE OF DEFAULT.

The Corporation shall immediately give notice to the Office and the Trustee of any Loan Default Event, as defined in the Loan Agreement, or Event of Default, as defined in the Indenture or any notice of default given by the holder of any other indebtedness of the Corporation.

SECTION XXVIII. CANCELLATION OF INSURANCE.

No default by the Corporation under this Regulatory Agreement or failure by the Trustee to enforce compliance by the Corporation herewith shall result in cancellation of the insurance of the Bonds under the Insurance Law, except as provided in Insurance Law Sections 129175 to 129185 or the Contract of Insurance.

SECTION XXIX. OFFICE CONSENT DISCRETIONARY.

The Corporation agrees that if provisions of this Regulatory Agreement, the Contract of Insurance, the Loan Agreement or the Indenture require the consent of the Office as a condition to certain actions by the Corporation, the Office shall conduct an independent evaluation of such actions as a basis for granting such consent and such consent need not be given despite compliance of the Corporation with the other stated conditions to such actions, including compliance with projected or historical financial condition tests.

SECTION XXX. CONTRARY AGREEMENTS SUPERSEDED.

The Corporation warrants that it has not executed, and will not execute any other agreement with provisions contradictory of, or in opposition to, the provisions hereof, and that,

in any event, the requirements of this Regulatory Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict therewith except as may be set forth in the Contract of Insurance.

SECTION XXXI. SPECIFIC PERFORMANCE.

The Office or the State (or, as to Sections VII through XIX of this Regulatory Agreement, the Authority) may apply to any court for the specific performance of this Regulatory Agreement or the Contract of Insurance or for an injunction against any violation of this Regulatory Agreement or the Contract of Insurance or for such other relief as may be appropriate since the injury to the Office, the State or the Authority, arising from a default under any of the terms of this Regulatory Agreement or the Contract of Insurance would be irreparable and the amount of damage would be difficult to ascertain.

SECTION XXXII. WAIVER OF PERSONAL LIABILITY; LIMITED OBLIGATION.

No employee, officer or agent of the Office or the Authority shall be individually or personally liable for any injury caused by their acts or omissions relating in any way whatsoever to the transaction resulting in this Regulatory Agreement and the Contract of Insurance. The Corporation hereby releases each and every employee, officer and agent of the Office and the Authority of and from any personal or individual liability for negligence under this Regulatory Agreement or the Contract of Insurance.

The employees and officers of the Office shall not be liable for any of their acts hereunder except as provided by California statutes concerning the liability of State employees and officers.

Any obligations of the Authority hereunder and under the Contract of Insurance shall be limited obligations, payable solely to extent amounts are received for the payment thereof from the Corporation under the Loan Agreement.

SECTION XXXIII. NOTICES.

All notices, requests or communications required or permitted to be given in this Regulatory Agreement or in the Contract of Insurance shall be in writing and mailed or delivered to the party whom notice is to be given either (i) by personal delivery (in which case such notice shall be deemed to have been duly given on the date of delivery if delivered before 4:00 p.m., and if after 4:00 p.m., it shall be deemed to have been duly given on the next business day after delivery of the notice), (ii) by Federal Express or other similar air courier service (in which case notice shall be deemed to have been duly given on the next business day after delivery of the notice to the air courier service), or (iii) by United States mail, first class, postage prepaid, registered or certified (in which case such notice shall be deemed to have been duly given on the third (3rd) business day following the date of mailing), and properly addressed as follows:

If to the Office:

Office of Statewide Health Planning and Development
400 R Street, Suite 470
Sacramento, California 95811
Attention: Deputy Director
Cal-Mortgage Loan Insurance Division
cminsure@oshpd.ca.gov

If to the Authority:

Los Angeles County Regional Financing Authority
c/o County of Los Angeles
500 West Temple Street, Room 437
Los Angeles, California 90012
Attention: Treasurer and Tax Collector

If to the Corporation:

MonteCedro Inc.
1111 South Arroyo Parkway, Suite 230
Pasadena, California 91105
Attention: Chief Executive Officer

If to the Guarantor:

Sophie Miller Foundation
1111 South Arroyo Parkway, Suite 230
Pasadena, California 91105
Attention: Chief Executive Officer

If to the Trustee:

U.S. Bank National Association

Attention: Corporate Trust Department

A duplicate copy of each notice or communication given hereunder by either the Authority or the Corporation to the other shall also be given to the Trustee. The Authority, the Corporation, the Office and the Trustee may, by notice given hereunder, designate any further or different address to which subsequent notices, Statements and other communications shall be sent.

SECTION XXXIV. SUCCESSORS BOUND.

This Regulatory Agreement shall bind, and the benefits shall inure to, the respective parties hereto, their legal representatives, successors in office or interest, and assigns (other than the Trustee) as owners or operators of the Facilities, so long as the Contract of Insurance continues in effect, and if the Trustee receives the benefit of the Insurance, so long as the Office holds a security interest under the Deed of Trust.

SECTION XXXV. SEVERABILITY OF INVALID PROVISIONS.

The invalidity of any clause, part, or provision of this Regulatory Agreement shall not affect the validity of the remaining portions hereof so long as the insurance remains in effect.

SECTION XXXVI. AGREEMENT REPRESENTS COMPLETE AGREEMENT; AMENDMENTS.

Except as otherwise provided herein, this Regulatory Agreement represents the entire contract among the parties as to the matter herein. This Regulatory Agreement may be amended, changed, modified or terminated by the written agreement of the Office and the Corporation; provided, however, no amendment to Sections VII and XIII through XIX of this Regulatory Agreement may become effective without the prior written consent of the Authority.

SECTION XXXVII. HEADINGS AND REFERENCES.

The headings or titles of the Sections hereof, and any table of contents hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or affect of this Regulatory Agreement. All references herein to "Sections," "Subsections" and other subdivisions are to the corresponding Sections, Subsections or subdivisions of this Regulatory Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Regulatory Agreement as a whole and not to any particular Section, Subsection or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION XXXVIII. GOVERNING LAW; VENUE.

The laws of the State shall govern this Regulatory Agreement, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Regulatory Agreement shall be brought, commenced or prosecuted in [a court of competent jurisdiction in the State].

SECTION XXXIX. ATTORNEYS' FEES.

In the event of any action at law or in equity between the parties hereto to interpret or enforce any of the provisions of this Regulatory Agreement, the nonprevailing party or parties to such litigation shall pay to the prevailing party or parties all costs and expenses, including actual attorneys' fees, incurred therein by such prevailing party or parties; and if such prevailing party

or parties shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees may be included in and as part of such judgment. The prevailing party shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment. A party not entitled to recover its costs of suit shall not recover attorneys' fees.

SECTION XL. EXECUTION IN COUNTERPARTS.

This Regulatory Agreement may be executed in any number of counterparts, each of which shall be deemed for all purposes to be an original and all of which together shall constitute but one and the same instrument.

MONTECEDRO INC.

By: _____
[title]

OFFICE OF STATEWIDE HEALTH PLANNING AND
DEVELOPMENT

By: Robert P. David, Director

By: _____
Carl A. McLaney, MPA
Deputy Director

LOS ANGELES COUNTY REGIONAL FINANCING
AUTHORITY

By: _____
Chairman

[NOTARY ACKNOWLEDGMENTS TO BE ATTACHED]

EXHIBIT A

REAL PROPERTY DESCRIPTION

The land referred to herein is situated in Los Angeles County, State of California, and is described as follows:

[to come]

EXHIBIT B

PERSONAL PROPERTY DESCRIPTION

All equipment used by the Corporation in connection with the operation of the Facilities, whether moveable or not or hereafter affixed to the real property described in Exhibit A, now owned or hereafter acquired by the Corporation, together with all improvements, restorations, replacements, repairs, additions, accessions or substitutions thereto or therefor, including, without limitation, all machinery, equipment, material, furnishings and appliances for generation or distribution of air, water, heat, electricity, light, fuel or refrigeration, for purposes of ventilation, sanitation or drainage, for exclusion of vermin or insects, for removal or disposal of dust, refuse or garbage; all elevators, awnings, window coverings, floor covering, laundry equipment, kitchen equipment, cabinets, furniture and furnishings; all fixed and moveable equipment now or hereafter installed or placed on said premises for use in health care, treatment, diagnosis and services or for other health care uses; the products and proceeds from any and all such property; all the estate, interest, right, title, property or other claim or demand of every nature whatsoever, in and to such property, including specifically, but without limitation, all deposits made with or other security given to utility companies by the Corporation with respect to such property and claims or demands relating to insurance or condemnation awards which the Corporation now have or may hereafter acquire.

EXHIBIT C

ENVIRONMENTAL INDEMNITY

THIS ENVIRONMENTAL INDEMNITY (“*Indemnity*”) is entered into as of June 1, 2014 by MonteCedro Inc., a California nonprofit public benefit corporation (the “*Indemnitor*”), for the benefit of the Office of Statewide Health Planning and Development of the State of California (“*Office*”), the Los Angeles County Regional Financing Authority (“*Authority*”), U.S. Bank National Association, as trustee (the “*Trustee*”), and their respective successors and assigns, and the respective directors, officers, agents, attorneys, and employees of each of the foregoing (each of which shall be referred to hereinafter individually as an “*Indemnatee*” and collectively as the “*Indemnitees*”).

RECITALS

A. The Office, the Indemnitor and the Authority have entered into a Contract of Insurance of even date herewith (“*Contract of Insurance*”) and a Regulatory Agreement of even date herewith (“*Regulatory Agreement*”). The obligations of the Indemnitor arising out of the Contract of Insurance and the Regulatory Agreement are to be secured by, among other things, that certain Deed of Trust, dated even date herewith executed by the Indemnitor as trustor, to **[title company]**, as trustee, in favor of the Office and the Trustee, as beneficiaries (“*Deed of Trust*”), which Deed of Trust encumbers the real property described on Exhibit A attached to the Regulatory Agreement (“*Premises*”), a copy of which is attached hereto, and the improvements constructed or to be constructed thereon (which improvements, together with the Premises, shall hereinafter be referred to as “*Project*”).

B. As a result of the exercise of the Office’s rights and remedies under the Regulatory Agreement, an Indemnatee may hereafter become the owner of the Project pursuant to a foreclosure sale or deed in lieu thereof. In such event, one or more of the Indemnitees may thereafter incur or suffer certain liabilities, costs, and expenses in connection with the Project relating to Hazardous Materials (as defined in the Regulatory Agreement). The Office has therefore made it a condition of the Office’s entering into the Contract of Insurance that this Indemnity be executed and delivered by the Indemnitor in order to protect the Indemnitees from any such liabilities, costs, and expenses and all other Post-Foreclosure Transfer Environmental Losses (as hereinafter defined).

AGREEMENT

In consideration of the foregoing and of the Office executing and delivering the Contract of Insurance, and other valuable consideration, the receipt of which is hereby acknowledged, the Indemnitor agrees as follows.

SECTION 1. Unless the context clearly otherwise requires, all capitalized terms not defined below and used in this Indemnity shall have the meanings assigned to such terms in the Regulatory Agreement:

a. “*Foreclosure Transfer*” means the transfer of title to all or any part of the Premises or the Project at a foreclosure sale under the Deed of Trust, either pursuant to judicial decree or the power of sale contained in the Deed of Trust, or by deed in lieu of such foreclosure.

b. “*Losses*” means any and all losses, liabilities, damages, demands, claims, actions, judgments, causes of action, assessments, penalties, costs and expenses (including, without limitation, the reasonable fees and disbursements of outside legal counsel and accountants and the reasonable charges of in-house legal counsel and accountants), and all foreseeable and unforeseeable consequential damages.

c. “*Post-Foreclosure Transfer Environmental Losses*” means Losses suffered or incurred, following a Foreclosure Transfer, by any Indemnitee, arising out of or as a result of:

(1) the occurrence, prior to a Foreclosure Transfer, of any Hazardous Material Activity;

(2) any violation, prior to such Foreclosure Transfer, of any applicable Environmental Laws relating to the Premises or the Project or to the ownership, use, occupancy or operation thereof;

(3) any investigation, inquiry, order, hearing, action, or other proceeding by or before any governmental agency in connection with any Hazardous Material Activity occurring or allegedly occurring prior to a Foreclosure Transfer; or

(4) any claim, demand or cause of action, or any action or other proceeding, whether meritorious or not, brought or asserted against any Indemnitee which directly or indirectly relates to, arises from or is based on any of the matters described in Subsections (1), (2), or (3), or any allegation of any such matters.

SECTION 2. The Indemnitor shall indemnify, defend, and hold harmless Indemnitees, and each of them, from and against any and all Post-Foreclosure Transfer Environmental Losses.

SECTION 3. The Indemnitor shall not have any liability hereunder prior to a Foreclosure Transfer, and no claim may be made hereunder by any Indemnitee prior thereto. This Indemnity is given solely to protect the Office and the other Indemnitees against Post-Foreclosure Transfer Environmental Losses, and not as additional security for, or as a means of repayment of, the Indemnitor's obligations under the Regulatory Agreement. The obligations of the Indemnitor under this Indemnity are independent of, and shall not be measured or affected by:

- a. any amounts at any time paid with respect to the Contract of Insurance or owing with respect to the Contract of Insurance, the Regulatory Agreement and/or the Deed of Trust, or secured by the Deed of Trust,
- b. the sufficiency or insufficiency of any collateral (including, without limitation, the Project) given to the Office to secure repayment of any amounts owing with respect to the Contract of Insurance, the Regulatory Agreement and/or the Deed of Trust,
- c. the consideration given by the Office or any other party in order to acquire the Premises or the Project, or any portion thereof,
- d. the modification, expiration or termination of the Contract of Insurance, the Regulatory Agreement or any other document or instrument relating thereto, or
- e. the discharge or repayment in full of amounts owing with respect to the Contract of Insurance, the Regulatory Agreement and/or the Deed of Trust (including, without limitation, by amounts paid or credit bid at a foreclosure sale or by discharge in connection with a deed in lieu of foreclosure).

Notwithstanding the provisions of any document or instrument, none of the obligations of the Indemnitor hereunder shall be in any way secured by the lien of the Deed of Trust or any other document or instrument securing the obligations under the Regulatory Agreement.

SECTION 4. The Indemnitor's obligations hereunder shall survive the sale or other transfer of the Premises or the Project prior to a Foreclosure Transfer. The rights of each Indemnitee under this Indemnity shall be in addition to any other rights and remedies of such Indemnitee against the Indemnitor under any other document or instrument now or hereafter executed by the Indemnitor, or at law or in equity (including, without limitation, any right of reimbursement or contribution pursuant to CERCLA, as defined in the Regulatory Agreement), and shall not in any way be deemed a waiver of any of such rights.

SECTION 5. All obligations of the Indemnitor hereunder shall be payable upon written demand to the Indemnitor by any Indemnitee. Such written demand shall be accompanied by a statement explaining the Post-Foreclosure Transfer Losses claimed and shall set forth the amounts demanded therefor. Any amount due and payable hereunder to any Indemnitee by the Indemnitor which is not paid within thirty (30) days after the receipt by the Indemnitor of such written demand from an Indemnitee shall bear interest from the date of such demand at ten

percent; *provided, however*, an Indemnitee shall not be entitled to any such interest if the Indemnitor:

- a. contests said obligations, and
- b. prevail in said contest action.

SECTION 6. The Indemnitor shall pay to each Indemnitee all costs and expenses (including, without limitation, the reasonable fees and disbursements of any Indemnitee's outside legal counsel and the reasonable charges of any Indemnitee's in-house legal counsel) incurred by such Indemnitee in connection with this Indemnity or the enforcement hereof.

SECTION 7. This Indemnity shall be binding upon the Indemnitor, its heirs, representatives, administrators, executors, successors and assigns and shall inure to the benefit of and shall be enforceable by each Indemnitee, its successors, endorsees and assigns. As used herein, the singular shall include the plural and the masculine shall include the feminine and neuter and vice versa, if the context so requires. If this Indemnity is executed by more than one person or entity, the liability of the undersigned hereunder shall be joint and several.

SECTION 8. This Indemnity shall be governed and construed in accordance with the laws of the State of California. Any action or proceeding to enforce or interpret any provision of this Indemnity shall be brought, commenced or prosecuted in Sacramento County, California.

SECTION 9. Every provision of this Indemnity is intended to be severable. If any provision of this Indemnity or the application of any provision hereof to any party or circumstance is declared to be illegal, invalid or unenforceable for any reason whatsoever by a court of competent jurisdiction, such invalidity shall not affect the balance of the terms and provisions hereof or the application of the provision in question to any other party or circumstance, all of which shall continue in full force and effect.

SECTION 10. No failure or delay on the part of any Indemnitee to exercise any power, right or privilege under this Indemnity shall impair any such power, right or privilege, or be construed to be a waiver of any default or an acquiescence therein, nor shall any single or partial exercise of such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. No provision of this Indemnity may be changed, waived, discharged or terminated except by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

IN WITNESS WHEREOF, this indemnity is executed as of the day and year first written above.

MONTECEDRO INC.

By: _____
[title]

EXHIBIT A TO EXHIBIT C

DESCRIPTION OF THE PREMISES

The land referred to herein is situated in Los Angeles County, State of California, and is described as follows:

[to come]

EXHIBIT D

EXISTING LIENS AND ENCUMBRANCES

All liens and encumbrances shown as exceptions to the title insurance policy delivered in connection with the issuance of the Bonds.

EXHIBIT E

COLLATERAL PLEDGED

All right, title and interest that the Corporation, now has or may hereafter acquire in:

(i) All buildings, structures, improvements, fixtures, equipment and appurtenances now and hereafter owned, constructed, located, erected, installed or affixed by or on behalf of the Corporation upon or appurtenant to the Land as described in Exhibit A of this Regulatory Agreement and all replacements and substitutions therefor (“*Facilities*”);

(ii) All appurtenances, improvements, easements, pipes, transmission lines or wires and other rights used in connection with said Land or as a means of access thereto, whether now or hereafter owned or constructed or placed upon or in the Land or Facilities (“*Appurtenances*”);

(iii) All equipment used by the Corporation in connection with the operation of the Facilities, whether moveable or not or hereafter affixed to the Land, now owned or hereafter acquired by the Corporation, together with all improvements, restorations, replacements, repairs, additions, accessions or substitutions thereto or therefor, including, without limitation, all machinery, equipment, material, furnishings and appliances for generation or distribution of air, water, heat, electricity, light, fuel or refrigeration, for purposes of ventilation, sanitation or drainage, for exclusion of vermin or insects, for removal or disposal of dust, refuse or garbage; all elevators, awnings, window coverings, floor covering, laundry equipment, kitchen equipment, cabinets, furniture and furnishings; all fixed and moveable equipment now or hereafter installed or placed on said premises for use in health care, treatment, diagnosis and services or for other health care uses; the products and proceeds from any and all such property; all the estate, interest, right, title, property or other claim or demand of every nature whatsoever, in and to such property, including specifically, but without limitation, all deposits made with or other security given to utility companies by the Corporation with respect to such property and claims or demands relating to insurance or condemnation awards which the Corporation now have or may hereafter acquire (“*Equipment*”);

(iv) All leases or subleases with respect to the Land, Facilities, Appurtenances and Equipment (“*Leases*”);

(v) All rentals or other payments which may now or hereafter accrue or otherwise become payable under the Leases to or for the benefit of the Corporation together with all other income, rents, revenues, issues, profits, reserves, and royalties produced by the Land, Facilities, Appurtenances and Equipment or by all management or service contracts or other contracts affecting the Property, including but not limited to security deposits (collectively the “*Rents*”);

(vi) All earnings, products, damages, indemnifications, insurance proceeds and any other proceeds from any and all of such Land, Facilities, Appurtenances, Equipment, Leases, Rents and Accounts including specifically, but without limitation, all deposits made with or other security given to utility companies and claims or demands relating to insurance or condemnation awards which the Corporation now has or may hereafter acquire, including all advance payments of insurance premiums made by the Corporation with respect thereto (“*Proceeds*”);

(vii) All accounts, accounts receivable and other rights to payment of money now owned or hereafter acquired by the Corporation, whether due or to become due and whether or not earned by performance (“*Accounts*”), including without limitation the following:

(a) A right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services rendered or to be rendered, (iii) for a secondary obligation incurred or to be incurred, (iv) arising out of the use of a credit or charge card or information contained on or for use with the card;

(b) Any and all Accounts arising from any source, including without limitation operations of the Corporation or its agents at the Facilities, and at any other health facility or office; and

(c) Any and all Accounts accruing from in-patient, out-patient, day treatment, and any other programs run by and operations of the Corporation or its agents.

For purposes hereof, “*Accounts*” covered hereby shall include without limitation accounts, chattel paper, deposit accounts and instruments as defined by the California Commercial Code, health care insurance receivables and any amounts receivable from third party payors (including insurance companies, Medicare and Medicaid, including without limitation any Medicare and/or Medi-Cal losses paid on recapture, unless otherwise prohibited by law), but excluding donor restricted gifts, in connection with the foregoing;

(viii) All right, title and interest of the Corporation in all the Corporation’s inventory, raw materials, work in process, finished goods and goods held for sale or lease or furnished under contracts of service, and all returned and repossessed goods, and all goods covered by documents of title, including warehouse receipts, bills of lading and all other documents of every type covering all or any part of the Property, now owned or hereafter acquired, whether held by the Corporation or any third party, which is located on, appurtenant to, relating to, or used by or useful in connection with the Property (“*Inventory*”);

(ix) “*Gross Revenues*” of the Corporation, which means all revenues, income, receipts and money received in any period by the Corporation, including, but without limiting the generality of the foregoing, the following:

a. gross revenues derived from its operation and possession of and pertaining to its properties,

b. proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of this Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of this Regulatory Agreement to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt), (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and

c. rentals received from the lease of the Corporation’s properties or space in its facilities;

provided, however, that there shall be excluded from Gross Revenues (i) any amounts received by the Corporation as a billing agent for another entity, except for fees received for serving as billing agent, (ii) gifts, grants, bequests, donations and contributions to the Corporation heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (iii) any moneys received by the Corporation from prospective residents or commercial tenants in order to pay for customized improvements to those independent living units or other areas of the Corporation’s facilities to be occupied or leased to such residents or tenants, (iv) payments or deposits under a residency agreement that by its terms or applicable law are required to be held in escrow or trust for the benefit of a resident until the conditions for the release of such payment or deposit have been satisfied, and (v) all deposits and/or advance payments made in connection with any residency of the independent living units or other areas of the Corporation’s facilities to be occupied by residents or tenants and received prior to receipt of such certificate and licenses for occupancy of such units.

(x) All personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software. (General intangibles)

(xi) A negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary endorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. (Instrument)

(xii) Any record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, “monetary obligation” means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper. (Chattel Paper)

AFTER RECORDATION PLEASE RETURN TO:

Chapman and Cutler LLP
111 West Monroe
Chicago, Illinois 60603
Attention: John F. Bibby, Jr.

DEED OF TRUST
WITH
FIXTURE FILING,
SECURITY AGREEMENT
AND ASSIGNMENT AGREEMENT

by

MONTECEDRO INC.

Dated as of June 1, 2014

LOAN NO. 1003

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DEED OF TRUST

THIS DEED OF TRUST WITH FIXTURE FILING, SECURITY AGREEMENT AND ASSIGNMENT AGREEMENT (“*Deed of Trust*”) is made as of June 1, 2014, by MonteCedro Inc., a California nonprofit public benefit corporation (the “*Trustor*”), to [Chicago Title Company] (“*Trustee*”) as trustee for the benefit of the Office of Statewide Health Planning and Development of the State of California (“*Office*”), and for the benefit of the Los Angeles County Regional Financing Authority (“*Authority*”) (collectively, the “*Beneficiary*”):

THIS DEED OF TRUST WITNESSETH:

SECTION 1. GRANT IN TRUST.

The Trustor irrevocably grants, transfers and absolutely, unconditionally and irrevocably assigns to the Trustee, in trust, with power of sale and right of entry and possession, the entire right, title and interest of Trustor in and to that certain real property (“*Land*”) situated in Los Angeles County, State of California, and more particularly described in *Exhibit A* attached hereto and made a part hereof, all right title and interest that the Trustor otherwise now has or may hereafter acquire in the Land, together with all right, title and interest that the Trustor now has or may hereafter acquire in:

(i) All buildings, structures, improvements, fixtures, equipment and appurtenances now and hereafter owned, constructed, located, erected, installed or affixed by or on behalf of the Trustor upon or appurtenant to the Land and all replacements and substitutions therefor (“*Facilities*”);

(ii) All appurtenances, improvements, easements, pipes, transmission lines or wires and other rights used in connection with the Land or as a means of access thereto, whether now or hereafter owned or constructed or placed upon or used in connection with the Land or Facilities (“*Appurtenances*”);

(iii) All equipment, machinery, goods and other personal property of the Trustor, whether movable or not, if the same is (a) now owned or hereafter acquired by the Trustor, (b) now or hereafter located at or used in connection with the Facilities, (c) financed with the proceeds of the Bonds or Parity Debt (as those terms are defined in the Regulatory Agreement referenced below) or (d) obtained in order to satisfy its obligations under the Loan Agreement, the Regulatory Agreement or the Contract of Insurance, each as identified below, and all improvements, restorations, replacements, repairs, additions, accessions or substitutions thereto or therefor, including, without limitation, all machinery, equipment, material, furnishings and appliances for generation or distribution of air, water, heat, electricity, light, fuel or refrigeration, for purposes of ventilation, sanitation or drainage, for exclusion of vermin or insects, for removal or disposal of dust, refuse or garbage; all elevators, awnings, window coverings, floor covering, laundry equipment, kitchen equipment, cabinets, furniture and furnishings; all fixed and moveable equipment now or hereafter installed or placed upon or in the Land

or Facilities which are essential elements of the Facilities and are necessary for their operation and use; the products and proceeds from any and all such property; all the estate, interest, right, title, property or other claim or demand of every nature whatsoever, in and to such property, including specifically, but without limitation, all deposits made with or other security given to utility companies by the Trustor with respect to such property and claims or demands relating to insurance or condemnation awards which the Trustor now has or may hereafter acquire (“*Equipment*”);

(iv) All leases or subleases with respect to the Land, Facilities, Appurtenances and Equipment (“*Leases*”);

(v) All rentals or other payments which may now or hereafter accrue or otherwise become payable under the Leases to or for the benefit of the Trustor together with all other income, rents, revenues, issues, profits, reserves and royalties produced by the Land, Facilities, Appurtenances and Equipment or by all management or service contracts or other contracts affecting the Property, including but not limited to security deposits (collectively the “*Rents*”);

(vi) All earnings, products, damages, indemnifications, insurance proceeds and any other proceeds from any and all of such Land, Facilities, Appurtenances, Equipment, Leases, Rents and Accounts including specifically, but without limitation, all deposits made with or other security given to utility companies and claims or demands relating to insurance or condemnation awards which the Trustor now has or may hereafter acquire, including all advance payments of insurance premiums made by the Trustor with respect thereto (“*Proceeds*”);

(vii) All accounts, accounts receivable and other rights to payment of money now owned or hereafter acquired by the Trustor, whether due or to become due and whether or not earned by performance (“*Accounts*”), including without limitation the following:

(a) Any and all Accounts arising from any source, including without limitation operations of the Trustor or its agents at the Facilities, and at any other facility or office; and

(b) Any and all Accounts accruing from in-patient, out-patient, day treatment, and any other programs run by and operations of the Trustor or its agents.

For purposes hereof, “Accounts” covered hereby shall include without limitation accounts, chattel paper, deposit accounts and instruments as defined by the California Commercial Code, and any amounts receivable from third party payors (including insurance companies, Medicare and Medicaid including, without limitation, any Medicare and/or Medicaid losses paid on recapture, unless otherwise prohibited by law) in connection with the foregoing; and

(viii) All right, title and interest of the Trustor in all the Trustor's inventory, raw materials, work in process, finished goods and goods held for sale or lease or furnished under contracts of service, and all returned and repossessed goods, and all goods covered by documents of title, including warehouse receipts, bills of lading and all other documents of every type covering all or any part of the Property, now owned or hereafter acquired, whether held by the Trustor or any third party, which is located on, appurtenant to, relating to, or used by or useful in connection with the Property ("*Inventory*");

All of the above referenced Land, Facilities, Appurtenances, Equipment, Leases, Rents, Proceeds, Accounts and Inventory as hereby conveyed to the Trustee or made subject to the security interest herein described is collectively referred to herein as the "*Property*."

Additionally, Health and Safety Code Section 129052, in part, states:

The lien of such pledge shall be valid and binding against all parties, irrespective of whether the parties have notice of the lien. The indenture, trust agreement, resolution, or another instrument by which such pledge is created need not be recorded or the security interest otherwise perfected.

The Trustor warrants and agrees that as of the date of recording of this Deed of Trust it has not entered into any sales agreement, option, assignment, sublease, pledge, mortgage, deed of trust, financing statement, security agreement or any other arrangement regarding the Property apart from the transactions referenced in or secured by this Deed of Trust and has not nor will execute any document or instrument referring to or covering the Property, or any part thereof, and no such documents or instruments are on file, recorded or in effect in any public office, other than Permitted Encumbrances (as that term is defined in the Regulatory Agreement described below) and agrees that the Property is, and shall be, kept free from any lien, security interest, encumbrance or any other interest other than the Permitted Encumbrances.

FOR THE PURPOSE OF SECURING:

SECTION 2. OBLIGATIONS.

(a) Payment of Loan Repayments and Additional Payments (as those terms are defined in the Indenture which is defined below) pursuant to that certain Loan Agreement, dated as of June 1, 2014 (the "*Loan Agreement*"), by and between the Authority and the Trustor, in an amount sufficient to pay the debt service on the (i) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A (MonteCedro Inc. Project); (ii) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-1 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project); (iii) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-2 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project); (iv) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-3 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project); (v) \$_____ Los Angeles County Regional

Financing Authority Insured Revenue Bonds, Series 2014B-4 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project); and (vi) \$_____ Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014B-5 (Tax-Exempt Mandatory Paydown Securities (TEMPS-__SM)) (MonteCedro Inc. Project) issued an original principal amount of _____ dollars (\$_____) (collectively, the “*Bonds*”), pursuant to that certain Indenture, dated as of June 1, 2014 (“*Indenture*”), by and between the Authority and U.S. Bank National Association (“*Indenture Trustee*”), and any Parity Debt (as that term is defined in the Regulatory Agreement) issued pursuant to the terms of the Loan Agreement and the Indenture;

(b) Performance of each and every obligation, covenant and agreement of Trustor contained in the Loan Agreement;

(c) Performance of each and every obligation, covenant and agreement contained in this Deed of Trust; and

(d) Performance of each and every obligation, covenant and agreement of Trustor under that certain Regulatory Agreement (“*Regulatory Agreement*”) and under that certain Contract of Insurance (“*Contract of Insurance*”), each dated as of June 1, 2014, and entered into by and among the Trustor, the Office and the Authority and any regulatory agreements and contracts of insurance relating to Parity Debt.

The foregoing obligations are hereinafter sometimes referred to as the “*Obligations.*”

THIS DEED OF TRUST FURTHER WITNESSETH:

SECTION 3. SECURITY AGREEMENT AND FIXTURE FILING.

This Deed of Trust shall also constitute a security agreement and the Trustor hereby pledges and grants to the Beneficiary a security interest in and to all of the Property not constituting real property under the laws of the State of California (“*Personal Property*”), whether Trustor now or hereafter obtains an interest in such Personal Property and all the proceeds or products thereof, including but not limited to all of those items listed in *Exhibit B* attached hereto and made a part hereof. Upon any default of the Trustor hereunder, the Beneficiary shall be entitled to exercise with respect to all such collateral all of the rights and remedies set forth herein, in the Loan Agreement, in the Contract of Insurance, in the Regulatory Agreement or otherwise afforded to a secured party in default under the terms of Article 9 of the California Uniform Commercial Code, any or all of which may be pursued and exercised concurrently, consecutively, alternatively or otherwise. The Trustor will execute, as appropriate or required, one or more supplemental security agreements and financing statements as the Beneficiary may from time to time require, covering any property now or hereafter constituting a portion of the Property and otherwise the collateral securing the indebtedness secured hereunder and such financing statements and other and further assurances as the Beneficiary may request to perfect or evidence the security interest herein created (which shall cover all proceeds and

products of collateral), including but not limited to, UCC-1 Financing Statements (which shall contain the description of collateral attached as *Exhibit B*) and UCC Continuation Statements.

The Trustor will pay all costs of filing any financing, continuation or termination statements with respect to the security interest created by this Deed of Trust; and the Beneficiary is hereby appointed the Trustor's attorney-in-fact to do, at the Beneficiary's option and at the Trustor's expense, all acts and things which the Beneficiary may deem necessary to perfect and continue perfected the security interest created by this Deed of Trust and to protect the Property. The Beneficiary may execute, sign, endorse, transfer or deliver, in the name of the Trustor, notes, checks, drafts or other instruments for the payment of money and receipts, certificates of origin, certificates of title, applications for certificates of title, or any other documents necessary to evidence, perfect or realize upon the security interests and secured indebtedness created or secured by this Deed of Trust. This authority shall be considered a power coupled with an interest and shall be irrevocable until all the indebtedness secured hereby shall have been paid in full.

This Deed of Trust constitutes a Financing Statement filed as a fixture filing in the Official Records of the County Recorder of the county in which the property is located with respect to any and all Fixtures (as defined by the Uniform Commercial Code), included within the term "Property" as used in this Deed of Trust and with respect to any goods or other Personal Property that may now or hereafter become such Fixtures. The address of the Beneficiary, from which information concerning the security interest granted hereunder may be obtained, is:

Office of Statewide Health Planning and Development
400 R Street, Suite 470
Sacramento, CA 95811
Attn: Deputy Director
Cal-Mortgage Loan Insurance Division

Los Angeles County Regional Financing Authority
c/o County of Los Angeles
500 West Temple Street, Room 437
Los Angeles, California 90012
Attention: Treasurer and Tax Collector

All references in this Deed of Trust to the Uniform Commercial Code shall be to the Uniform Commercial Code as enacted by the State of California.

SECTION 4. ABSOLUTE ASSIGNMENT; ASSIGNMENT OF LEASES AND RENTS.

(a) The Trustor hereby absolutely, unconditionally and irrevocably assigns to the Beneficiary the Leases and Rents. The Beneficiary authorizes the Trustor, prior to any default in the payment of any indebtedness secured hereby or in the performance of any covenant or obligation hereunder, without notice, to collect and use all such Rents as they become due and payable and to exercise all rights under the Leases if not otherwise restricted under the Loan Agreement, the Regulatory Agreement or Contract of Insurance. The foregoing assignment shall

not impose upon the Beneficiary any duty to produce Rents from the Property or cause the Beneficiary to be a “mortgagee in possession” for any purpose.

(b) Except as otherwise permitted under the Regulatory Agreement, the Trustor agrees that it will not amend, modify, change or waive, or consent to any amendment, modification, change or Waiver of, any term or provision of the Leases without the prior written consent of the Beneficiary.

(c) The Trustor agrees that it will take all steps and do all things necessary to keep and maintain the Leases in full force and effect and will enforce or cause to be enforced all and singular the provisions thereof, and bring and prosecute or cause to be prosecuted any and all suits, actions and proceedings necessary to enforce compliance with all of the terms, provisions and covenants thereof. If, in the reasonable opinion of the Beneficiary, the Trustor has failed, or is about to fail, to take suitable action to enforce the Leases or any guaranty thereof or to first preserve any rights or remedies thereunder, the Beneficiary, after giving five (5) days’ written notice to the Trustor, may, but is not required to, take such action as it shall deem appropriate, in its own name or in the name of the Trustor for the use and benefit of the Beneficiary, to enforce the Leases and to preserve any rights or remedies thereunder, and all costs and expenses incurred by the Beneficiary in taking any such action shall be payable on demand and shall constitute part of the secured indebtedness hereunder.

SECTION 5. ACCELERATION UPON DEFAULT.

In the event of any default by the Trustor under the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, or any other agreements secured hereby, or upon the breach by the Trustor of any of its covenants or agreements contained herein, the Beneficiary shall have the option of declaring the unpaid balance owing under the Loan Agreement and any other sums secured hereby immediately due and payable as provided in Section 8.2 of the Loan Agreement.

SECTION 6. COVENANTS OF THE TRUSTOR.

For the purpose of protecting and preserving the security of this Deed of Trust, the Trustor promises and agrees to do the following:

(a) (1) to take all action necessary to keep the Property at all times entirely free of dry rot, fungus, termites, beetles and all other wood-boring, wood-eating, harmful or destructive insects, and in all respects properly to care for and keep all of the Property, including all such buildings, structures and other improvements, in good condition and repair;

(2) not to remove, demolish or substantially alter (except such alterations as may be required by laws, ordinances or regulations or permitted pursuant to the Loan Agreement) any of the Facilities; *provided, however*, that the Trustor may make such proper replacements, repairs, renewals, removals and alterations as it shall in good faith

reasonably determine are necessary or advisable to maintain or enhance the efficiency and value of the security created hereby;

(3) to complete promptly and in good and businesslike manner any building or other improvements which may be constructed on the Land, to promptly restore in like manner (to the extent permitted by law) any Facilities which may be damaged or destroyed thereon, and to pay when due all claims for labor performed and materials furnished therefor, *provided* that the Trustor shall not be required to pay any such claim if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in a manner reasonably satisfactory to the Office;

(4) to comply with all laws, ordinances, regulations, conditions and restrictions now or hereafter affecting the Property or any part thereof or requiring any alterations or improvements to be made thereon;

(5) not to commit or permit any waste, and not to permit any deterioration, of the Property; and

(6) not to commit, suffer or permit any act to be done in or upon the Property in violation of any law or ordinance if such act might have consequences that would materially and adversely affect the financial condition, assets, properties or operation of the Trustor;

(b) to provide and maintain hazard insurance as required by the Regulatory Agreement (see Section XV entitled "Insurance"), and to deliver duplicate originals or certified copies of the policies of said insurance to the Trustee upon its request; it being mutually agreed that the proceeds of any claim under such insurance in excess of one and one-half percent (1-1/2%) of the Trustor's Adjusted Annual Operating Revenues (as defined in the Regulatory Agreement; see Section XIX(A) of the Regulatory Agreement entitled "Disposition of Insurance and Condemnation Proceeds") shall be deposited with the Indenture Trustee pursuant to the Indenture and are hereby assigned to said Indenture Trustee to be held and disbursed by said Indenture Trustee as provided in the Regulatory Agreement, and that any unexpired insurance and all returnable insurance premiums shall inure to the benefit of, and pass to, the purchaser of the property covered thereby at any Trustee's sale held hereunder;

(c) to appear in and defend any action or proceeding affecting or purporting to affect the security of this Deed of Trust, any additional or other security for any of the obligations secured hereby, or the interest, rights, powers, or duties of the Trustee or the Beneficiary hereunder, it being agreed, however, that in the case of an action or proceeding against the Trustee or the Beneficiary said Trustee or Beneficiary, at its option, may appear in and defend any such action or proceeding and, in addition, it being agreed that the Trustee or Beneficiary may commence any action or proceeding deemed necessary by it to perfect, maintain or protect such interest, rights, powers or duties, all in such manner and to such extent as it may determine in its sole discretion to be appropriate, and the Trustee or Beneficiary is authorized to pay, purchase or compromise

on behalf of the Trustor any encumbrance or claim which in its judgment appears or purports to affect the security hereof or to be superior hereto; to pay all costs and expenses, including costs of evidence of title and attorney's fees and expenses in a reasonable sum, in any above described action or proceedings in which the Beneficiary or the Trustee may appear;

(d) (1) to pay, and submit to the Beneficiary, at least five (5) days before default or delinquency, a receipt or other evidence of payment, or certified copy thereof, evidencing payment of all taxes and assessments affecting the Property, and any accrued interest, cost or penalty thereon, *provided* that the Trustor shall not be required to pay any such tax or assessment if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in a manner reasonably satisfactory to the Office;

(2) to pay when due all encumbrances (including any debt secured by deed of trust), ground rents, liens or charges, with interest, on the Property or any part thereof which appear to be prior or superior hereto, and to pay immediately and in full all such encumbrances, rents, liens or charges, if any, which may now be due or payable; *provided* that the Trustor shall not be required to pay any such encumbrances, rent, lien or charge if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in manner satisfactory to the Beneficiary; and

(3) to pay when due all costs, fees and expenses of these trusts, including costs of evidence of title and the Trustee's fees in connection with sale, whether completed or not, which amounts shall become due upon delivery to the Trustee of declaration of default and demand for sale, as hereinafter provided; and

(e) to pay immediately and without demand all reasonable and necessary sums expended or expense incurred by the Trustee or by the Beneficiary to enforce the terms of the Trust, including attorneys' fees and expenses, under any of the terms of this Deed of Trust, with interest from date of expenditure at the rate of ten percent (10%) per annum.

SECTION 7. CONDEMNATION PROCEEDS.

All condemnation proceeds of the Property in excess of one and one-half percent (1-1/2%) of the Trustor's Adjusted Annual Operating Revenues (as defined in the Regulatory Agreement) shall be deposited with the Indenture Trustee pursuant to the Indenture and are hereby assigned to said Indenture Trustee to be held and disbursed by said Indenture Trustee as provided in the Regulatory Agreement; *provided* that any condemnation proceeds not so required to be deposited may be retained by the Trustor and used for any lawful purpose, subject to Trustor's obligation to repair or restore the Property following such condemnation.

SECTION 8. ACCEPTANCE NOT WAIVER.

By accepting payment of any sum secured hereby after its due date, neither the Trustee nor the Beneficiary shall be deemed to have waived its right either to require prompt payment when due of all other sums so secured or to declare default as herein provided for failure so to pay.

SECTION 9. CONVEYANCE, EASEMENTS, SUBORDINATION, RELEASES.

To the extent permitted under the Loan Agreement or the Regulatory Agreement, at any time, or from time to time, without liability therefor and without notice, upon written request by the Beneficiary or Trustor, upon presentation of this Deed of Trust, and without affecting the liability of any person for payment of the indebtedness secured hereby or the effect of this Deed of Trust upon the remainder of the Property, the Trustee shall reconvey any part of the Property, consent in writing to the making of any map or plat thereof, execute releases, join in granting any easement thereon, or join in any extension agreement or any agreement subordinating the lien or charge hereof. The Trustor, the Beneficiary and the Trustee shall execute and deliver any agreements subordinating the lien or charge hereof to the lien of any Permitted Encumbrance (as that term is defined in the Regulatory Agreement) and any releases and waivers of the lien of this Deed of Trust as is necessary to accommodate the requirements of the holders of Permitted Encumbrances.

SECTION 10. RIGHT OF ENTRY FOR INSPECTION.

The Trustee and the Beneficiary are each authorized, by themselves or their agents or workers, in a reasonable manner such as not to interfere with the Trustor's business in a materially adverse manner and after giving notice to enter during reasonable business hours (or at any other time agreeable to the Trustor) upon any part of the Property for the purpose of inspecting the same; *provided, however*, that the Trustee and the Beneficiary shall not be permitted to inspect any portion of the Property that is leased by a resident without such resident's prior consent.

SECTION 11. ENTRY, POSSESSION, OPERATION OF PROPERTY.

(a) Should the Trustor fail or refuse to make any payment or to do any act which it is obligated hereunder to make or do, at the time and in the manner herein provided, then the Trustee or the Beneficiary, in its sole discretion, without notice to or demand upon the Trustor and without releasing the Trustor from any obligation hereof, is authorized to do and may do any of the following:

- (1) make any such payment or do any such act in such manner and to such extent as it may deem necessary to protect the security hereof, the Trustee and the Beneficiary being authorized to enter upon the Property for such purposes;

(2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which in the judgment of the Trustee or the Beneficiary may affect or appear to affect the security of this Deed of Trust, the interest of the Beneficiary or the rights, powers or duties of the Trustee or the Beneficiary hereunder; or

(3) either by itself or by its agents appointed by it for that purpose, enter into and upon and take and hold possession of any or all of the Property, exclude the Trustor and all other persons therefrom, and operate and manage the Property, and rent and lease the same and collect any and all rents, issues, income and profits therefrom, and from time to time apply the same or accumulate the same for application, in such order and manner as the Trustee or the Beneficiary in its sole discretion shall consider advisable, to the following: costs of collecting the same, including the Trustee's reasonable fees in so doing; the necessary and proper costs of upkeep, maintenance, repair, and operation of the Property; the repayment of any sums theretofore or thereafter advanced pursuant to the terms of this Deed of Trust; the interest and principal then due or next to become due upon any indebtedness secured hereby; and the taxes and assessments upon the Property then due or next to become due.

(b) The collection or receipt of Rents from the Property by the Trustee or the Beneficiary after declaration of default and election to cause the Property to be sold under and pursuant to the terms of this Deed of Trust shall not affect or impair such default or declaration of default or election to cause the Property to be sold or any sale proceedings predicated thereon, but such proceedings may be conducted and sale effected notwithstanding the receipt or collection of any such Rents. Any such Rents in the possession of the Trustee or the Beneficiary at the time of sale and not theretofore applied as herein provided, shall be applied in the same manner and for the same purposes as the proceeds of the sale.

(c) The Trustee and the Beneficiary shall not be under any obligation to make any of the payments or do any of the acts above mentioned, but, upon election so to do, employment of an attorney is authorized and payment of such attorney's fees and of all other necessary expenditures is hereby secured.

SECTION 12. POWER OF SALE.

(a) Should a Loan Default Event have occurred and be continuing under the Loan Agreement, or upon the breach by the Trustor of any of its covenants or agreements contained herein, in the Regulatory Agreement or in the Contract of Insurance, the Trustee, upon written request by the Beneficiary, shall declare all sums secured hereby immediately due and payable.

(b) Having so declared, the Trustee shall provide and record such notices of default and of the election to cause the Property or any part of it to be sold as are required by law.

(c) The Trustee, upon written request by the Beneficiary, from time to time before the Trustee's sale, may rescind any such notice of default and of election to cause to be sold the Property and may execute a written notice of such a rescission, which notice, when recorded, shall also constitute a cancellation of any prior declaration of default and demand for sale. The

exercise of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring or impair the right of the Beneficiary to execute and deliver to the Trustee, as above provided, other requests for notices of default and of election to cause to be sold the Property to satisfy the obligations hereof, nor otherwise affect any provision, covenant or condition of this Deed of Trust or any of the rights, obligations or remedies of the parties hereunder.

(d) Not less than the time then required by law having elapsed after recordation of notice of default, without demand on the Trustor, the Trustee, having first given notice of sale as then required by law, shall sell the Property in the manner provided by law at the time and place of sale fixed by it in the notice of sale, *provided* that the Trustee may postpone sale of all or any portion of the Property in the manner provided by law.

(e) The Trustee shall deliver to the purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied, and the recitals in such deed of any matters or facts affecting the regularity or validity of the sale shall be conclusive proof of the truthfulness thereof. Also, such deed shall be conclusive against all persons as to all matters or facts therein recited. Any person, including the Trustor, the Trustee and the Beneficiary, may purchase at such sale.

(f) The Trustee shall apply the proceeds of any such sale to payment of: (1) all costs, fees, charges and expenses of the Trustee and of these trusts, and fees of any attorneys employed by the Trustee or the Beneficiary to enforce the provisions hereof; (2) the Trustee's fees in connection with the sale, and all expenses of sale, including the cost of procuring evidence of title in connection with the sale proceedings and revenue stamps on the Trustee's deed; and (3) all other sums secured hereby, including interest on each of the foregoing items, all in such manner and order of priority or preference as the Beneficiary may in its sole and absolute discretion direct. The remainder, if any, of such proceeds, shall be paid to the person or persons legally entitled thereto, upon proof satisfactory to the Trustee of such right.

SECTION 13. SATISFACTION AND RECONVEYANCE.

Upon written request of the Beneficiary stating that all sums secured hereby have been paid, and upon surrender to the Trustee of this Deed of Trust and upon payment of its fees, the Trustee shall reconvey and release, without warranty, the Property, it being further agreed that the recitals in such reconveyance and release of any matters or facts shall be conclusive proof of the truthfulness thereof and that the grantee in any reconveyance may be described as "the person or persons legally entitled thereto."

SECTION 14. ADDITIONAL SECURITY.

The Trustee shall be entitled to enforce payment and performance of any indebtedness or obligations secured hereby and to exercise all rights and powers under this Deed of Trust or under any other agreement or any laws now or hereafter in force, notwithstanding that some or all of the indebtedness and obligations secured hereby are now or shall hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise; and neither

the acceptance of this Deed of Trust nor its enforcement, whether by court action or pursuant to the power of sale or other powers herein contained, shall prejudice or in any manner affect the Trustee's or the Beneficiary's right to realize upon or enforce any other security now or hereafter held by the Trustee or the Beneficiary, it being agreed either that the Trustee or the Beneficiary shall be entitled to enforce this Deed of Trust and any other security now or hereafter held by the Beneficiary or the Trustee in such order and manner as it may in its uncontrolled discretion determine.

SECTION 15. NOTICE OF ACTIONS.

The Trustee shall be under no obligation to notify any party hereto of any action or proceeding of any kind in which the Trustor, the Beneficiary or the Trustee shall be a party, unless brought by the Trustee, or of any pending sale under any other deed of trust.

SECTION 16. CHARGE FOR PROVISION OF STATEMENT.

For any statement regarding the obligations secured hereby, a charge, which the Trustor agrees to pay, may be made in an amount not exceeding the maximum allowed by law at the time any such statement is requested.

SECTION 17. WAIVER OF STATUTE OF LIMITATIONS.

The right to plead any and all statutes of limitations as a defense to any demand secured by this Deed of Trust is hereby waived.

SECTION 18. IRREVOCABLE BY THE TRUSTOR.

The trust created hereby is irrevocable by the Trustor.

SECTION 19. SUBSTITUTION OF TRUSTEE.

The Beneficiary may substitute a successor Trustee from time to time by recording at the places required by law an instrument stating the election by the Beneficiary to make such substitution and identifying this Deed of Trust.

SECTION 20. POST-FORECLOSURE ENVIRONMENTAL LOSSES.

THE TRUSTOR HAS EXECUTED THAT CERTAIN ENVIRONMENTAL INDEMNITY DATED AS OF JUNE 1, 2014, IN FAVOR OF THE BENEFICIARY ("*ENVIRONMENTAL INDEMNITY*"). NOTWITHSTANDING ANY OTHER PROVISION IN THE LOAN AGREEMENT OR THE REGULATORY AGREEMENT, THIS DEED OF TRUST DOES NOT SECURE ANY OBLIGATIONS OR LIABILITIES ARISING UNDER THE ENVIRONMENTAL INDEMNITY OR OUT OF ANY POST-FORECLOSURE TRANSFER ENVIRONMENT LOSSES (AS DEFINED IN THE ENVIRONMENTAL INDEMNITY). IT IS THE EXPRESS INTENTION OF THE TRUSTOR AND THE BENEFICIARY THAT SUCH OBLIGATIONS AND LIABILITIES BE UNSECURED. THE TRUSTOR REPRESENTS THAT, TO THE KNOWLEDGE OF THE TRUSTOR, THE

PROPERTY IS CURRENTLY IN COMPLIANCE WITH ALL FEDERAL, STATE AND LOCAL ENVIRONMENTAL LAWS.

SECTION 21. EXERCISE OF RIGHTS.

For as long as the Office is obligated under the Contract of Insurance, all rights under this Deed of Trust shall be exercised solely by the Office and all notices, determinations and consents required or permitted under this Deed of Trust shall be given by and to the Office only, notwithstanding notice and consent provisions relating to both the Office and the Indenture Trustee, as assignee of Authority. For so long as the Office is obligated under the Contract of Insurance, all rights shall be exercised by the Office for the equal and ratable benefit of the Office and the Indenture Trustee, it being understood that all rights and proceeds inuring to the benefit of the Indenture Trustee hereunder are for the benefit of the holders of the Bonds and Parity Debt. In the event the Contract of Insurance has been canceled or terminated, all rights and remedies under this Deed of Trust may be exercised solely by the Indenture Trustee, acting in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds. In the event that all amounts owing to the Indenture Trustee have been paid, all rights and remedies under this Deed of Trust may be exercised solely by the Office for its own benefit.

SECTION 22. NOTICES.

All notices, requests or communications required or permitted to be given in this Deed of Trust, including any notice of default and any notice of sale to the Trustor under this Deed of Trust, shall be in writing and mailed or delivered to the respective party as follows:

Trustor: MonteCedro Inc.
1111 South Arroyo Parkway, Suite 230
Pasadena, California 91105
Attention: Chief Executive Officer

Trustee: _____

Attention: _____

Office: Office of Statewide Health Planning and Development
400 R Street, Suite 470
Sacramento, California 95811
Attention: Deputy Director
Cal-Mortgage Loan Insurance Division

Indenture Trustee: U.S. Bank National Association

Attention: Corporate Trust Department

Authority: Los Angeles County Regional Financing Authority
c/o County of Los Angeles
500 West Temple Street, Room 437
Los Angeles, California 90012
Attention: Treasurer and Tax Collector

The Trustor, the Trustee, the Office, the Authority and the Indenture Trustee, may, by notice given hereunder, designate any further or different address to which subsequent notices, notice of default, notice of sale, statements and other communications shall be sent.

SECTION 23. SUCCESSORS BOUND.

This Deed of Trust shall bind, and the benefits shall inure to, the respective parties hereto, the Beneficiary, their legal representatives, successors in office or interest, and assigns.

SECTION 24. SEVERABILITY OF INVALID PROVISIONS.

If any provision of this Deed of Trust should be held unenforceable or void, in whole or in part, then such unenforceable or void provision or part shall be deemed separable from the remaining provisions and shall in no way affect the validity of the remainder of this Deed of Trust.

SECTION 25. AMENDMENTS; RELEASES OR RECONVEYANCES.

This Deed of Trust may be amended, changed, modified or terminated at any time by the written consent of the Office, without the necessity of obtaining the consent of the Authority, the Indenture Trustee or the holders of the Bonds or of Parity Debt.

Without affecting the liability of any other person liable for the payment of any obligation herein mentioned, and without affecting the lien or charge of this Deed of Trust upon any property not then or theretofore released as security for the full amount of all unpaid obligations, the Trustee may, upon written request by the Office in accordance with the Loan Agreement or the Regulatory Agreement, from time to time, and without notice to the Trustor, release any person other than the Trustor so liable, extend the maturity or alter any of the terms of any such obligation, or grant other indulgences, release or reconvey, or cause to be released or reconveyed, any portion or all of the Property, release any other or additional security for any obligation herein mentioned, or make compositions or other arrangements with debtors in relation thereto; and if the Trustee at any time holds any additional security for any obligations secured hereby, it may enforce the sale thereof or otherwise realize upon the same at its option, either before or concurrently herewith or after a sale is made hereunder.

SECTION 26. HEADINGS AND REFERENCES.

The headings or titles of the several sections, subsections and subdivisions hereof shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Deed of Trust. All references herein to “sections,” “subsections” and other subdivisions are to the corresponding sections, subsections or subdivisions of this Deed of Trust. The words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Deed of Trust as a whole and not to any particular section, subsection or subdivision hereof. Words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 27. GOVERNING LAW; VENUE.

The laws of the State of California shall govern this Deed of Trust, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Deed of Trust shall be brought, commenced or prosecuted in [any court of competent jurisdiction in the State of California], except as may otherwise be required to provide jurisdiction.

SECTION 28. ATTORNEYS' FEES.

In the event of any action at law or in equity between the parties hereto to interpret or enforce any of the provisions of this Deed of Trust, the nonprevailing party or parties to such litigation shall pay to the prevailing party or parties all costs and expenses, including actual attorneys' fees, incurred therein by such prevailing party or parties; and if such prevailing party or parties shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees may be included in and as part of such judgment. The prevailing party shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment. A party not entitled to recover its costs of suit shall not recover attorneys' fees.

MONTECEDRO INC.

By: _____
[title]

The Los Angeles County Regional Financing Authority hereby assigns all of its rights, title and interest (except to the extent it secures the rights reserved to the Authority under the Indenture hereinafter defined) under the foregoing Deed of Trust to U.S. Bank National Association, as trustee on behalf of the Holders of the Bonds and Parity Debt, pursuant to that certain Indenture, dated as of June 1, 2014, by and between the Los Angeles County Regional Financing Authority and U.S. Bank National Association, as trustee.

LOS ANGELES COUNTY REGIONAL FINANCING
AUTHORITY

By: _____
Chairman

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

All that certain real property situated in the County of Los Angeles, State of California, described as follows:

[to come]

EXHIBIT B

DESCRIPTION OF COLLATERAL

All right, title and interest that MonteCedro Inc., a California nonprofit public benefit corporation, which is defined as “Trustor” in that certain Deed of Trust with Fixture Filing and Security Agreement dated as of June 1, 2014 (“*Deed of Trust*”) now has or may hereafter acquire in:

(i) All buildings, structures, improvements, fixtures, equipment and appurtenances now and hereafter owned, constructed, located, erected, installed or affixed by or on behalf of the Trustor upon or appurtenant to the Land as defined in the Deed of Trust and all replacements and substitutions therefor (“*Facilities*”);

(ii) All appurtenances, improvements, easements, pipes, transmission lines or wires and other rights used in connection with the Land or as a means of access thereto, whether now or hereafter owned or constructed or placed upon or in the Land or Facilities (“*Appurtenances*”);

(iii) All equipment, machinery, goods and other personal property of the Trustor whether movable or not, if the same is (a) now owned or hereafter acquired by the Trustor, (b) now or hereafter located at or used in connection with the Facilities, (c) financed with the proceeds of the Bonds or Parity Debt as those terms are defined in the Regulatory Agreement referenced in the Deed of Trust or (d) obtained in order to satisfy its obligations under the Loan Agreement, the Regulatory Agreement or the Contract of Insurance, each as identified in the Deed of Trust, and all improvements, restorations, replacements, repairs, additions, accessions or substitutions thereto or therefor, including, without limitation, all machinery, equipment, material, furnishings and appliances for generation or distribution of air, water, heat, electricity, light, fuel or refrigeration, for purposes of ventilation, sanitation or drainage, for exclusion of vermin or insects, for removal or disposal of dust, refuse or garbage; all elevators, awnings, window coverings, floor covering, laundry equipment, kitchen equipment, cabinets, furniture and furnishings; all fixed and moveable equipment now or hereafter installed or placed upon or in the Land or Facilities which are essential elements of the Facilities and are necessary for their operation and use; the products and proceeds from any and all such property; all the estate, interest, right, title, property or other claim or demand of every nature whatsoever, in and to such property, including specifically, but without limitation, all deposits made with or other security given to utility companies by the Trustor with respect to such property and claims or demands relating to insurance or condemnation awards which the Trustor now has or may hereafter acquire (“*Equipment*”);

(iv) All leases or subleases with respect to the Land, Facilities, Appurtenances and Equipment (“*Leases*”);

(v) All rentals or other payments which may now or hereafter accrue or otherwise become payable under the Leases to or for the benefit of the Trustor together with all other income, rents, revenues, issues, profits, reserves, and royalties produced by

the Land, Facilities, Appurtenances and Equipment or by all management or service contracts or other contracts affecting the Property, including but not limited to security deposits (collectively the “*Rents*”);

(vi) All earnings, products, damages, indemnifications, insurance proceeds and any other proceeds from any and all of such Land, Facilities, Appurtenances, Equipment, Leases, Rents and Accounts including specifically, but without limitation, all deposits made with or other security given to utility companies and claims or demands relating to insurance or condemnation awards which the Trustor now has or may hereafter acquire, including all advance payments of insurance premiums made by the Trustor with respect thereto (“*Proceeds*”);

(vii) All accounts, accounts receivable and other rights to payment of money now owned or hereafter acquired by the Trustor, whether due or to become due and whether or not earned by performance (“*Accounts*”), including without limitation the following:

(a) Any and all Accounts arising from any source, including without limitation operations of the Trustor or its agents at the Facilities, and at any other hospital, facility or office; and

(b) Any and all Accounts accruing from in-patient, out-patient, day treatment, and any other programs run by and operations of the Trustor or its agents.

For purposes hereof, “Accounts” covered hereby shall include without limitation accounts, chattel paper, deposit accounts and instruments as defined by the California Commercial Code, and any amounts receivable from third party payors (including insurance companies, Medicare and Medicaid, including without limitation any Medicare and/or Medi-Cal losses paid on recapture, unless otherwise prohibited by law) in connection with the foregoing; and

(viii) All right, title and interest of the Trustor in all the Trustor’s inventory, raw materials, work in process, finished goods and goods held for sale or lease or furnished under contracts of service, and all returned and repossessed goods, and all goods covered by documents of title, including warehouse receipts, bills of lading and all other documents of every type covering all or any part of the Property, now owned or hereafter acquired, whether held by the Trustor or any third party, which is located on, appurtenant to, relating to, or used by or useful in connection with the Property (“*Inventory*”);

All of the above referenced Land, Facilities, Appurtenances, Equipment, Leases, Rents, Proceeds, Accounts and Inventory as hereby conveyed to the Trustee or made subject to the security interest herein described is collectively referred to herein as the “Property.”

Additionally, Health and Safety Code Section 129052, in part, states:

“The lien of such pledge [the Property] shall be valid and binding against all parties, irrespective of whether the parties have notice of the lien. The indenture, trust agreement, resolution, or another instrument by which such pledge is created need not be recorded or the security interest otherwise perfected.”