

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (defined below), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2010A Bonds and the Series 2010B Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds and the Series 2010B Bonds. See "TAX MATTERS."*

**\$13,975,000**

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY REVENUE BONDS  
(LANCER EDUCATIONAL STUDENT HOUSING PROJECT)**

consisting of

**\$13,200,000**

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY REVENUE BONDS  
(LANCER EDUCATIONAL STUDENT HOUSING PROJECT), SERIES 2010A**

AND

**\$775,000**

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY REVENUE BONDS  
(LANCER EDUCATIONAL STUDENT HOUSING PROJECT), SERIES 2010B (FEDERALLY TAXABLE)**

Dated: Date of Delivery

Due: June 1, as shown on inside cover

The California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Series 2010A (the "Series 2010A Bonds") and Taxable Series 2010B (the "Series 2010B Bonds" and together with the Series 2010A Bonds, the "Series 2010 Bonds") will be issued pursuant to the Indenture of Trust dated as of June 1, 2007 (the "Original Indenture"), by and between the California Statewide Communities Development Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture of Trust dated as of February 1, 2010 (the "First Supplemental Indenture" and the Original Indenture, as so supplemented, the "Indenture"), by and between the Authority and the Trustee. The Authority will lend the proceeds of the Series 2010 Bonds to Lancer Educational Housing, LLC (the "Borrower"), the sole corporate member of which is Lancer Educational Housing Corporation, an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Corporate Member"), pursuant to the Loan Agreement dated as of June 1, 2007 (the "Original Loan Agreement"), by and between the Authority and the Borrower, as supplemented by the First Supplemental Loan Agreement dated as of February 1, 2010 (the "First Supplemental Agreement" and the Original Loan Agreement, as so supplemented, the "Loan Agreement"), by and between the Authority and the Borrower. The Series 2010 Bonds will be limited obligations of the Authority and, as and to the extent set forth in the Indenture, will be payable solely from, and secured by a pledge of and lien on (i) the Gross Revenues derived from the Facilities (as hereinafter defined), (ii) the leasehold interest of Borrower in the facilities pursuant to the Leasehold Deed of Trust, as amended (the "Deed of Trust"), and (iii) certain funds and accounts created under the Indenture (the "Trust Estate"). Recourse for payment of the Series 2010 Bonds upon an Event of Default under the Indenture is limited to the Trust Estate. See "SECURITY FOR THE BONDS."

The Series 2010 Bonds are being issued as Additional Bonds under the Indenture on parity with the Authority's Revenue Bonds (Lancer Educational Student Housing Project), Series 2007A and the Authority's Revenue Bonds (Lancer Educational Student Housing Project) Series 2007B (collectively, the "Series 2007 Bonds" and together with the Series 2010 Bonds and any other Additional Bonds issued pursuant to the Indenture, the "Bonds").

The Series 2010 Bonds will bear interest from the date of their initial delivery at the interest rates set forth on the inside cover, payable on each June 1 and December 1, commencing June 1, 2010. The Series 2010 Bonds will be issued in Authorized Denominations of \$100,000 or any multiple of \$5,000 above that amount.

The proceeds of the Series 2010 Bonds will be used to (i) acquire existing apartment complexes known as Royal Rose and Rose Garden Apartments comprised of 215 units to serve as housing facilities for California Baptist University (the "University") located on certain real property, which is leased to the Borrower by the University pursuant to a Lease Agreement dated as of June 1, 2007 as amended, by and between the University and the Borrower and, (ii) fund a deposit to the Debt Service Reserve Fund equal to the Series 2010 Debt Service Requirement, and (iii) pay the costs of issuance of the Series 2010 Bonds, all as further described herein. See "ESTIMATED SOURCES AND USES OF FUNDS." **Neither the University nor the Corporate Member is obligated to pay debt service on the Series 2010 Bonds.**

The Series 2010 Bonds will be issued in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2010 Bonds. Individual purchases will be made in book-entry form only. Purchasers of the Series 2010 Bonds will not receive physical certificates representing their beneficial ownership interests in the Series 2010 Bonds purchased. So long as the Series 2010 Bonds are registered in the name of Cede & Co., all payments with respect to principal of and interest on the Series 2010 Bonds will be made by the Trustee to DTC, which is obligated in turn to remit such payments to its Direct Participants for subsequent disbursement to the beneficial owners of the Series 2010 Bonds as described herein. See APPENDIX H – "BOOK-ENTRY ONLY SYSTEM."

The Series 2010 Bonds are subject to optional and mandatory redemption prior to maturity, as described herein. See "THE SERIES 2010 BONDS – Redemption."

**THE SERIES 2010 BONDS ARE TO BE OFFERED AND SOLD (INCLUDING IN CERTAIN SECONDARY MARKET TRANSACTIONS) ONLY TO QUALIFIED INSTITUTIONAL BUYERS (AS SUCH TERM IS DEFINED UNDER "TRANSFER RESTRICTIONS"). THE SERIES 2010 BONDS AND BENEFICIAL INTERESTS THEREIN MAY BE TRANSFERRED, UPON SATISFACTION OF CERTAIN CONDITIONS, ONLY TO CERTAIN QUALIFIED INSTITUTIONAL BUYERS. SEE "THE SERIES 2010 BONDS – LIMITATION ON PURCHASE AND TRANSFER OF THE SERIES 2010 BONDS," "TRANSFER RESTRICTIONS" AND APPENDIX I – "INVESTOR LETTER."**

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

**This cover page contains information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision, giving particular attention to the matters discussed in "RISK FACTORS."**

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND PRICES OR YIELDS SHOWN ON INSIDE COVER.

*The Series 2010 Bonds are offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of legality and certain other legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by Peck, Shaffer & Williams LLP, Denver, Colorado. Certain legal matters will be passed upon for the Authority by its special counsel, Orrick, Herrington & Sutcliffe LLP. Certain legal matters will be passed upon for the University by Gresham Savage Nolan & Tilden, P.C., Riverside, California. Certain legal matters will be passed upon for the Borrower by Gresham Savage Nolan & Tilden, P.C. Certain legal matters will be passed upon for the Corporate Member by Gresham Savage Nolan & Tilden, P.C. It is expected that the Series 2010 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about February 18, 2010.*

**George K. Baum & Company**

Dated: February 2, 2010

**\$13,975,000**  
**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**  
**REVENUE BONDS**  
**(LANCER EDUCATIONAL STUDENT HOUSING PROJECT)**

**SERIES 2010A**

**CUSIP<sup>®</sup> Number<sup>†</sup> 130795 R74**

**\$13,200,000 7.50% Term Bonds due June 1, 2042 Price 100%**

**AND**

**SERIES 2010B (FEDERALLY TAXABLE)**

**CUSIP<sup>®</sup> Number<sup>†</sup> 130795 R82**

**\$775,000 9.50% Term Bonds due June 1, 2014 Price 100%**

<sup>†</sup> The Authority takes no responsibility for the accuracy of the CUSIP<sup>®</sup> numbers, which are included solely for the convenience of the registered owners and the Beneficial Owners of the Series 2010 Bonds.

This Limited Offering Memorandum does not constitute an offer to sell the Series 2010 Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the Authority, the Borrower, the University or the Underwriter to give any information or to make any representations, other than those contained herein, in connection with the offering of the Series 2010 Bonds and, if given or made, such information or representations must not be relied upon.

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

Certain statements included or incorporated by reference in this Limited Offering Memorandum, including APPENDIX A and APPENDIX B hereto, constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. None of the Authority, the Borrower or the University plans to issue any updates or revisions to those forward-looking statements if or when the Borrower’s or the University’s expectations, or events, conditions or circumstances on which such statements are based, occur.

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

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum. The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

THE SERIES 2010 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

## **NOTICE TO INVESTORS**

The Series 2010 Bonds are to be offered and sold (including in secondary market transactions) only to Qualified Institutional Buyers (as defined under “TRANSFER RESTRICTIONS”). The Indenture under which the Bonds will be issued contains provisions limiting transfers of the Series 2010 Bonds to Qualified Institutional Buyers. In addition, the face of each Series 2010 Bond will contain a legend to the effect that such Series 2010 Bond can only be owned by Qualified Institutional Buyers. Each purchaser will be required to deliver an Investor Letter substantially in the form of APPENDIX I hereto.

The Series 2010 Bonds will be issued in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof and in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York.

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**\$13,975,000**  
**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**  
**REVENUE BONDS (LANCER EDUCATIONAL STUDENT HOUSING PROJECT)**

consisting of

**\$13,200,000**  
**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY REVENUE BONDS**  
**(LANCER EDUCATIONAL STUDENT HOUSING PROJECT) SERIES 2010A**

AND

**\$775,000**  
**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY REVENUE BONDS**  
**(LANCER EDUCATIONAL STUDENT HOUSING PROJECT) SERIES 2010B (FEDERALLY TAXABLE)**

## **INTRODUCTION**

This Introduction is subject in all respects to the more complete information included and referred to elsewhere in this Limited Offering Memorandum, and the offering of the Series 2010 Bonds to potential investors is made only by means of this entire Limited Offering Memorandum, including the Appendices hereto. All capitalized terms used in this Limited Offering Memorandum and not otherwise defined herein have the same meanings as in the Indenture. See APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto for definitions of words and terms used but not otherwise defined herein.

### **General**

This Limited Offering Memorandum, including the cover page, the inside cover page and the appendices hereto, is provided to furnish certain information in connection with the sale and issuance by the California Statewide Communities Development Authority (the “Authority”) of \$13,200,000 aggregate principal amount of the Authority’s Revenue Bonds (Lancer Educational Student Housing Project) Series 2010A (the “Series 2010A Bonds”) and \$775,000 aggregate principal amount of the Authority’s Revenue Bonds (Lancer Educational Student Housing Project) Series 2010B (Federally Taxable) (the “Series 2010B Bonds” and together with the Series 2010A Bonds, “the Series 2010 Bonds”).

The Series 2010 Bonds will be issued pursuant to the Indenture of Trust, dated as of June 1, 2007 (the “Original Indenture”) by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture of Trust dated as of February 1, 2010 (the “First Supplemental Indenture” and the Original Indenture, as so supplemented, the “Indenture”), by and between the Authority and the Trustee. The Authority will lend the proceeds of the Series 2010 Bonds to Lancer Educational Housing, LLC, a California limited liability company (the “Borrower”), pursuant to the Loan Agreement dated as of June 1, 2007 (the “Original Loan Agreement”), as supplemented by the First Supplemental Loan Agreement dated as of February 1, 2010 (the “First Supplemental Agreement” and the Original Loan Agreement, as so supplemented, the “Loan Agreement”) by and between the Authority and the Borrower. The Borrower is obligated under the Loan Agreement to make payments to the Authority that will be used to pay debt service on the Series 2010 Bonds (the “Loan Payments”). See “SECURITY FOR THE BONDS.” The sole corporate member of the Borrower is Lancer Educational Housing Corporation, a California nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the

“Corporate Member”). The Corporate Member was formed to support the mission of California Baptist University (the “University”).

The Series 2010 Bonds are being issued as Additional Bonds pursuant to the Indenture and will be on parity with the Authority’s Revenue Bonds (Lancer Educational Student Housing Project), Series 2007 A and the Authority’s Revenue Bonds (Lancer Educational Student Housing Project) Series 2007 B (collectively, the “Series 2007 Bonds”). The Series 2007 Bonds are outstanding in the aggregate principal amount of \$29,955,000. The Series 2007 Bonds, the Series 2010 Bonds and any Additional Bonds issued pursuant to the Indenture are collectively referred to as the “Bonds.” The Original Indenture provides for the issuance of Additional Bonds for the acquisition of certain student housing facilities, pursuant to the Additional Bonds test set forth in the Original Indenture. The 2010 Student Housing Project described herein constitutes the “Additional Student Housing Project” defined under the Original Indenture. See “SECURITY FOR THE BONDS” and “PLAN OF FINANCE – The 2010 Student Housing Project.”

The proceeds of the Series 2010 Bonds will be used to (i) acquire an existing apartment complex known as Royal Rose and Rose Garden Apartments comprised of 215 units to serve as housing facilities for the University (the “2010 Student Housing Project”) located on certain real property owned by the University, and leased to the Borrower by the University pursuant to a Lease Agreement dated as of June 1, 2007, as amended by the Amendment to the Lease Agreement dated as of February 1, 2010, between the University and the Borrower (the “Lease”), (ii) fund a deposit to the Debt Service Reserve Fund equal to the Series 2010 Debt Service Reserve Requirement, and (iii) pay the costs of issuance of the Series 2010 Bonds.

The University will use a portion of the proceeds received from the sale of the 2010 Student Housing Project to the Borrower to acquire the land underlying a commercial complex adjacent to the eastern corner of the University’s campus (the “Adams Plaza”), to make improvements to the approximately 48,500 square foot space that the University currently leases at Adams Plaza and/or to finance other educational facilities for the benefit of the University (together, the “Acquisition Project”). See “PLAN OF FINANCE – Acquisition Project” and APPENDIX B – “CALIFORNIA BAPTIST UNIVERSITY – UNIVERSITY BUILDINGS – Acquisition Project.”

The 2010 Student Housing Project will become part of the Borrower’s housing system (the “Existing Facilities”) currently consisting of six separate student residential facilities comprising 1,116 beds located on the campus of the University in Riverside, California. The 2010 Student Housing Project and the Existing Facilities are collectively referred to as the “Facilities.” See “ESTIMATED SOURCES AND USES OF FUNDS,” “PLAN OF FINANCE – The 2010 Student Housing Project,” and APPENDIX A – “THE FACILITIES.”

### **Management of the Facilities**

The University will manage the Facilities and has agreed to fund all operating costs with respect to the Facilities, pursuant to a Management Agreement dated as of June 1, 2007, as amended by the Amendment to the Management Agreement dated as of February 1, 2010, between the University and the Borrower (collectively, the “Management Agreement”). The Management Agreement provides that the Borrower will reimburse the University for the University’s payment of such operating costs, but if the Facilities do not generate sufficient revenue to do so, any such amounts outstanding will be treated as a loan from the University to the Borrower subordinate to the payment of the Bonds. See “SECURITY FOR THE BONDS – Management Agreement.” In addition, pursuant to the Contingent Operating Expense Agreement dated as of June 1, 2007, as amended by the Amendment to Contingent Operating Expense Agreement dated as of February 1, 2010 between the University and the Trustee (collectively,



the “Contingent Operating Expense Agreement”), the Trustee will notify the University if the Borrower has insufficient funds to pay operating costs and the University will pay such operating costs on behalf of the Borrower, whether or not the University is the manager under the Management Agreement. See “SECURITY FOR THE BONDS – Contingent Operating Expense Agreement.” Neither the University nor the Corporate Member is obligated to pay the principal of, premium, if any, or interest on the Bonds. Because of the University’s obligations under the Management Agreement and the Contingent Operating Expense Agreement, and because the Facilities are expected to be used primarily for the benefit of the University, certain information regarding the University is provided herein. See APPENDIX B – “CALIFORNIA BAPTIST UNIVERSITY” and APPENDIX D – “AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY.”

### **The Series 2010 Bonds**

The Bonds are limited obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from, and secured by a pledge of and lien on (i) the Gross Revenues derived from the Facilities, (ii) the leasehold interest of the Borrower in the Facilities pursuant to the Leasehold Deed of Trust with Assignment of Rents and Fixture Filing, as amended, executed by the Borrower in favor of the Trustee (the “Deed of Trust”) and (iii) certain funds and accounts created under the Indenture (collectively, the “Trust Estate”). Recourse for payment of the Bonds upon an Event of Default under the Indenture is limited to the Trust Estate.

The Series 2010 Bonds will bear interest from the date of their initial delivery at the interest rates as set forth on the inside cover page, and will be payable on each June 1 and December 1, commencing June 1, 2010. The Series 2010 Bonds will be issued in Authorized Denominations of \$100,000 or any multiple of \$5,000 above that amount. See “THE SERIES 2010 BONDS.”

THE SERIES 2010 BONDS ARE TO BE OFFERED AND SOLD (INCLUDING IN SECONDARY MARKET TRANSACTIONS) ONLY TO QUALIFIED INSTITUTIONAL BUYERS (AS SUCH TERM IS DEFINED UNDER “TRANSFER RESTRICTIONS”). THE SERIES 2010 BONDS AND BENEFICIAL INTERESTS THEREIN MAY BE TRANSFERRED, UPON SATISFACTION OF CERTAIN CONDITIONS, ONLY TO CERTAIN QUALIFIED INSTITUTIONAL BUYERS. SEE “THE SERIES 2010 BONDS – LIMITATION ON PURCHASE AND TRANSFER OF THE SERIES 2010 BONDS,” “TRANSFER RESTRICTIONS” AND APPENDIX I – “INVESTOR LETTER.”

### **California Baptist University**

The University is a California non-profit corporation located in Riverside, California created to conduct a private, accredited Christian university offering liberal arts undergraduate and graduate degrees. Important information about the University, its financial condition and its revenue sources is set forth in APPENDIX B – “CALIFORNIA BAPTIST UNIVERSITY,” which should be read in its entirety. In addition, a copy of the University’s audited financial statements for the fiscal years ended June 30, 2009 and 2008 is attached as APPENDIX D – “AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY” and should be read in its entirety. The University is not obligated to pay the principal of, premium, if any, and interest on the Bonds.

### **Borrower**

The Borrower was formed in 2007 and financial statements for the fiscal year ended June 30, 2009 are attached as APPENDIX C – “AUDITED FINANCIAL STATEMENTS OF THE BORROWER.” The Borrower is a limited liability company duly incorporated and in good standing

under the laws of the State, whose sole member is the Corporate Member. The Borrower currently owns the Existing Facilities and will acquire the 2010 Student Housing Project located upon the real property leased from the University. Pursuant to the Management Agreement, the University will manage and maintain the Facilities. See “PLAN OF FINANCE – The 2010 Student Housing Project” and APPENDIX A – “THE FACILITIES.”

### **Corporate Member**

The Corporate Member is a California nonprofit corporation formed to own, acquire, develop, lease and manage housing and related services of the University and generally to benefit the University. The Corporate Member was established in February 2007 and is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Pursuant to the Corporate Member’s by-laws, the Corporate Member’s Board of Directors is comprised of five members, each serving a term of three years. The University has the power to appoint two of the five members of the Corporate Member’s Board of Directors and the rest are selected by a majority vote of the Board of Directors at the annual meeting. The members of the Board of Directors of the Corporate Member, their affiliation with the University and office are set forth below.

<u>Members</u>	<u>Affiliation with University</u>	<u>Office</u>
Ronald L. Ellis	University Appointed Director	President
Mark Howe	University Appointed Director	Secretary/Treasurer
David Peery	At Large Director	None
Glenn L. Gaines	At Large Director	None
C. Frederick Wehba	At Large Director	None

### **Security for the Bonds**

The Bonds have been or will be issued under and equally and ratably secured by and entitled to the benefits of the Indenture. The Bonds are limited obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from, and secured by a pledge of and lien on the Trust Estate. Recourse for payment on the Bonds upon an Event of Default under the Indenture is limited to the Trust Estate. The Loan Agreement also contains covenants for the protection of the Authority and the Owners. The University is not obligated to pay the principal of, premium, if any, and interest on the Bonds. See “SECURITY FOR THE BONDS.”

**THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, AND SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE LOAN AGREEMENT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL**

**SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.**

**Continuing Disclosure**

The Borrower will covenant for the benefit of the Owners and beneficial owners of the Series 2010 Bonds to provide (i) certain financial information and operating data relating to the Borrower and the Facilities by no later than four months following the end of each fiscal year of the Borrower (which fiscal year currently begins on July 1 of each year and ends on the next succeeding June 30), commencing with the report for the June 30, 2010 fiscal year, (ii) quarterly unaudited financial statements within forty-five (45) days of the end of each fiscal quarter, and (iii) notice of the occurrence of certain enumerated material events. See “CONTINUING DISCLOSURE” and APPENDIX G – “FORMS OF CONTINUING DISCLOSURE AGREEMENT.”

The University will covenant for the benefit of the Owners and beneficial owners of the Series 2010 Bonds to provide (i) certain financial information and operating data relating to the University and the Facilities by no later than four months following the end of each fiscal year of the University (which fiscal year currently begins on July 1 of each year and ends on the next succeeding June 30), commencing with the report for the June 30, 2010 fiscal year, (ii) quarterly unaudited financial statements within forty-five (45) days of the end of each fiscal quarter, and (iii) notice of the occurrence of certain enumerated material events. See “CONTINUING DISCLOSURE” and APPENDIX G – “FORMS OF CONTINUING DISCLOSURE AGREEMENT.”

**Certain Information Related to this Limited Offering Memorandum**

The descriptions herein of the Indenture, the Loan Agreement and other agreements relating to the Bonds are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. See APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for a summary of, among other things, the rights and duties of the Authority and the Borrower and the rights and remedies of the Trustee and the Owners upon a default under the Indenture or the Loan Agreement, provisions relating to amendment of the Indenture or the Loan Agreement and procedures for defeasance of Bonds.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Limited Offering Memorandum nor any sale made hereunder nor any future use of this Limited Offering Memorandum will, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrower or the University since the date of this Limited Offering Memorandum. Additional information regarding this financing may be obtained from George K. Baum & Company, 1400 Wewatta Street, Suite 800, Denver, Colorado, 80202, (303) 292-1600.

**THE AUTHORITY**

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

## **PLAN OF FINANCE**

### **The 2010 Student Housing Project**

The net proceeds of the Series 2010 Bonds will be applied to purchase, equip and renovate the 2010 Student Housing Project. The 2010 Student Housing Project is comprised of an existing 215 unit apartment complex on approximately 7.25 acres located on the University's existing campus. The Borrower will purchase the building and appurtenances comprising the 2010 Student Housing Project from the University and will lease the real property underlying the buildings from the University pursuant to the Lease. The University will manage the operation and maintenance of the 2010 Student Housing Project. See APPENDIX A – "THE FACILITIES."

### **Acquisition Project**

The University will use a portion of the proceeds received from the sale of the 2010 Student Housing Project to the Borrower to acquire the land underlying a commercial complex adjacent to the eastern corner of the University's campus (the "Adams Plaza"), to make improvements to the approximately 48,500 square foot space that the University currently leases at Adams Plaza and/or to finance other educational facilities for the benefit of the University (together, the "Acquisition Project").

Management of the University believes that the University has prioritized the Acquisition Project as a key resource for accomplishing its strategic vision and meeting its critical needs for academic and auxiliary space. The University contemplates that it will develop the Acquisition Project space it leases for a combination of uses, including, but not limited to, student recreation center, bookstore, copy center, mailroom (including student mailboxes), academic departments and related faculty/staff office space in order to free up locations elsewhere on campus to be used for additional classroom space. The renovation cost of the existing Adams Plaza spaced leased by the University for these purposes is expected to exceed the amount available from the sale of the Royal Rose and Rose Garden Village apartment complexes. The University anticipates that it will first renovate approximately 37,000 square feet of leased Adams Plaza space for student activities, including a student recreation center with racquetball courts, climbing wall, fitness center, half-court basketball, and a juice bar. Management of the University believes that the student recreation center will serve as a recruiting tool for future students. The University has conceptual drawings for this renovation project and estimates that the contemplated interior space renovations will cost approximately \$100 per square for a total of approximately \$3.7 million. The University contemplates adding a new façade to the exterior of the building to improve the space's visual appeal. Adams Plaza is currently a dated strip mall-style center and requires upgrades to look more like the rest of campus. The University also plans to provide better access between the campus and Adams Plaza. The properties are adjacent; however, in order for students to access Adams Plaza, they currently have to go outside campus gates and around to the front of Adams Plaza to enter. A new connection for vehicles and pedestrian traffic through the side of the campus and the back of Adams Plaza will provide improved student access. In addition, the University anticipates renovating additional space at Adams Plaza as it becomes available to the University and on-campus locations that will become available subsequent to moving University activities and departments to Adams Plaza. The University does not currently anticipate that it will spend its own operational funds on the renovation of Adams Plaza and the development of access to the current University campus. See APPENDIX B – "CALIFORNIA BAPTIST UNIVERSITY – UNIVERSITY BUILDINGS – Acquisition Project."

## **ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds of the Series 2010 Bonds and other available funds will be used to (i) acquire the 2010 Student Housing Project, (ii) fund a deposit to the Debt Service Reserve Fund equal to the Series

2010 Debt Service Reserve Requirement, and (iii) pay the costs of issuance of the Series 2010 Bonds. See “PLAN OF FINANCE – The 2010 Student Housing Project.”

	Series 2010A	Series 2010B	
SOURCES OF FUNDS	Bonds	Bonds	TOTAL
Principal Amount	<u>\$13,200,000.00</u>	<u>\$775,000.00</u>	<u>\$13,975,000.00</u>
Total	\$13,200,000.00	\$775,000.00	\$13,975,000.00
USES OF FUNDS			
Deposit to Series 2010 Project Fund	\$11,706,865.12	\$379,384.88	\$12,086,250.00
Deposit to Debt Service Reserve Fund	1,229,134.88	72,165.12	1,301,300.00
Costs of Issuance <sup>(1)</sup>	<u>264,000.00</u>	<u>323,450.00</u>	<u>587,450.00</u>
Total	\$13,200,000.00	\$775,000.00	\$13,975,000.00

(1) Includes legal fees, printing costs, fees of the Authority, legal fees of counsel to the Underwriter, the Trustee and other miscellaneous expenses associated with the issuance of the Series 2010 Bonds.

## THE SERIES 2010 BONDS

### General Provisions

The Series 2010 Bonds are being issued and delivered pursuant to the Indenture. The Series 2010 Bonds will be dated as of their date of initial delivery and are being issued in the aggregate principal amount set forth on the cover page hereof and will mature on the dates and in the principal amounts set forth on the inside cover page of this Limited Offering Memorandum. The Series 2010 Bonds will be issued in authorized denominations of \$100,000 or any multiple of \$5,000 above that amount, provided however, if the transfer restrictions described below no longer apply, the Series 2010 Bonds may be in authorized denominations of \$5,000 or any integral multiple thereof. The Series 2010 Bonds will be delivered in fully registered form, will be transferable and exchangeable as set forth in the Indenture and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2010 Bonds. Ownership interests in the Series 2010 Bonds may be purchased in book-entry form only, in Authorized Denominations. So long as the Series 2010 Bonds are registered in the name of Cede & Co., all payments with respect to principal of and interest on the Series 2010 Bonds will be made by the Trustee to DTC, which is obligated in turn to remit such payments to its Direct Participants for subsequent disbursement to the beneficial owners of the Series 2010 Bonds. See APPENDIX H – “BOOK-ENTRY ONLY SYSTEM” attached hereto.

### Limitation on Purchase and Transfer of the Series 2010 Bonds

The Series 2010 Bonds are to be offered and sold (including secondary market transactions) only to Qualified Institutional Buyers. The Indenture contains provisions limiting transfers of the Series 2010 Bonds and beneficial ownership interests therein to Qualified Institutional Buyers. In addition, the face of each Series 2010 Bond will contain a legend indicating that such Series 2010 Bond can only be registered in the name of, or transferred to and owned by, Qualified Institutional Buyers.

So long as the Series 2010 Bonds are subject to the transfer limitations described herein and DTC’s book-entry system, beneficial ownership interests in the Series 2010 Bonds may not be purchased by, or transferred to, any person except a Qualified Institutional Buyer. During such time, the Trustee may rely upon any representation from a DTC Participant that a transferee of a beneficial ownership interest in the Series 2010 Bonds is a Qualified Institutional Buyer. The Trustee will not be required to

obtain such representation as a condition precedent to a transfer of ownership of a beneficial ownership interest in the Series 2010 Bonds. During any period of time when the Series 2010 Bonds are not subject to DTC's book-entry system, any Series 2010 Bond may be transferred upon the registration books kept by the Trustee, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of any such Series 2010 Bond for cancellation, accompanied by delivery of a written instrument of transfer. The Trustee will conclusively rely upon such written instrument of transfer as evidence that the transferee is a Qualified Institutional Buyer. See "TRANSFER RESTRICTIONS." In the event that the Series 2010 Bonds (without credit enhancement, unless such credit enhancement extends to the maturity or redemption of the Series 2010 Bonds) are rated "A3," "A-," "A-" or higher by Moody's, S&P or Fitch, respectively, or any other nationally recognized rating agency approved by the Authority, then the restrictions on transfer of Series 2010 Bonds described under "TRANSFER RESTRICTIONS" will no longer apply to the Series 2010 Bonds. See APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Indenture."

### **Interest on the Series 2010 Bonds**

The Series 2010 Bonds will mature on June 1 on each of the years as set forth on the inside cover of this Limited Offering Memorandum. The Series 2010 Bonds will bear interest from the date of their initial delivery, at the interest rates set forth on the inside cover, payable on each June 1 and December 1, commencing June 1, 2010 (each, an "Interest Payment Date"). Interest on the Series 2010 Bonds will be calculated based on a 360-day year of twelve (12) 30-day months.

Interest on each Series 2010 Bond will be computed from the Interest Payment Date to which interest has been paid (or duly provided for) next preceding the date of authentication thereof, unless (a) such date of authentication is prior to the first Interest Payment Date, in which case interest will be computed from the date of issuance of the Series 2010 Bonds or (b) such date of authentication is an Interest Payment Date, in which case interest will be computed from such date of authentication; provided, that if interest on such Series 2010 Bond is in default, such Series 2010 Bond and any Series 2010 Bonds issued in exchange therefor will bear interest from the last date to which interest has been paid in full (or duly provided for) on such Series 2010 Bond or, if no interest has been paid (or duly provided for) on such Series 2010 Bond, from the date of initial delivery of the Series 2010 Bonds. Interest accrued on the Series 2010 Bonds will be paid on each Interest Payment Date for the period from and including the date described in the preceding sentence to and including the day before such Interest Payment Date (whether or not the day before such Interest Payment Date is a Business Day). "Business Day" is defined in the Indenture as a day which is not a Saturday or a Sunday or a day on which banks located in the city in which the Principal Corporate Trust Office of the Trustee is located are required or authorized to be closed or a day on which the New York Stock Exchange is not closed.

### **Redemption**

The Series 2010 Bonds are subject to redemption prior to maturity as set forth below.

***Optional Redemption.*** The Series 2010A Bonds maturing on June 1, 2020, are subject to redemption prior to maturity, as a whole or in part on any date on or after June 1, 2019, from any prepayment of Loan Payments deposited in the Optional Redemption Account, at the principal amount of the Series 2010A Bonds to be redeemed, without premium, plus unpaid accrued interest, if any, to the date of redemption. The maturities and the principal amount of the Series 2010A Bonds to be redeemed will be as directed by the Borrower.

The Series 2010B Bonds are not subject to optional redemption.

***Mandatory Sinking Fund Redemption.*** The Series 2010A Bonds maturing on June 1, 2042, are subject to redemption, in part, by lot, from mandatory sinking fund payments deposited in the Bond Fund, on each June 1, from and after June 1, 2015, at the principal amount of the Series 2010A Bonds to be redeemed, without premium. Sinking fund payments for such Series 2010 Bonds will be due in the respective amounts and on the respective dates set forth below:

<u>Sinking Fund Installment Due Date (June 1)</u>	<u>Sinking Fund Installment</u>	<u>Sinking Fund Installment Due Date (June 1)</u>	<u>Sinking Fund Installment</u>
2015	\$150,000	2029	\$415,000
2016	160,000	2030	445,000
2017	175,000	2031	480,000
2018	185,000	2032	515,000
2019	200,000	2033	555,000
2020	215,000	2034	595,000
2021	230,000	2035	640,000
2022	250,000	2036	690,000
2023	265,000	2037	740,000
2024	285,000	2038	795,000
2025	310,000	2039	855,000
2026	330,000	2040	920,000
2027	360,000	2041	990,000
2028	385,000	2042 <sup>‡</sup>	1,065,000
<sup>‡</sup> Maturity			

In the event that Series 2010A Bonds have been optionally redeemed or subject to extraordinary redemption, the remaining mandatory sinking fund installments will be reduced in an aggregate amount equal to the principal amount of the Series 2010A Bonds so redeemed, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, as directed in writing by the Borrower, and in the absence of such direction, as proportionately as possible, in all cases sufficient to maintain the applicable Authorized Denominations.

The Series 2010B Bonds maturing on June 1, 2014 are subject to redemption, in part, by lot, from mandatory sinking fund payments deposited in the Bond Fund, on each June 1, from and after June 1, 2012, at the principal amount of the Series 2010B Bonds to be redeemed, without premium. Sinking fund payments for such Series 2010B Bonds will be due in the respective amounts and on the respective dates set forth below:

<u>Sinking Fund Installment Due Date (June 1)</u>	<u>Sinking Fund Installment</u>
2012	\$235,000
2013	260,000
2014 <sup>‡</sup>	280,000
<sup>‡</sup> Maturity	

In the event that Series 2010B Bonds have been subject to extraordinary redemption, the remaining mandatory sinking fund installments will be reduced in an aggregate amount equal to the principal amount of the Series 2010B Bonds so redeemed, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of \$5,000 or integral multiples

thereof, as determined by the Trustee, as directed in writing by the Borrower, and in the absence of such direction, as proportionately as possible, in all cases sufficient to maintain the applicable Authorized Denominations.

***Extraordinary Redemption.*** The Series 2010 Bonds are subject to redemption prior to their stated maturity, as a whole or in part on any date (in such amounts and on such dates as may be specified by the Borrower, or if the Borrower fails to specify such amounts and such dates, in inverse order of maturity and by lot within a maturity) from insurance and condemnation proceeds, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

## **Redemption Procedures**

***Notice of Redemption.*** Notice of redemption will be given by the Trustee as provided in the Indenture by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the Owner of such Series 2010 Bond at the address shown on the registration books of the Trustee on the date such notice is mailed. Each notice of redemption will state the date of such notice and date of issue of the Series 2010 Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the principal amount, the CUSIP numbers (if any) of the Series 2010 Bonds to be redeemed and, if less than all of the Series 2010 Bonds are to be redeemed, the distinctive certificate numbers of the Series 2010 Bonds to be redeemed and, in the case of Series 2010 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that the interest on the Series 2010 Bonds designated for redemption will cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Series 2010 Bonds the principal amount thereof to be redeemed, unpaid interest accrued thereon, if any, to the redemption date and will require that such Series 2010 Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

Failure by the Trustee to mail the notice described above to any Owner of any Series 2010 Bonds designated for redemption, or any defect in any notice so mailed, will not affect the validity of the proceedings for redemption of any other Series 2010 Bonds.

With respect to any notice of optional redemption of Series 2010 Bonds, unless upon the giving of such notice such Series 2010 Bonds are to be deemed to have been paid within the meaning of the Indenture, such notice will also state that such redemption will be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of such Series 2010 Bonds to be redeemed, and that if such amounts will not have been so received said notice will be of no force and effect and the Authority will not be required to redeem such Series 2010 Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice, to the Persons and in the manner in which the notice of redemption was given, that such amounts were not so received.

***Selection of Series 2010 Bonds for Redemption.*** The principal amount of Series 2010 Bonds and maturities to be redeemed will be as specified by the Borrower. If less than all of the Series 2010 Bonds are called for redemption, the Trustee is required to select the Series 2010 Bonds and maturities, or any given portion thereof, to be redeemed, by lot in such manner as it may determine. Notwithstanding the foregoing, if less than all of the Series 2010 Bonds are to be redeemed, selection of the Series 2010 Bonds to be redeemed will be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.



***Effect of Redemption.*** Notice of redemption having been duly given as described under “Notice of Redemption” above, and moneys for payment of the redemption price being held by the Trustee, the Series 2010 Bonds so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Series 2010 Bonds so called for redemption will cease to accrue, said Series 2010 Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of said Series 2010 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

## **TRANSFER RESTRICTIONS**

The Series 2010 Bonds are to be offered and sold (including certain secondary market transactions) only to Qualified Institutional Buyers as defined in Rule 144A of the Securities Act of 1933. See APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions.” The Indenture contains provisions limiting transfers of the Series 2010 Bonds and beneficial ownership interests therein to Qualified Institutional Buyers. In addition, the face of each Series 2010 Bond will contain a legend indicating that such Series 2010 Bond can only be registered in the name of, or transferred to and owned by, Qualified Institutional Buyers. See “NOTICE TO INVESTORS” preceding the table of contents herein. Further, each purchaser will be required to deliver an Investor Letter substantially in the form of APPENDIX I - “INVESTOR LETTER” hereto.

In the event that the Series 2010 Bonds (without credit enhancement, unless such credit enhancement extends to the maturity or redemption of the Series 2010 Bonds) are rated “A3,” “A-,” “A-” or higher by Moody’s, S&P or Fitch, respectively, or any other nationally recognized rating agency approved by the Authority, then the restrictions on transfer of Series 2010 Bonds described above will no longer apply to the Series 2010 Bonds. See APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Indenture.”

## **SECURITY FOR THE BONDS**

### **General**

The Series 2010 Bonds will be issued as Parity Debt under the Indenture and equally and ratably secured by and entitled to the benefits of the Indenture with the Series 2007 Bonds, including the pledge and assignment by the Authority to the Trustee of the Gross Revenues described below and the other security described below.

Subject to the Indenture, the Trust Estate is pledged to the payment of the principal of and interest on the Bonds. “Trust Estate” is defined under the Indenture to mean all of the right, title and interest of the Authority in the Loan Agreement and all amounts and securities in the funds held by the Trustee under the Indenture (excepting only moneys held in the Rebate Fund, Additional Payments paid by the Borrower pursuant to the provisions of the Loan Agreement and any amounts paid by the Borrower pursuant to the Loan Agreement relating to attorneys’ fees, certain expenses and indemnification). “Gross Revenues” are defined under the Indenture to include, with respect to any period, all income and revenues derived by the Borrower from the operation of the Facilities for such period, whether resulting from the original Facilities or from improvements, extensions, enlargements, repairs or betterments thereto, replacements thereof or otherwise, including (a) all fees, rents, interest, income, parking revenues, laundry and vending machine revenues, but specifically excluding Security Deposits and (b) any grants, loans, subsidies or other payments received by, or paid on behalf of, the Borrower in connection with its

interest in the Facilities. “Security Deposits” are defined under the Indenture to mean the amount of money collected by or on behalf of the Borrower from the tenants of the Project to pay for repairs pursuant to the Leases with such tenants.

Under the Loan Agreement, the Borrower has pledged and granted a security interest, to the extent permitted by law, to the Authority in all Gross Revenues and the proceeds thereof, to secure the obligations of the Borrower thereunder.

Further as provided in the Loan Agreement, in order to further secure the payment of Loan Payments and the performance of the other obligations of the Borrower under the Loan Agreement, the Borrower is executing the Deed of Trust to grant to the Trustee a security interest in the Lease.

Pursuant to the Indenture, the Authority grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, the Trust Estate and any and all rights and privileges, other than the Reserved Rights it has under the Loan Agreement including the right to collect and receive all of the Gross Revenues under the Loan Agreement and the right to hold and enforce any security interest, and any Gross Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall be paid to the Trustee. “Reserved Rights” are defined under the Indenture to mean the Authority’s rights under the Loan Agreement to Additional Payments and to notices, indemnities, consultations, approvals, consents and opinions.

#### **Limited Obligation of Authority**

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

**ALTHOUGH THE SERIES 2010 BONDS ARE ISSUED BY THE AUTHORITY, THE SERIES 2010 BONDS SHOULD BE VIEWED AS AN OBLIGATION OF THE BORROWER PAYABLE SOLELY FROM THE TRUST ESTATE.**

#### **Payments Under the Loan Agreement**

Under the Loan Agreement, the Borrower agrees to make the Loan Payments and certain additional payments (generally ongoing costs and expenses of the Authority and the Trustee associated with the Bonds), which are expected to be derived primarily from the Gross Revenues. See APPENDIX A – “THE FACILITIES.”

## **The Lease**

Pursuant to the Lease, the University leases the real property upon which the Existing Facilities are located to the Borrower and upon acquisition will add the 2010 Student Housing Project to the Existing Facilities pursuant to the Amendment to Lease dated as of February 1, 2010. The fee simple title to the real property upon which the Facilities are located will remain with the University for the term of the Lease. The Lease expires on June 27, 2042 unless terminated at an earlier date upon the exercise by the University of its option to purchase the Borrower's leasehold interest in the real property upon which the Facilities are located, for a purchase price equal to the greater of an amount sufficient to redeem or defease the Bonds or the fair market value of the Borrower's leasehold interest in the Facilities.

The Borrower may offer units within the Facilities for lease to any person who is a student of the University, faculty or staff members of the University, any person participating in University educational programs, any visiting lecturer, facilities personnel, or any other person that enhances the educational benefits of students or program participants. In the event of a default under the Lease, the Borrower shall be permitted to lease units to students of other qualified nonprofit or public institutions of higher education.

To the extent necessary to provide the Borrower sufficient revenue to meet the Loan Payments, the University will aid in the marketing of the Facilities to its students by directing students to live in the Facilities before recommending or directing students to on- or off-campus residences other than the Facilities, and will undertake other efforts as may be practicable that contribute to the Facilities remaining occupied at such a level. See APPENDIX B – "CALIFORNIA BAPTIST UNIVERSITY – STUDENT HOUSING."

The University will have the right to consent to the Borrower's construction and/or acquisition of any other student housing project after the acquisition of the 2010 Student Housing Project. Pursuant to the Lease, the University will not construct or acquire or cause the construction or acquisition on its behalf of additional student housing (other than the 2010 Student Housing Project) unless the Gross Revenues generated by the Facilities in the Fiscal Year preceding the acquisition or commencement of construction of such additional student housing equaled or exceeded 180% of Bond Debt Service of the Borrower for such Fiscal Year, as reflected in the audited financial statements of the Borrower. The University will not make any changes to its policy to require certain student to live in on-campus housing or the Facilities that would materially adversely affect the Borrower's ability to make Loan Payments. See "SECURITY FOR THE BONDS – Parity Debt."

Except for the Deed of Trust, the Borrower may not pledge, hypothecate, mortgage, grant a lien upon or a security interest in, or assign the Lease or any estate or interest therein and/or in the Facilities by operation of law or otherwise, or to sublet the Facilities or any part thereof, or to grant any concession or license, or to allow anyone to occupy the Facilities, without the prior written consent of the University. In addition, the Borrower shall not permit or grant security interests or other interests upon the Borrower's trade fixtures, personal property, and equipment on the Premises without first obtaining the University's written consent thereto. The sale, transfer or assignment of a controlling interest of Borrower shall be considered an assignment prohibited by the Lease. The consent of the University to any one or more assignments, subleases, transfers or liens will not operate to exhaust the University's rights under the Lease, nor will the University's consent operate to release the Borrower from any of its obligations under the Lease.

The Borrower will be deemed in default of the Lease if: (i) the Borrower fails to pay Rent or any other sum required under the lease when due; or (ii) the Borrower fails to observe or perform its obligations under the Lease and such default is not cured within ninety (90) days after the Borrower

receives written notice of such default from the Trustee or the Borrower has not commenced to cure the default within ninety (90) days after the Borrower receives written notice of such default from the Trustee; or (iii) the Borrower files a petition in bankruptcy or is adjudicated bankrupt or files any petition or answer seeking a reorganization, arrangement, composition, readjustment, liquidation, dissolution, or a similar relief for itself under any present or future federal, state, or other statute, law, or regulation, or make an assignment for the benefit of creditors; or (iv) the leasehold estate created under the Lease is taken by execution, foreclosure, or other process of law.

In the event of a default under the Lease, the Trustee may take steps to remedy the default on behalf of the Bond owners. In the event that Borrower defaults under the Loan Agreement and, as a result of such default, Trustee forecloses on the Deed of Trust resulting in a sale of Borrower's leasehold interest to a third party purchaser, such purchaser shall not be restricted to leasing the Facilities to only Eligible Tenants, provided that the following two (2) conditions are also met:

- (i) the Bonds are deemed paid and discharged within the meaning of Article X of the Indenture as a result of such foreclosure sale, and
- (ii) either: (a) the University is no longer in existence, or (b) the University is in existence, but sufficient demand does not exist to fill the Facilities; provided, however, that if the University is still in existence, before leasing the Facilities to any person that is not an Eligible Tenant, the purchaser of Lessee's interest at such foreclosure sale shall first obtain and deliver to the University an opinion letter from nationally recognized tax or bond counsel that has been pre-approved by the University confirming that leasing the Facilities to persons other than Eligible Tenants will not affect the University's status as a tax-exempt 501(c)(3) entity or affect the nature of any tax exempt debt obligations of the University. In addition, such purchaser shall first make all such Facilities available to Eligible Tenants, and if and only if sufficient demand does not exist for Eligible Tenants, shall make the Facilities available to persons other than Eligible Tenants in the following order: (1) Magnolia Hacienda Property; (2) University Place Apartments; (3) Adams Villas Property; (4) Lancer Arms Apartments; (5) Smith Hall Dormitory; (6) Simmons Hall Dormitory; and (7) the Additional Student Housing Project, also known as Royal Rose and Rose Garden Apartments.

## **The Deed of Trust**

The Deed of Trust creates a mortgage of the Borrower's interest in the Lease for the benefit of the Trustee. The Deed of Trust contains customary California law provisions permitting foreclosure of the Deed of Trust upon an event of default under the Loan Agreement.

## **Management Agreement**

The Management Agreement between the Borrower and the University appoints the University as the exclusive agent for management of the Facilities. Pursuant to the Management Agreement the University covenants to administer and supervise the management, operation and maintenance of the Facilities as required under the Lease, including the collection rent for the account of the Borrower and depositing all Gross Revenue received with the Trustee. The Management Agreement commenced upon the delivery of the Series 2007 Bonds and will terminate upon the earlier of the termination of the Lease or June 27, 2042. See APPENDIX A – "THE FACILITIES – Background."

In the event that the Facilities do not generate sufficient revenue for the Borrower to reimburse the University for its expenses incurred pursuant to the Management Agreement (whether Operating

Expenses or expenses related to capital improvements), the University and the Borrower agree that any amounts that the Borrower is unable to reimburse the University will be considered a loan or loans to Borrower; provided that the Borrower's obligation to repay such loan or loans will be in all respects subordinate to the Borrower's obligation to make payments under the Loan Agreement. The University is not obligated to pay principal of, premium, if any, and interest on the Bonds.

### **Contingent Operating Expense Agreement**

Under the Contingent Operating Expense Agreement, the University covenants to pay the Operating Expenses of the Facilities in the event the Borrower is unable to generate sufficient funds to do so. The Trustee covenants to notify the University of the inability of the Borrower to pay such Operating Expenses and thereupon the University will advance sufficient funds to the Borrower. Amounts advanced by the University to the Borrower under the Contingent Operating Expense Agreement will be a nonrecourse loan by the University subordinate to the Bonds. The Contingent Operating Expense Agreement will automatically terminate upon the redemption or defeasance of the Bonds.

The obligations of the University under the Contingent Operating Expense Agreement are unqualified and unconditional and are not subject to termination, reduction or abatement for any reason or under any circumstances, including the bankruptcy or insolvency of the Borrower, the condemnation or destruction of all or substantially all of the 2010 Student Housing Project, the replacement of the University as manager or otherwise. The University is not obligated to pay principal of, premium, if any, and interest on the Bonds.

### **Parity Debt**

The Indenture permits the issuance of Additional Bonds, in addition to the Series 2007 Bonds and the Series 2010 Bonds, which will be on a parity with the Bonds. See APPENDIX E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE – The Bonds – Conditions for the Issuance of Additional Bonds," which describes the conditions for the issuance of Additional Bonds. Under the Loan Agreement, the Borrower covenants that it will not incur any additional Debt in connection with Additional Projects unless (1) the Historical Debt Service Coverage Ratio of the Borrower equals or exceeds 1:20:1, (2) the Proforma Debt Service Coverage Ratio equals or exceeds 1:20:1, in each case as certified by the Borrower and the University to the Trustee, and (3) the Borrower certifies to the Trustee that it is not in default under the Loan Agreement. The foregoing tests for additional Debt need not be met if the Owners of the Outstanding Bonds consent to the issuance of such additional Debt. Any additional Debt that is not issued as Additional Bonds pursuant to the Indenture shall be subordinate to the Bonds.

### **Revenue Fund**

Under the Indenture, upon the receipt of Gross Revenues from the Borrower, the Trustee will deposit all such amounts in the Revenue Fund, which the Trustee has previously established and maintains and holds in trust under the Indenture. Except as provided in the Indenture, moneys on deposit in the Revenue Fund will be applied in the following order of priority:

(a) First, to the Bond Fund, in an amount equal to the interest due on the Bonds on the next two succeeding Interest Payment Dates; provided, however, if the requirement that amounts representing payment of interest for the next two succeeding Interest Payment Dates would lead to an Event of Default for failure to pay principal on the next succeeding Principal Payment Date, amounts on deposit in the Bond Fund to be applied to the second Interest Payment Date payment may be applied to principal due on such Principal Payment Date;

(b) Second, to the Bond Fund, in an amount equal to the principal due on the Bonds on the next Principal Payment Date;

(c) Third, to the Debt Service Reserve Fund, to the extent necessary to make up any deficiency in the Debt Service Reserve Requirement;

(d) Fourth, to the Repair and Replacement Fund, in an amount equal to the contribution required pursuant to the Indenture for such Fiscal Year;

(e) Fifth, to the respective Rebate Fund for the Series 2007 Bonds and the Series 2010 Bonds, to the extent necessary to satisfy the Rebate Requirement; and

(f) Sixth, to the Surplus Fund, any remaining amounts.

### **Debt Service Reserve Fund**

The Indenture requires the deposit to the Debt Service Reserve Fund of an amount equal to the Series 2010 Debt Service Reserve Requirement. "Series 2010 Debt Service Reserve Requirement" means, an amount equal to \$1,301,300, such that upon such deposit on the Series 2010 Issue Date the amount on deposit in the Debt Service Reserve Fund equals the Debt Service Reserve Requirement. If, on any date on which the principal or redemption price of, or interest on, any of the Bonds is due, the amount in the Bond Fund (after taking into account any transfer from first, the Surplus Fund or second, the Repair and Replacement Fund) available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee is required to apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency.

The Borrower will covenant and agree in the First Supplemental Agreement that it will not cause the deposit of any policy of municipal bond insurance, surety bond, letter of credit or other Reserve Financial Guaranty (as defined in the Original Indenture) as a substitute for cash in the Debt Service Reserve Fund established under the Indenture.

On each Debt Service Reserve Valuation Date, the Trustee shall transfer from the Revenue Fund an amount such that, after the deposit of such amount in the Debt Service Reserve Fund, the amount on deposit therein shall be at least equal to the Debt Service Reserve Requirement. If on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement, the Trustee shall transfer the amount of such deficiency from amounts on deposit first, in the Surplus Fund, and second, the Repair and Replacement Fund, to the Debt Service Reserve Fund. If on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, such excess shall be deposited in the Bond Fund.

Whenever the amount in the Debt Service Reserve Fund, together with the amount in the Bond Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund will be transferred to the Bond Fund.

### **Repair and Replacement Fund**

Pursuant to the Indenture, the Trustee has previously established and maintains and holds in trust the Repair and Replacement Fund. The Trustee commenced transferring moneys from the Revenue Fund for deposit in the Repair and Replacement Fund on July 1, 2008, and will continue transferring money on

each July 1 thereafter. To the extent amounts are on deposit in the Revenue Fund, the amount to be so transferred will equal \$175 (adjusted by 3% each following Fiscal Year) times the number of beds in the Facilities. Beginning on June 30, 2011 and every seven Fiscal Years thereafter, the amount on deposit in the Repair and Replacement Fund shall be reviewed by a Consultant to determine the sufficiency of such annual deposit and if the Consultant determines that the amount of such deposit should be adjusted, the amount of such deposit shall be so adjusted. Amounts on deposit in the Repair and Replacement Fund may be withdrawn from time to time and at any time upon receipt by the Trustee of a requisition of the Borrower in order to make capital improvements to the Facilities and to pay debt service on the Bonds in the event amounts on deposit in the Bond Fund and second, the Surplus Fund, are insufficient for such purposes. No minimum amount is required to be maintained in the Repair and Replacement Fund.

### **Surplus Fund**

The Trustee has previously established and maintains and holds in trust the Surplus Fund. On the 15<sup>th</sup> day of each month, to the extent there are moneys available in the Surplus Fund and the deposits required to be made pursuant to the Indenture have been made, the Borrower may submit a requisition of the University, requesting that the Trustee reimburse the University from amounts on deposit therein to the extent of any Operating Expenses incurred by the University in connection with the Facilities. On September 1 of each year, provided that the Borrower is in compliance with the Rate Covenant (as evidenced by the calculation filed with the Trustee by the Borrower no later than August 1 of such year) any moneys remaining in the Surplus Funds, other than those moneys deposited in the Surplus Fund in the then-current Fiscal Year, will be transferred by the Trustee to the Borrower, unless otherwise instructed by the Borrower, free and clear of the pledge and lien of the Indenture.

### **Rate Maintenance Covenant**

Under the Loan Agreement, the Borrower will charge and maintain rental rates for the Facilities at a level which will provide Gross Revenues in each Fiscal Year at least equal to 150% of the Bond Debt Service for such Fiscal Year (the "Rate Covenant"). On or before August 1 of each year, commencing with the Fiscal Year ending June 30, 2008, the Borrower has filed with the Trustee a calculation certified to the Trustee and the Authority in writing by an Authorized Borrower Representative of the percentage of Gross Revenues to the Bond Debt Service for the immediately preceding Fiscal Year. If such certificate sets forth a percentage of less than 125%, the Borrower will, within 30 days of delivery of such certificate, retain the services of a Consultant. Such Consultant will examine the rents, fees and other charges charged by the Borrower for use of the Facilities, as well as the Operating Expenses for the Facilities and will, within 60 days, file a report with the Trustee and the Borrower containing recommendations regarding the setting of rental rates and other matters with respect to the operations of the Facilities. The Borrower will follow the recommendations contained in such report, unless the Borrower is legally prevented from doing so (which will be reasonably proven by the Borrower to the satisfaction of the Consultant). The failure of Gross Revenues to actually equal at least 150% of Bond Debt Service in each Fiscal Year will not constitute an Event of Default so long as (i) except as provided above, the Borrower follows the recommendations of the Consultant, if required to be retained, and (ii) Gross Revenues equaled at least 100% of the Bond Debt Service in such Fiscal Year.

### **Insurance**

Pursuant to the Loan Agreement, so long as any Bonds remain Outstanding, the Borrower will maintain or cause to be maintained with respect to its properties, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by educational facilities located in the State of California of a nature similar to the Project, which insurance includes property damage, fire and extended coverage, public liability and property damage

liability insurance. Under the Loan Agreement, the Borrower covenants to maintain business interruption, use and occupancy insurance to cover loss, total or partial, of the use of any structure constituting any part of the Facilities, in an amount sufficient to pay Bond Debt Service for a period of at least the next 12 months. The net proceeds of such insurance will be deposited in the Revenue Fund.

## DEBT SERVICE REQUIREMENTS FOR THE BONDS

Set forth below are the debt service requirements for the Bonds for each Fiscal Year:

<u>Year</u>	<u>Series 2010A Bonds</u>		<u>Series 2010B Bonds</u>		<u>Series 2007 Bonds</u>		<u>TOTAL</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	-	\$283,250.00	-	\$21,064.93	-	\$1,695,841.25	\$2,000,156.18
2011	-	990,000.00	-	73,625.00	\$650,000	1,695,841.25	3,409,466.25
2012	-	990,000.00	\$ 235,000	73,625.00	695,000	1,653,663.75	3,647,288.75
2013	-	990,000.00	260,000	51,300.00	740,000	1,608,311.25	3,649,611.25
2014	-	990,000.00	280,000	26,600.00	790,000	1,559,970.00	3,646,570.00
2015	\$ 150,000	990,000.00	-	-	835,000	1,517,310.00	3,492,310.00
2016	160,000	978,750.00	-	-	880,000	1,472,220.00	3,490,970.00
2017	175,000	966,750.00	-	-	925,000	1,424,700.00	3,491,450.00
2018	185,000	953,625.00	-	-	975,000	1,374,750.00	3,488,375.00
2019	200,000	939,750.00	-	-	1,030,000	1,319,906.25	3,489,656.25
2020	215,000	924,750.00	-	-	1,090,000	1,261,968.75	3,491,718.75
2021	230,000	908,625.00	-	-	1,155,000	1,200,656.25	3,494,281.25
2022	250,000	891,375.00	-	-	1,220,000	1,135,687.50	3,497,062.50
2023	265,000	872,625.00	-	-	1,290,000	1,067,062.50	3,494,687.50
2024	285,000	852,750.00	-	-	1,360,000	994,500.00	3,492,250.00
2025	310,000	831,375.00	-	-	1,440,000	918,000.00	3,499,375.00
2026	330,000	808,125.00	-	-	1,520,000	837,000.00	3,495,125.00
2027	360,000	783,375.00	-	-	1,605,000	751,500.00	3,499,875.00
2028	385,000	756,375.00	-	-	1,700,000	661,218.75	3,502,593.75
2029	415,000	727,500.00	-	-	1,795,000	565,593.75	3,503,093.75
2030	445,000	696,375.00	-	-	1,895,000	464,625.00	3,501,000.00
2031	480,000	663,000.00	-	-	2,005,000	358,031.25	3,506,031.25
2032	515,000	627,000.00	-	-	2,120,000	245,250.00	3,507,250.00
2033	555,000	588,375.00	-	-	-	-	1,143,375.00
2034	595,000	546,750.00	-	-	-	-	1,141,750.00
2035	640,000	502,125.00	-	-	-	-	1,142,125.00
2036	690,000	454,125.00	-	-	-	-	1,144,125.00
2037	740,000	402,375.00	-	-	-	-	1,142,375.00
2038	795,000	346,875.00	-	-	-	-	1,141,875.00
2039	855,000	287,250.00	-	-	-	-	1,142,250.00
2040	920,000	223,125.00	-	-	-	-	1,143,125.00
2041	990,000	154,125.00	-	-	-	-	1,144,125.00
2042	1,065,000	79,875.00	-	-	-	-	1,144,875.00
<b>TOTAL</b>	<b>13,200,000</b>	<b>23,000,375.00</b>	<b>775,000</b>	<b>246,214.93</b>	<b>27,715,000</b>	<b>25,783,607.50</b>	<b>90,720,197.43</b>

## RISK FACTORS

*The following are risk factors that have been identified by the Borrower and should be carefully considered by prospective purchasers of the Series 2010 Bonds. Investment considerations that relate solely to the University are included because of the University's obligations under the Management Agreement and the Contingent Operating Expense Agreement and because the Facilities are expected to be used primarily by students attending the University. The University is not obligated to pay the debt service on the Series 2010 Bonds. The following list should not be considered to be exhaustive and has been prepared within the context of this Limited Offering Memorandum. Inclusion of certain investment*



*considerations below is not intended to signify that there are not other investment considerations or risks attendant to the Series 2010 Bonds that are material to an investment decision with respect to the Series 2010 Bonds that are otherwise described or apparent elsewhere herein.*

## **General**

As noted under “SECURITY FOR THE BONDS,” the Bonds are payable primarily from Gross Revenues derived from the Facilities. The Facilities are expected to be used primarily for the benefit of the University, so certain matters affecting the University will have a direct bearing on the ability of the Borrower to lease the Facilities and obtain sufficient Gross Revenues to pay the debt service on the Bonds. Future economic and other conditions, including the University’s revenue and expenses, demand for private higher education, the ability of the University to offer a curriculum demanded by students generally, ability to attract and retain professors, tuition, costs, the University’s fundraising plans, a shortfall in the amounts expected to be received by the University through fundraising efforts, litigation, investment returns, demographic changes, legislation, governmental regulations or catastrophic or other events damaging the existing facilities of the University or the Borrower could adversely affect the Borrower’s ability to pay the Loan Payments. In addition, any developments affecting the nonprofit or tax-exempt status of the Corporate Member could adversely affect the financial condition and operations of the Borrower. **There can be no assurance given that revenues of the Borrower will not decrease or that expenses of the Borrower will not increase.** Any and all financial forecasts are only good faith estimates and are not intended as a representation or warranty as to the future financial condition of the Borrower or the University.

## **The Borrower Has Only a Leasehold Interest in the Land**

As described in “SECURITY FOR THE BONDS – The Lease,” the Borrower has only a leasehold interest in the land on which the Facilities are located and the Deed of Trust grants to the Trustee only a security interest in such leasehold interest. In addition, upon an Event of Default, the Trustee has only the right to foreclose on the leasehold estate created by the Lease and does not have the right to sell the fee interest in the land, which limits the amount the Trustee could realize under the Deed of Trust. The ability of the Trustee to sell the leasehold interest in the land may be limited by a number of factors, including the fact that the purchaser of such interest may be able to control the Facilities only for a limited period of time.

## **Special Use Facilities**

A portion of the Facilities have been specifically designed and constructed as a student housing facility. The number of entities that could be expected to purchase or lease the Facilities are limited, and thus the ability of the Trustee to realize funds from the sale or rental of the Facilities upon an Event of Default is likely to be limited to an amount substantially less than the original principal amount of the Bonds.

## **Liquidation of Security May Not Be Sufficient in the Event of a Default**

It has been the experience of lenders in recent years that attempts to foreclose on commercial property or otherwise realize upon security for obligations are frequently met with defensive measures such as protracted litigation or bankruptcy proceedings, and that such defensive measures can greatly increase the expense and time involved in achieving such foreclosure or other realization. The liquidation value of assets in a bankruptcy or creditors’ proceeding is typically less than the replacement value of such assets for an ongoing business operation. The practical use of the Facilities is limited to its special use for the University; it will not be generally suitable for commercial or industrial uses. Consequently, it

may be difficult to find a buyer or tenant for the Facilities if it were necessary to foreclose on the Facilities. In addition, the same factors that lead to foreclosure may substantially reduce the value of the Facilities. If it becomes necessary to foreclose the lien of the Deed of Trust on the Facilities, net proceeds received from any foreclosure sale may be less than the aggregate principal amount of the Bonds outstanding.

### **Limited Resources of Borrower**

The Borrower has no substantial revenues or assets other than its interest in the Facilities. Timely payment of principal of, premium, if any, and interest on the Bonds will be dependent upon the Borrower's ability to generate Gross Revenues from the Facilities sufficient to pay its Loan Payments under the Loan Agreement. If there are insufficient Gross Revenues to pay the debt service on the Bonds, the Borrower will have no moneys or assets other than the Facilities from which to make the payments required under the Loan Agreement. Neither the University nor the Corporate Member has any obligation to pay the Bonds.

### **Limited Operating History**

The Borrower is a limited liability company created in 2007. Prior to June 2007, the Borrower had never operated any buildings on a college campus. The Borrower has limited operating history and limited net worth apart from the value of the Facilities. The Borrower and the Corporate Member are relying upon the University's agreement to manage the Facilities pursuant to the Management Agreement. If the University is unable to perform its obligations under the Management Agreement, the Borrower has neither the staff nor the expertise needed to manage and market the Facilities. Neither the Corporate Member nor the University has any obligation to pay debt service on the Bonds.

### **University's Projections**

The projections of the University's financial statements in Appendix B hereto have been prepared by management of the University. The University's projections have not been examined by independent accountants.

**THE UNIVERSITY'S PROJECTIONS IN APPENDIX B HERETO MUST BE READ IN THEIR ENTIRETY TO UNDERSTAND THE ASSUMPTIONS UPON WHICH THE PROJECTIONS ARE BASED AND THE QUALIFICATIONS WHICH HAVE BEEN MADE. THERE IS NO ASSURANCE THAT THE PROJECTIONS WILL BE ACHIEVED. ACTUAL FUTURE EVENTS WILL LIKELY VARY FROM THE PROJECTIONS, AND SUCH VARIANCES MAY BE MATERIAL. SEE THE INFORMATION IN THE FIRST UN-NUMBERED PAGE OF THIS LIMITED OFFERING MEMORANDUM REGARDING FORWARD-LOOKING STATEMENTS FOR AN EXPLANATION REGARDING SUCH PROJECTIONS.**

### **Need to Maintain Occupancy of the Facilities**

Profitable operation of the Facilities depends in large part on maintaining certain occupancy levels and rents for the Facilities throughout the term of the Bonds. However, no assurance can be made that such occupancy and levels can be maintained or that the Gross Revenues derived from the Facilities will be realized by the Borrower in amounts necessary to pay principal of, premium, if any, and interest on the Bonds.

## **University Housing Projects**

The University owns and operates certain student housing facilities and may, in the future, construct additional student housing facilities that may compete with the Facilities for residents subject to the restrictions contained in the Lease. See APPENDIX B – “CALIFORNIA BAPTIST UNIVERSITY – STUDENT HOUSING” and “SECURITY FOR THE BONDS – The Lease.”

## **Enrollment and Competition**

The Borrower’s ability to make Loan Payments will depend in significant part upon the University’s ability to continue as a going concern and maintain enrollment levels sufficient to ensure that the Facilities are leased. The University anticipates growing its enrollment significantly over the next decade which may require the Borrower or the University to acquire or construct additional housing facilities, which will result in the Borrower relying further on the University’s ability to maintain such enrollment levels. The University’s enrollment levels may be adversely impacted by any tuition increases the University may be required to implement to maintain revenues in the future. Enrollment may also be impacted by adverse events affecting the University, including but not limited to adverse publicity respecting the University or its programs, the administration, faculty or students, receptivity to specific programs, requirements or educational methodologies adopted by the University, receptivity to the philosophy and educational tenets of the University and its approach to education, reduction in the number of college age youth, increased competition, the reduction in the availability of financial aid sources or general economic downturns. In addition, the University competes for enrollment with other public and private colleges in California. See APPENDIX B – “CALIFORNIA BAPTIST UNIVERSITY – STUDENT APPLICATIONS, ACCEPTANCES AND MATRICULATIONS.”

## **General Risks Related to Private Universities**

There are many diverse factors, not within the University’s control, which have a substantial bearing on the risks generally incident to the operation of the University’s facilities. These factors include generally imposed fiscal policies, adverse use or adjacent neighboring real estate, the ability to maintain the facilities, the University’s ability to attract and retain professors (whether because of compensation or otherwise), changes in demand for private universities like the University, changes in the number of competing facilities, changes in the costs of operation of the University, changes in the recognition or accreditation of the University, or withdrawal of accreditation, general economic conditions, and the availability of working capital. There can be no assurance that the University will not experience one or more of the adverse factors that have caused other schools to experience financial hardship or to cease operations completely, which could have a material adverse effect on the University’s ability to perform its obligations under the Management Agreement and the Contingent Operating Expense Agreement.

## **Insurance Coverage**

The insurance requirements imposed by the Loan Agreement are limited, and insurance proceeds may not be available to cover all claims or risks relating to the Facilities. See “SECURITY FOR THE BONDS –Insurance” and APPENDIX A – “THE FACILITIES.” Litigation could arise from the business activities of the Borrower and the University, including from its status as an employer. Many of these risks are covered by insurance, but some may not be covered completely or at all.

Future increases in insurance premiums and future limitations on the availability of certain types of insurance coverage could have an adverse impact on the Borrower’s financial condition and operations and, ultimately, could adversely impact the ability of the Borrower to make Loan Payments.

## **Seismic Conditions**

Generally, throughout the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to property located at or near the center of such seismic activity. The Loan Agreement does not require earthquake insurance and neither the Borrower nor the University maintain earthquake insurance coverage.

## **Normal Risks Attending Any Investment in Real Estate; Risks of Real Estate Investment**

There are many diverse risks attending any investment in real estate not within the Borrower's control, which may have a substantial bearing on the profitability and financial feasibility of the Facilities. Such risks include possible adverse use of adjoining land, fire or other casualty, condemnation, increased taxes, changes in demand for such facilities, decline in the neighborhood and general economic conditions.

Ownership and operation of real estate, such as the Facilities, involve certain risks, including the risk of adverse changes in general economic and local conditions; over-supply or similar facilities in the area; population decreases; uninsured losses; operating deficits and mortgage foreclosure; adverse changes in neighborhood values; and adverse changes in zoning laws, other laws and regulations and real property tax rates. Such losses also include the possibility of fire or other casualty or condemnation.

## **Series 2010 Bonds Not Obligations of the Authority**

The Series 2010 Bonds are not a debt or liability of the State or of any political subdivision thereof, other than the Authority, and shall be payable solely from the funds provided therefor. The Authority shall not be obligated to pay the principal of the Series 2010 Bonds, or the redemption premium, if any, or interest thereon, except from the funds provided under the Indenture and the Loan Agreement and neither the faith and credit nor the taxing power of the state or of any political subdivision thereof, including the Authority, is pledged to the payment of the principal of or the redemption premium, if any, or interest on the Series 2010 Bonds. The issuance of the Series 2010 Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation or to make any appropriation for their payment. The Authority has no taxing power.

## **Series 2010 Bonds Not Obligations of the Corporate Member or the University**

Neither the University nor the Corporate Member is a party to the Loan Agreement and neither is liable for payment of the Series 2010 Bonds.

## **Tax-Exempt Status**

The Code imposes a number of requirements that must be satisfied for interest on nonprofit corporation obligations, such as the Series 2010A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Series 2010A Bond proceeds, limitations on the investment earnings of Series 2010A Bond proceeds prior to expenditure, a requirement that certain investment earnings on Series 2010A Bond proceeds be paid periodically to the United States and a requirement that the Authority file an information report with the Internal Revenue Service ("IRS"). The Authority, the Borrower, the Corporate Member and the University (the Borrower, the Corporate Member and the University are collectively referred to as the "Exempt Entities") have covenanted in certain of the documents referred to herein that they will comply with such requirements.

Failure by the Authority and the Exempt Entities to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Series 2010 Bonds as taxable, retroactively to the date of issuance of the Series 2010A Bonds. Moreover, the occurrence of one or more of the other events described in this section also could adversely affect the exclusion from gross income for federal or State income tax purposes of the interest on the Series 2010A Bonds.

***Bond Audit.*** The IRS has an ongoing program of examining tax-exempt obligations to determine whether, in the view of the IRS, interest on such obligations is properly excluded from gross income for federal income tax purposes, and it is possible that the Series 2010A Bonds may be selected for examination under such program. If an examination is commenced, under current procedures, the IRS will treat the Authority as the relevant taxpayer under the Code, and the holders of the Series 2010A Bonds may have no right to participate.

The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Series 2010A Bonds, and the opinion of Bond Counsel as to the tax-exempt status of the Series 2010A Bonds (see “TAX MATTERS”) is not binding on the IRS. An IRS examination of the Series 2010A Bonds could adversely affect the market value and liquidity of the Series 2010A Bonds or result in the loss of the tax-exempt status of the Series 2010A Bonds.

***Tax-Exempt Status of the Corporate Member.*** The tax-exempt status of the Series 2010A Bonds presently depends upon the maintenance by the Corporate Member of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations and such organizations are increasingly subject to a greater degree of scrutiny by the IRS. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful, private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by the Corporate Member could result, among other consequences, in the Borrower being in default of certain of its covenants regarding the Series 2010A Bonds. Loss of tax-exempt status of the Corporate Member also would have material adverse consequences on the financial condition of the Borrower and would cause interest on the Series 2010A Bonds to become taxable.

Less onerous sanctions also have been imposed by the IRS, which sanctions focus enforcement on private persons who transact business with a tax-exempt organization rather than the tax-exempt organization itself, but these sanctions do not replace the other, more severe remedies available to the IRS as mentioned above.

***Unrelated Business Taxable Income.*** In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). Neither the University nor the Corporate Member has historically generated any significant amounts of UBTI. The University may participate in activities which generate UBTI in the future. Management of the University believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the University.

***State Income Tax Exemption.*** The loss by the University of its State income tax exemption could be adverse and material to the University affect the ability of the University to perform under the Management Agreement and the Contingent Operating Expense Agreement.

***Exemption from Property Taxes.*** In recent years, state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their real property tax exemptions. The management of the Borrower believes that the Facilities are or will be exempt from State real property taxes; however, there can be no assurance that this will continue to be the case, and any loss of exemption could have a material adverse effect on the financial condition of the Borrower.

## **Bankruptcy and Limitations on Enforcement of Remedies**

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

## **No Credit Rating; No Credit Enhancement; Transfer Restrictions**

The Borrower has not applied for a rating on the Series 2010 Bonds from any security rating agency. As a result, the Series 2010 Bonds are unrated. Furthermore, no credit enhancement will be obtained for the Series 2010 Bonds, and the Borrower does not intend to obtain such enhancement in the future.

The Indenture restricts the ability of holders of the Series 2010 Bonds to transfer their interests in the Series 2010 Bonds to other potential investors. The Series 2010 Bonds are to be offered and sold (including in secondary market transactions) only to Qualified Institutional Buyers and are subject to other restrictions on transfer. See "TRANSFER RESTRICTIONS."

## **Certain Restrictions on Transfer; Limited Liquidity; Absence of Secondary Market**

The Series 2010 Bonds have not been registered or qualified under the Securities Act or the securities laws of any other jurisdiction, and none of the Authority, the Borrower, the Corporate Member, the University or the Trustee is obligated to register or qualify the Series 2010 Bonds under the Securities Act or any other securities law or to take any action that could cause the Authority or the Borrower to become subject to the registration requirements of the Investment Company Act, or any other action not otherwise required under the Indenture to permit the transfer of any Series 2010 Bonds or interest therein without such registration or qualification. The Series 2010 Bonds may be resold or transferred only as described under "NOTICE TO INVESTORS" and "TRANSFER RESTRICTIONS."

There is currently no market for the Series 2010 Bonds, and they will not be listed on any securities exchange or subject to other arrangement for secondary market trading. There can be no

assurance that a secondary market for the Series 2010 Bonds will develop, and consequently, Owners and beneficial owners may not be able to liquidate their investment readily, and the Series 2010 Bonds may not be readily accepted collateral for loans. If a market for the Series 2010 Bonds does develop, the Series 2010 Bonds could trade at a substantial discount regardless of then prevailing general market conditions. Under certain circumstances, prospective transferees of the Series 2010 Bonds will be required pursuant to the terms of the Indenture to deliver certificates to the Authority or the Borrower and the Trustee relating to compliance with the Securities Act, other applicable securities laws and the Investment Company Act. Accordingly, an investor in the Series 2010 Bonds may find it difficult or uneconomic to liquidate its investment at any particular time and must be prepared to hold the Series 2010 Bonds for an indefinite period of time or until maturity. See “NOTICE TO INVESTORS” and “TRANSFER RESTRICTIONS.”

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2010A Bonds and the Series 2010B Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Series 2010A Bonds is less than the amount to be paid at maturity with respect to such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2010A Bonds, which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2010A Bonds is the first price at which a substantial amount of such maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010A Bonds accrues daily over the term to maturity of such Series 2010A Bonds on the basis of a constant interest rate compounded semiannually (with straight line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2010A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010A Bonds. Beneficial Owners of the Series 2010A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2010A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010 Bonds is sold to the public.

Series 2010A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of

amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010A Bonds. The Authority, the Borrower, the University and the Corporate Member have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Gresham Savage Nolan & Tilden, P.C., Counsel to the Borrower, the University and the Corporate Member, regarding the current qualification of the Corporate Member as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Series 2010 Bonds as substantially related to the Corporate Member's charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, Counsel to the Borrower, the University and the Corporate Member cannot give and has not given any opinion or assurance about the future activities of the Borrower or the Corporate Member, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service. Failure of the Corporate Member to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series 2010A Bonds in a manner that is substantially related to the Corporate Member's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2010A Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2010A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2010A Bonds. Prospective purchasers of the Series 2010A



Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, the Borrower, the Corporate Member or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, the Borrower, the University and the Corporate Member have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2010A Bonds ends with the issuance of the Series 2010A Bonds and the Series 2010B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Borrower, the Corporate Member or the University or the Beneficial Owners regarding the tax-exempt status of the Series 2010A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Borrower, the Corporate Member or the University and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority, the Borrower, the Corporate Member or the University legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause the Authority, the Borrower, the Corporate Member or the University or the Beneficial Owners to incur significant expense.

#### **APPROVAL OF LEGALITY**

The validity of the Series 2010 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. The proposed form of the legal opinion of Bond Counsel is attached hereto as APPENDIX F. Orrick, Herrington & Sutcliffe LLP undertakes no responsibility for the accuracy, completeness or fairness of this Limited Offering Memorandum. Certain legal matters will be passed upon for the Underwriter by Peck, Shaffer & Williams LLP, Denver, Colorado, for the Authority by its special counsel, Orrick, Herrington & Sutcliffe, Sacramento, California, and for the University, Borrower and Corporate Member by Gresham Savage Nolan & Tilden, P.C., Riverside, California.

#### **ABSENCE OF MATERIAL LITIGATION**

##### **The 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 Series 2010 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 Series 2010 Bonds, the validity or enforceability of the documents executed by the Authority in connection with the Series 2010 Bonds, the completeness or accuracy of the Limited Offering Memorandum or the existence or powers of the Authority relating to the sale of the Series 2010 Bonds.

## **The Borrower**

There are no actions, suits or proceedings which have been served on the Borrower or, to the Borrower's knowledge, are otherwise pending or threatened against the Borrower; (i) seeking to restrain or enjoin the issuance or delivery of any of the Series 2010 Bonds or the collection of Gross Revenues pledged under the Indenture or the payment of Loan Payments; (ii) in any way contesting or adversely affecting the authority for the issuance of the Series 2010 Bonds or the validity of the Series 2010 Bonds, the Indenture or the Loan Agreement; or (iii) contesting the existence or powers of the Borrower which, if determined adversely to it, would materially adversely affect the consummation of the transactions contemplated by the Loan Agreement or (iv) the ability of the Borrower to perform its obligations thereunder; or contesting the Corporate Member's status as an organization described in Section 501(c)(3) of the Code or which would subject any income of the Borrower to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Series 2010A Bonds under Section 103 of the Code.

## **UNDERWRITING**

The Series 2010 Bonds are being purchased by George K. Baum & Company, Inc. (the "Underwriter") pursuant to a Purchase Contract by and among the Authority, the Borrower, the University and the Underwriter (the "Purchase Contract"). The Underwriter has agreed to purchase the Series 2010 Bonds at a purchase price of \$13,695,500 (representing the principal amount of the Series 2010 Bonds of \$13,975,000, less an underwriting discount of \$279,500).

The Purchase Contract provides that the Underwriter will purchase not less than all of the Series 2010 Bonds. The Underwriter's obligation to make such purchase is subject to the terms and conditions set forth in the Purchase Contract, including the approval of certain legal matters by counsel and other conditions.

## **CONTINUING DISCLOSURE**

The Borrower will covenant for the benefit of the Owners and beneficial owners of the Series 2010 Bonds to provide (i) certain financial information and operating data relating to the Borrower by no later than four months following the end of each fiscal year of the Borrower (which fiscal year currently begins on July 1 of each year and ends on the next succeeding June 30), commencing with the report for the June 30, 2010 fiscal year and (ii) notice of the occurrence of certain enumerated material events. The University will covenant for the benefit of the Owners and beneficial owners of the Series 2010 Bonds to provide (i) certain financial information and operating data relating to the University by no later than four months following the end of each fiscal year of the University (which fiscal year currently begins on July 1 of each year and ends on the next succeeding June 30), commencing with the report for the June 30, 2010 fiscal year, (ii) quarterly unaudited financial statements within forty-five (45) days of the end of any fiscal quarter, and (iii) notice of the occurrence of certain enumerated material events. Neither the Borrower nor the University has failed to make a filing required by an undertaking for continuing disclosure. See APPENDIX G – "FORMS OF CONTINUING DISCLOSURE AGREEMENT" attached hereto.

## **INDEPENDENT ACCOUNTANTS**

The financial statements of the Borrower as of June 30, 2009, included in this Limited Offering Memorandum as APPENDIX C – "AUDITED FINANCIAL STATEMENTS OF THE BORROWER" have been audited by Vicenti, Lloyd & Stutzman LLP, independent accountants, as stated in their report in APPENDIX C.

The financial statements of the University as of June 30, 2009 and 2008, included in this Limited Offering Memorandum as APPENDIX D – “AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY,” have been audited by Vicenti, Lloyd & Stutzman LLP, independent accountants, as stated in their report attached as APPENDIX D. The financial statements of the University are included because of the University’s obligations under the Management Agreement and the Contingent Operating Expense Agreement. The University is not obligated to pay the principal of, premium, if any, and interest on the Bonds.

### **NO RATINGS**

Neither the Borrower nor the University has applied for a rating on the Series 2010 Bonds to any national rating agency.

### **MISCELLANEOUS**

All quotations from, summaries and explanations of the Indenture, the Loan Agreement and any other documents contained herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. Copies in reasonable quantity of the Indenture, the Loan Agreement, the Deed of Trust, the Management Agreement and the Contingent Operating Expense Agreement may be obtained upon request directed to the Underwriter or the Borrower.

Any statements in this Limited Offering Memorandum involving matters of opinion are intended as such and not as representations of fact. This Limited Offering Memorandum is not a contract or agreement between the Authority or the Borrower and holders of any of the Series 2010 Bonds. The information contained herein relating to the University and the Borrower has been furnished by the University or the Borrower, respectively, and officers and officials of the University or the Borrower, respectively, and the Authority makes no representation or warranties whatsoever with respect to any information contained herein except the information furnished by the Authority under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION – The Authority.”

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The execution and delivery of this Limited Offering Memorandum have been duly authorized by the Authority and the Borrower.

**CALIFORNIA STATEWIDE COMMUNITIES  
DEVELOPMENT AUTHORITY**

By: /s/ Kelli L. Osborne  
Authorized Signatory

**LANCER EDUCATIONAL HOUSING, LLC**

By: /s/ Ronald L. Ellis  
President

By: /s/ Mark Howe  
Secretary

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## **APPENDIX A**

### **THE FACILITIES**

### **THE BORROWER**

#### **Background**

Lancer Educational Housing LLC (the “Borrower”) was formed in 2007 for the purpose of receiving, holding, and administering housing related property for the direct benefit of California Baptist University (the “University”), which addresses a critical component of the University’s mission. See “INTRODUCTION – Borrower,” “INTRODUCTION – Corporate Member” and “UNIVERSITY RESIDENTIAL LIFE POLICY” in this Appendix A. The sole corporate member of the Borrower is Lancer Educational Housing Corporation (the “Corporate Member”), an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

The Borrower, with a portion of the proceeds of the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2007A and California Statewide Community Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2007B (together, the “Series 2007 Bonds”), purchased the six separate student residential facilities (the “Existing Facilities”) comprising 1,166 beds (at the time of purchase) located on the campus of the University in Riverside, California together with a lease of the land underlying such Existing Facilities (the “Lease”). See “SECURITY FOR THE BONDS – The Lease.”

The University manages the Existing Facilities pursuant to the Management Agreement and agrees to fund operating expenses for the Existing Facilities pursuant to the Management Agreement and Contingent Operating Expense Agreement in the event that project revenues are insufficient to reimburse the University for these costs. See “SECURITY FOR THE BONDS – Management Agreement” and “SECURITY FOR THE BONDS – Contingent Operating Expense Agreement.”

The University owns and operates three student residential facilities consisting of modular housing containing 174 beds (the “Cottages”), and two apartment complexes, one containing approximately 93 one-bedroom units and one two-bedroom unit (the “Royal Rose”) and one containing approximately 45 studios, 50 one-bedroom apartments, 18 deluxe one-bedroom apartments, and 8 two-bedroom apartments (the “Rose Garden”); and single-family residences containing approximately 71 beds (collectively, the “University-Owned Student Housing”). Management of the University previously explored the acquisition of the Parkside Apartments adjacent to the University campus, but has not pursued the acquisition of the Parkside Apartments since December 2008. However, the University had preliminary discussions with supporters of the University regarding the possibility of such supporters investing in the purchase of Parkside Apartments and allowing the University to lease available units to students, thus transitioning Parkside Apartments into student housing for the University over time, as needed. See APPENDIX B – “Student Housing.”

Pursuant to the Lease, the Borrower may offer units within the Facilities for lease to any person who is a student of the University, faculty or staff members of the University, any person participating in University educational programs, any visiting lecturer, facilities personnel, or any other person that enhances the educational benefits of students or program participants. To the extent necessary to provide

the Borrower sufficient revenue to meet the debt service requirements on the Bonds, the University agrees under the Lease that it will aid in the marketing of the Facilities to its students by directing students to live in the Facilities before recommending or directing students to on- or off-campus residences other than the Facilities, and will undertake other efforts as may be practicable that contribute to the Facilities remaining occupied at such a level. See “SECURITY FOR THE BONDS – The Lease.”

## **Financial Information**

The audited financial statements of the Borrower are prepared in accordance with generally accepted accounting principles. Audited financial statements for the fiscal year ended June 30, 2008 and June 30, 2009 are set forth in Appendix C hereto.

The Borrower’s auditor prepared calculations prescribed in the financial covenants associated with the Lancer Series 2007 Bonds. The Borrower is in compliance with those covenants. Those calculations are provided as an attachment hereto.

Pursuant to the Contingent Operating Expense Agreement, the University has been reimbursed all operating expenses incurred to date on behalf of the Borrower. The Borrower is current on all amounts billed by the University to date under the Contingent Operating Expense Agreement. See “SECURITY FOR THE BONDS – Management Agreement” and “SECURITY FOR THE BONDS – Contingent Operating Expense Agreement.”

The balance of the Repair and Replacement Fund at December 31, 2009 was \$415,255. To date, nothing has been withdrawn from the Repair and Replacement Fund. On February 1, 2010 the University expects to be reimbursed \$40,000 for a smoke alarm system installed in Lancer Arms, per moneys on deposit in the Revenue Fund. See “SECURITY FOR THE BONDS – Repair and Replacement Fund,” “SECURITY FOR THE BONDS - Revenue Fund,” APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Indenture” and APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Loan Agreement.”

## **GOVERNANCE**

The Corporate Member’s Board of Directors is comprised of five members, each serving a term of three years. The University has the power to appoint two of the five members of the Corporate Member’s Board of Directors and the rest are selected by a majority vote of the Board of Directors at the annual meeting. The following short biographies describe Principals and At Large Members of the Board of Directors.

### Principals:

Ronald L. Ellis, Ph.D., University President. Ronald L. Ellis, has served as President of the University since 1994. He previously served as Executive Vice President for Campbellsville College in Campbellsville, Kentucky as well as in various administrative positions at Louisiana College and Baylor University and has taught junior high school history. He received his Ph.D. in Higher Education Administration from Texas A&M University, a master's degree in education at Baylor University, and holds a bachelor's degree in education from Houston Baptist University.

Mark Howe, M.B.A., University Vice President for Finance and Administration. Mark Howe is currently serving as the University’s Vice President for Finance and Administration and Chief Financial Officer. He is the former vice president of Silicon Space, Inc., in San Diego, California, and also served this organization as vice president of finance and strategy as well as its chief financial officer. Mr. Howe previously held upper management positions for organizations including USWeb/CKS, Metrix



Communications, International Leasing Corporation, and National University in San Diego. He received his M.B.A. and bachelor's degrees from National University.

At Large Members:

Glenn Gaines

Place of Residence: Plano, Texas

Education: Baylor University

Occupation: President, Mid America Division, Energy Education, Inc.

University Affiliation: Former member of Board of Trustees (term expired 2006)

Fred Wehba

Place of Residence: Beverly Hills, California

Education: University of Texas

Occupation: Chairman and Founder, Bentley Forbes, Los Angeles

University Affiliation: Former member of Board of Trustees (term expired 2003)

David Peery

Place of Residence: Riverside, California

Education: California Baptist University

Occupation: President, Steven Walker Communities

University Affiliation: Alumni and friend of the University

### **UNIVERSITY RESIDENTIAL LIFE POLICY**

The University seeks to express its educational philosophy in many ways, but especially in and through the residential experiences of its students. The University has set its residential life policy and developed and acquired housing with the goal of becoming a residential campus.

The University generally requires traditional, single students less than twenty-one (21) years of age, or students who receive institutional aid in excess of \$6,500 per academic year, to live on campus. Exceptions are made for those living with parents, a legal guardian(s), or approved relatives, upon verification of residency. Approximately 90% of the undergraduate students enrolled at California Baptist University receive some form of student financial assistance. Approximately 75% of students receive more than \$6,500 in financial aid.

Students who are in pursuit of a first undergraduate degree program are given priority during the housing assignment process.

### **THE EXISTING FACILITIES**

Listed below is a description of the Existing Facilities.

#### **Smith Hall Dormitory**

Smith Hall is a three-story dormitory constructed in 1968 with a total of 79 dwelling units including one resident director's unit and one assistant director's unit, which each contain one bedroom and one bathroom and are located in the central section of the building. The total building size is 33,864 square feet and the structure is configured into two wings of residential units on each floor, with a central lobby and study area on each floor. All of the dorm rooms are designed for two occupants.

## **Simmons Hall Dormitory**

Simmons Hall is a three-story dormitory, located immediately south of Smith Hall and also was constructed in 1968. It features the same floor plans for each of the building wings as Smith Hall, and identical interior and exterior finishes. However, Simmons Hall includes two additional two-story wings, and provides a total gross building area of 47,832 square feet. The dormitory features a total of 135 units, including one resident director's unit and one assistant director's unit (each containing one bedroom and one bathroom). Each of the dorm rooms are designed for two occupants.

## **Lancer Arms Apartments**

The Lancer Arms apartment complex consists of four separate two-story buildings, located at the southern side of campus. These buildings are identified as 8447, 8449, 8451, and 8471 Diana Avenue. The unit configuration of each of these buildings features "stacked flat" units, i.e., no town-homes.

8471 and 8447 Diana: These two apartment buildings were each built in 1964 and feature sloped tile roofing. Each of these two buildings have an identical floor plan, and each is divided into twelve one bedroom/one bathroom units and eight two bedroom/one bathroom units, for a total of 20 units in each of these two structures.

8449 and 8451 Diana: These two buildings were each built in 1974 and have flat composition roofing with tile mansards and painted stucco exterior. The unit mix consists of one studio unit of 462 square feet, six one bedroom units of 669 square feet, 20 two bedroom/one bathroom units of 912 square feet, and one three bedroom/two bathroom unit of 1,310 square feet, for a total of 28 units in each of these two structures.

## **University Place Apartments**

These apartments consist of two apartment complexes formerly known as Pinecreek Apartments (8374 Magnolia Avenue) and Willowood (8350 Magnolia Avenue).

8374 Magnolia Avenue: The complex consists of six two-story buildings configured along a long, narrow central courtyard. The property was built in 1977 with stucco exterior and sloped, composition shingle roofing. There are a total of 40 units, including 18 singles and 22 two bedroom/two bathroom town homes. The single apartments are each approximately 495 square feet, while the two bedroom town homes are 1,086 square feet each. The total gross building area is 24,702 square feet.

8350 Magnolia Avenue: This apartment complex consists of nine separate buildings which were built in 1978, two of which are single-story, while seven are two-story. There are a total of 57 units, which include eight studio apartments of approximately 300 square feet each, 42 one bedroom units of 600 square feet each, and seven two-bedroom units at 837 square feet each. The gross building area is 35,048 square feet.

## **Adams Villas**

This apartment complex consists of one apartment building constructed in 1971. The unit mix consists of six one bedroom/one bathroom units of 700 square feet, eleven two bedroom/two bathroom units of 1,100 square feet for a total gross building area of 16,798 square feet.

## Magnolia Hacienda

This apartment complex consists of three two-story apartment buildings constructed in 1971 and contains 48 units. The unit mix consists of 24 one bedroom/one bathroom units of 619 square feet, 12 two bedroom/one-and-a-half bathroom units of 915 square feet, and 12 two bedroom/one bathroom units of 915 square feet. Total gross building area is 37,186 square feet.

## Existing Appraisals

Prior lenders to the University and third parties requested the preparation of the appraisals (the "Existing Facility Appraisals") set forth below. The Existing Facilities Appraisals are based on significant limiting conditions and assumptions and are not current. The Authority, the Borrower, the University and the Underwriter make no representation as to the market value of the Existing Facilities or the accuracy or completeness of the appraisals.

### Summary of Appraisals of Existing Facilities

Facility Name	Address	Appraisal Value Date	Appraisal Value
Smith and Simmons Halls <sup>(1)</sup>	8252, 8555 Diana	2/1/2007	\$ 15,600,000
Lancer Arms Apartments <sup>(1)</sup>	8447, 8449, 8451, 8471 Diana	2/1/2007	5,835,000
University Place Apartments <sup>(1)</sup>	8374, 8350 Magnolia	2/1/2007	5,920,000
Magnolia Hacienda <sup>(2)</sup>	8386-8398 Magnolia	3/15/2006	5,740,000
Adams Villas Apartments <sup>(1)</sup>	3780 Adams	12/3/2004	<u>1,925,000</u>
Total Existing Facilities			\$ 35,020,000
Par amount of the Series 2007 Bonds			\$ 29,955,000
Series 2007 Bonds Debt Service Reserve Fund			\$ 2,366,000

<sup>(1)</sup> Individual values based on cost approach for buildings and comparables sales for land.

<sup>(2)</sup> Income approach.

Source: The University

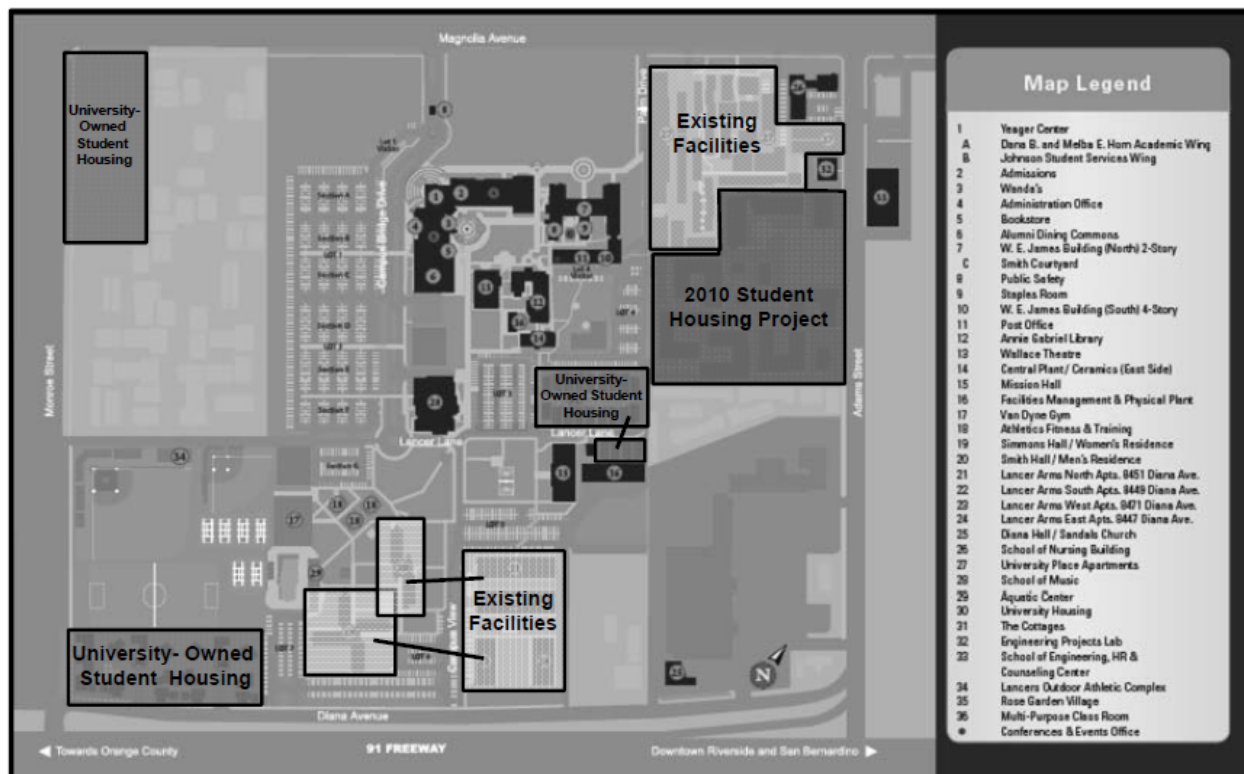
The table below shows the occupancy of the Existing Facilities for the periods since the Borrower acquired them through fall 2009-10.

### Existing Facilities Occupancy

	Optimal Capacity	2007-08	2008-09	2009-10
University Place	238	286	289	288
Adams Villa	52	46	67	66
Magnolia	140	171	169	166
Lancer Arms	304	361	346	350
Smith Hall	160	151	151	152
Simmons Hall	272	228	255	254
<b>Total Existing Facilities Beds</b>	<b>1,166</b>	<b>1,243</b>	<b>1,277</b>	<b>1,276</b>

Source: The Borrower

Pursuant to the Management Agreement, the University has commissioned a local firm to develop and engineer a plan to deploy an automated and integrated smoke/fire alarm system. This is in addition to the current fire safety equipment in the Existing Facilities. The University received a plan in fall 2008.



## PRO FORMA PROJECTIONS

The following pro-forma projection is the Borrower's estimate of revenues and expenses for the Facilities and debt service for the Bonds. The Borrower believes these projections to be accurate; however, there can be no guarantee these projections will accurately reflect actual expenses, revenues or debt service and any variation could be material.

### Occupancy

The following table shows the occupancy breakdown of the Existing Facilities and 2010 Student Housing Project, inclusive of senior citizen attrition and projected student growth to be accommodated by such housing.

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<b>OCCUPANCY BREAKDOWN (FYE June 30)</b>	<b>Optimal Occupancy (in Beds for CBU Students, in Units for Public)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>2010 Student Housing Project</b>												
Royal Rose												
CBU Student Beds	280	-	-	-	-	-	40	100	160	220	280	280
Public Occupied - 1BD Units	-	93	93	93	93	93	80	60	40	20	-	-
Public Occupied - 2BD Units	-	1	1	1	1	1	-	-	-	-	-	-
Total Royal Rose	280	94	94	94	94	94	120	160	200	240	280	280
Rose Garden												
CBU Student Beds	334	89	118	160	218	276	296	296	296	296	296	296
Public-Occupied - Studio Units	-	17	12	8	4	-	-	-	-	-	-	-
Public-Occupied - 1BD Units	-	35	29	24	13	2	-	-	-	-	-	-
Public-Occupied - DLX Units	-	12	11	11	7	3	-	-	-	-	-	-
Public-Occupied - 2BD Units	-	5	3	3	2	1	-	-	-	-	-	-
Total Rose Garden	334	158	173	206	244	282	296	296	296	296	296	296
<b>Total 2010 Student Housing Project Beds/ Units</b>	614	252	267	300	338	376	416	456	496	536	576	576
<b>Existing Facilities</b>												
University Place	238	286	289	288	288	288	288	288	288	288	288	288
Adams Villa	52	46	67	66	66	66	66	66	66	66	66	66
Magnolia	140	171	169	166	166	166	166	166	166	166	166	166
Lancer Arms	304	361	346	350	350	350	350	350	350	350	350	350
Smith Hall	160	151	151	152	152	152	152	152	152	152	152	152
Simmons Hall	272	228	255	254	254	254	254	254	254	254	254	254
<b>Total Existing Facilities Beds</b>	1,166	1,243	1,277	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276
<b>TOTAL LESHOC OCCUPATION (BED/ UNITS)</b>	<b>1,780</b>	<b>1,495</b>	<b>1,544</b>	<b>1,576</b>	<b>1,614</b>	<b>1,652</b>	<b>1,692</b>	<b>1,732</b>	<b>1,772</b>	<b>1,812</b>	<b>1,852</b>	<b>1,852</b>
TOTAL CBU STUDENT BEDS	1,780	1,332	1,395	1,436	1,494	1,552	1,612	1,672	1,732	1,792	1,852	1,852
TOTAL PUBLIC-OCCUPIED UNITS	-	163	149	140	120	100	80	60	40	20	-	-
<b>Average Occupancy</b>		119%	115%	113%	110%	108%	105%	103%	100%	98%	96%	96%
<b>CBU Student Bed Growth Per Year</b>			63	41	58	58	60	60	60	60	60	-

Source: The Borrower

## Revenues

The University leases the Facilities by semester. Rent is billed with tuition and transcripts are withheld until the balance is paid in full. These projections assume a three percent annual growth rate for yearly per bed rental rates.

The Borrower assumes in the projections vacancy loss of 4% for the Existing Facilities and 5% for the 2010 Student Housing Project in addition to the occupancy rates presented above. The following table shows the Facilities' historical cash flow.

### Historical Existing Facilities Cash Flow While Owned/ Operated by the University (all \$000's)

Fiscal Year End June 30,	2004	2005	2006	2007
<b>Revenues</b>				
University Place	\$597	\$547	\$704	\$1,174
Adams Villa	N/A	N/A	in above	in above
Magnolia	N/A	N/A	N/A	in above
Lancer Arms	778	1,028	827	848
Smith Hall	287	1,017	582	432
Simmons Hall	586	In above	295	714
Total Revenues	\$2,248	\$2,592	\$2,408	\$3,168
<b>Operating and Maintenance Expenses</b>				
University Place	\$128	\$205	\$226	\$149
Adams Villa	N/A	2	38	19
Magnolia	N/A	N/A	5	154
Lancer Arms	139	144	149	192
Smith / Simmons Hall	151	182	223	226
% of Facilities General Costs	393	382	589	629
Residence Life	297	269	294	380
Total Operating and Maintenance Expenses	\$1,108	\$1,184	\$1,524	\$1,749
Net Cash Flow	\$1,140	\$1,408	\$884	\$1,418

Source: The University

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**Historical 2009 Student Housing Project Cash Flow While Owned/ Operated by the University  
(all \$000's)**

<b>Fiscal Year End June 30,</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Revenues</b>			
Royal Rose	\$672,523	\$667,924	\$666,461 <sup>1</sup>
Rose Garden	522,746	748,463	790,270 <sup>1</sup>
<b>Total Revenues</b>	<b>\$1,195,269</b>	<b>\$1,416,387</b>	<b>\$1,456,731</b>
<b>Operating and Maintenance Expenses</b>			
Royal Rose	\$265,965	\$305,465	\$305,391
Rose Garden	488,041	510,528	593,322
% of Facilities General Costs	In above	In above	In above
Residence Life	In above	In above	In above
<b>Total Operating and Maintenance Expenses</b>	<b>\$754,006</b>	<b>\$815,993</b>	<b>\$898,713</b>
<b>Net Cash Flow</b>	<b>\$441,263</b>	<b>\$600,394</b>	<b>\$558,018</b>

<sup>1</sup> The average rent for senior tenants in 2009 was \$625.50 per month.

Source: The University

See also APPENDIX D – “AUDITED FINANCIAL STATEMENTS OF CALIFORNIA BAPTIST UNIVERSITY.”

**Expenses**

The University is permitted to charge a management fee to manage and operate the Facilities but intends to forbear from charging the full fee until 2012-13. The projections assume a management fee of 4.50% of revenue for 2010-11, a management fee 6.00% of revenue for 2011-12 and a management fee 7.50% of revenue thereafter. See “SECURITY FOR THE BONDS – Management Agreement” and “SECURITY FOR THE BONDS – Contingent Operating Expense Agreement.”

The Borrower maintains 12-month business interruption insurance.

The Borrower believes the Facilities are exempt from property taxation under state law because they are buildings, land, equipment used exclusively for educational purposes by a nonprofit institution of higher education.

**Budget**

The budget of the Borrower for Fiscal Year 2010, excluding the Royal Rose and Rose Garden apartment complexes, is set forth below.

**Lancer Educational Housing, LLC**  
 Budget for Fiscal Year 2010  
 (budget does not include Royal Rose and Rose Garden apartment complexes)

	<u># beds</u>	<u>Rate per Semester</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Student Housing Fees:			
University Place	533	\$ 1,980	\$ 2,037,335
Lancer Arms	375	1,980	1,433,396
Smith Hall	157	1,980	600,115
Simmons Hall	265	1,980	1,012,933
Total Student Housing Fees	1,330		\$ 5,083,778
Interest Income			68,000
Laundry Income			21,000
<b>Total Income</b>			<b>\$ 5,172,779</b>
<b><u>EXPENSES</u></b>			
CBU Salaries			
Exempt			\$ 287,095
Non-exempt			143,194
Student Wages (RA's)			255,000
Benefits (22%)			94,664
Contracted Services			363,200
Insurance			70,000
Telecommunications/Cable/Internet			205,700
Minor Equipment			37,500
Minor Repairs			90,800
Major Equipment			28,000
Equipment Maint Agreements			15,400
Land Improvements			--
Building Maintenance/Minor Adds			97,000
Building Improvements			--
Utilities – Electric			485,700
Utilities – Gas			61,000
Utilities – Water			31,000
Utilities – Trash			3,500
Utilities – Sewer			41,150
Legal Expense			50,000
Other Expenses			77,378
Depreciation			658,374
Interest Expense			1,695,841
Overhead/CBU Mgmt Fee (7.5% of revenue)			381,283
<b>Total Expenses</b>			<b>\$ 5,172,779</b>
Net Income After Depreciation			<b>\$ (0)</b>
Costs per bed, including interest expense and depreciation			\$ 3,889
Costs per bed, excluding interest expense and depreciation			\$ 1,833
Expenses, excluding depreciation, interest, and management fee			\$ 2,437,281



### **Debt Service Requirements**

The projections assume debt service requirements on the Bonds is derived by using a blended actual interest rate for the Bonds (as defined in the Limited Offering Memorandum) and a total par amount of the Bonds of \$43,930,000.

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**Pro Forma Cash Flow (all \$000's)**

<b>Fiscal Year End June 30,</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Revenues</b>									
2010 Student Housing Project	\$ 1,811	\$ 2,038	\$ 2,283	\$ 2,512	\$ 2,742	\$ 2,990	\$ 3,255	\$ 3,539	\$ 3,716
Existing Facilities	5,053	5,306	5,571	5,849	6,142	6,449	6,771	7,110	7,466
<b>Gross Potential Rental Revenue</b>	<b>\$ 6,864</b>	<b>\$ 7,344</b>	<b>\$ 7,854</b>	<b>\$ 8,361</b>	<b>\$ 8,884</b>	<b>\$ 9,439</b>	<b>\$ 10,027</b>	<b>\$ 10,649</b>	<b>\$ 11,182</b>
Vacancy Loss	(293)	(314)	(337)	(360)	(383)	(407)	(434)	(461)	(484)
Summer Rental Income	165	170	175	180	185	191	197	203	209
Laundry Income	27	27	28	29	29	30	31	31	31
Interest Income (1)	79	106	106	106	106	106	106	106	106
<b>Total Revenues</b>	<b>\$ 6,842</b>	<b>\$ 7,333</b>	<b>\$ 7,826</b>	<b>\$ 8,317</b>	<b>\$ 8,823</b>	<b>\$ 9,359</b>	<b>\$ 9,927</b>	<b>\$ 10,528</b>	<b>\$ 11,044</b>
<b>Total Debt Service on the Bonds</b>	<b>\$ (2,021)</b>	<b>\$ (3,436)</b>	<b>\$ (3,673)</b>	<b>\$ (3,675)</b>	<b>\$ (3,671)</b>	<b>\$ (3,516)</b>	<b>\$ (3,514)</b>	<b>\$ (3,514)</b>	<b>\$ (3,510)</b>
Gross Revenue Coverage of Debt Service	3.39 x	2.13 x	2.13 x	2.26 x	2.40 x	2.66 x	2.82 x	3.00 x	3.15 x
Breakeven Occupancy Rate on Debt Service	28.7%	45.7%	45.7%	43.0%	40.5%	36.5%	34.4%	32.4%	30.8%
<b>Cash Flow After Debt Service</b>	<b>\$ 4,822</b>	<b>\$ 3,897</b>	<b>\$ 4,153</b>	<b>\$ 4,642</b>	<b>\$ 5,151</b>	<b>\$ 5,842</b>	<b>\$ 6,412</b>	<b>\$ 7,014</b>	<b>\$ 7,533</b>
<b>Expenses and Reserves</b>									
Operating and Maintenance Expenses	\$ (3,025)	\$ (3,094)	\$ (3,164)	\$ (3,281)	\$ (3,421)	\$ (3,567)	\$ (3,718)	\$ (3,875)	\$ (3,991)
Management Fee	(515)	(330)	(471)	(627)	(666)	(708)	(752)	(799)	(839)
Repair and Replacement Reserve Deposit	(293)	(309)	(325)	(343)	(362)	(381)	(402)	(423)	(436)
<b>Total Expenses and Reserves</b>	<b>\$ (3,833)</b>	<b>\$ (3,733)</b>	<b>\$ (3,961)</b>	<b>\$ (4,251)</b>	<b>\$ (4,449)</b>	<b>\$ (4,656)</b>	<b>\$ (4,871)</b>	<b>\$ (5,096)</b>	<b>\$ (5,265)</b>
<b>Net Cash Flow after Debt Service, Expenses and Reserves</b>	<b>\$ 989</b>	<b>\$ 164</b>	<b>\$ 193</b>	<b>\$ 390</b>	<b>\$ 702</b>	<b>\$ 1,187</b>	<b>\$ 1,541</b>	<b>\$ 1,918</b>	<b>\$ 2,268</b>
Net Revenue Coverage of Debt Service (2)	1.49 x	1.05 x	1.05 x	1.11 x	1.19 x	1.34 x	1.44 x	1.55 x	1.65 x
Breakeven Occupancy Rate on Debt Service and Total Expenses and Reserves	83.0%	95.1%	94.8%	92.6%	89.3%	84.7%	81.9%	79.2%	76.9%
Individual Student Per Bed Rental Rate (Annual)	\$ 3,960	\$ 4,158	\$ 4,366	\$ 4,584	\$ 4,813	\$ 5,054	\$ 5,307	\$ 5,572	\$ 5,851

**Notes**

- (1) Includes only interest earnings on the Debt Service Reserve Fund.
  - (2) Net revenues are derived by subtracting Total Expenses and Reserves from Total Revenues.
- \*Capitalized terms defined in the Limited Offering Memorandum and Appendices thereto.

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**APPENDIX B**  
**CALIFORNIA BAPTIST UNIVERSITY**

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## **INTRODUCTION**

California Baptist University (the “University”) is a nonprofit corporation organized under the laws of the State of California. The University maintains a principal office at 8432 Magnolia Avenue, Riverside, California. The University was founded on September 18, 1950.

The University is the only Southern Baptist college or university on the West Coast. The University is situated on 103 acres in the City of Riverside (pop. 297,000)\*. Riverside is located approximately 60 miles east of Los Angeles and a 20 minute drive from Ontario International Airport.

The University campus consists of 27 buildings including the 94,800 square foot Eugene and Billie Yeager Center, the JoAnn Hawkins Music Building, separate men's and women's residence halls, the 96-unit Lancer Arms apartment complex for sophomores, juniors and seniors, the 161-unit University Place apartment complexes for sophomores, juniors and seniors, the 320-seat Wallace Book of Life Theatre, a fitness center, an aquatic center, a central classroom/administration building, the Annie Gabriel Library, and the Van Dyne Gym.

Over the last seven years, the University has made property acquisitions and built new structures to accommodate its continuing enrollment growth of “8080 by 2020”, the vision and campaign theme for the University’s future enrollment growth.

## **MISSION AND HISTORY**

The University was created to conduct a private, accredited Christian university, offering liberal arts and undergraduate and graduate degrees.

The primary purpose of the University is to conduct an accredited four-year university in education, music, sciences, and the liberal arts. The University grants certificates, diplomas, and degrees evidencing course completion and provides training for Baptist youth and others desiring to be affiliated with Baptist theology and theological instruction and other instruction to prepare and qualify ministers and others for Christian work.

The University was founded through the initiative of the Los Angeles Baptist Association using First Southern Baptist Church facilities, and opened as California Baptist College on September 18, 1950, enrolling 120 students. In 1955, California Baptist College relocated to larger facilities in Riverside, California due to increasing enrollment demand. California Baptist College received accreditation from the Western Association of Schools and Colleges in 1961. On September 25, 1998, California Baptist College became California Baptist University. In 2003 the University constructed a new administration/classroom building which added 18 classrooms, three computer labs, faculty offices, dining facility, student activities center, bookstore and cafe. In 2005 the University added a new music building, which management believes is one of the premier facilities of its kind among colleges and universities both domestically and internationally.

## **DEGREE OFFERINGS**

The University offers four undergraduate degrees: Bachelor of Applied Theology, Bachelor of Arts, Bachelor of Music and Bachelor of Science; and five graduate degrees: Master of Arts, Master of Business Administration, Master of Music, Master of Public Administration, and Master of Science.

The following academic degrees and majors are offered:

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\* Source: California Department of Finance (2008)

## **Bachelor of Applied Theology**

Bachelor of Applied Theology

### **Bachelor of Arts**

Behavioral Science	Business Administration
Christian Behavioral Science	Christian Studies
Communication Studies	Early Childhood Studies
English	Graphic Design and Digital Media
History	Intercultural Studies
Interdisciplinary Studies	International Studies
Journalism	Liberal Studies
Music	Organizational Leadership
Philosophy	Political Science
Psychology	Social Science
Sociology	Spanish
Theatre	Visual Arts

### **Bachelor of Science**

Accounting	Biochemistry
Biology	Business Administration
Chemistry	Civil Engineering
Criminal Justice Administration	Criminal Justice Administration, Active-Duty Law Enforcement Program
Electrical and Computer Engineering	Engineering
Foundational Mathematics	Health Science
Kinesiology	Marketing
Mathematics	Mechanical Engineering
Nursing	

### **Graduate**

Counseling Ministry – MA	Education – MA
Education – MS	English – MA
Counseling Psychology – MS	Kinesiology – MS
Business – MBA	Music – MM
Athletic Training - MS	Forensic Psychology - MA
Public Administration – MPA	Nursing – MS

The University consists of nine schools and colleges, details of which are listed below.

**School of Nursing.** The mission of the Bachelor of Science in Nursing program (BSN) is to support the University's mission for the purpose of preparing competent, responsible, entry-level healthcare practitioners who are committed to the service of others. The purpose of the baccalaureate program in Nursing is to provide a curriculum that will broaden the theoretical knowledge base of students in preparation for an entry-level professional nursing practice and possibility of graduate nursing study. Established in 2005, the California Baptist University School of Nursing is approved by the California Board of Registered Nurses and accredited by the Western Association of Schools and Colleges. The University is the first institution to offer a four-year Bachelor of Science in Nursing (BSN) degree program in Riverside County.

**The Shelby and Ferne Collinsworth School of Music.** The Shelby and Ferne Collinsworth School of Music endeavors to create opportunities for musical expression and seeks to train competent musicians.



In addition to musical instruction, the School offers a variety of vocal and instrumental performance opportunities. The School is a member of and is accredited by the National Association of Schools of Music.

School of Engineering. Established in 2007, the California Baptist University School of Engineering offers undergraduate degree programs in Civil Engineering, Electrical Engineering, Mechanical Engineering, and General Engineering with concentrations in Pre-law, Business and Missions Applications. Students work on various activities such as developing an electronic flight instrumentation system used on Space Ship One (a private manned spacecraft), designing electronics for the iPod®, and performing genetic sequencing for cancer research at the Mayo Clinic.

The Dr. Bonnie G. Metcalf School of Education. The School of Education offers a full range of state-approved teacher credential programs leading to careers in elementary or secondary education. The School's programs are approved by the California Commission on Teacher Credentialing (CCTC). Many surrounding states have cooperative agreements with California that allow teachers with California credentials to teach in those states. In addition to the teacher preparatory programs offered, the Dr. Bonnie G. Metcalf School of Education offers a Reading Certificate Program (RCP).

School of Christian Ministries. The School of Christian Ministries prepares students for graduate school (seminary) and equips students for careers in churches and other ministry-related organizations. A balanced general degree (B.A. in Christian Studies) includes a core curriculum that provides students a broad understanding of the Bible, interpretative methodologies, Christian doctrine, Christian history, Baptist distinctives, and specific applications of Christian ministry, including field experience.

In addition, students select and complete one of the following areas of concentration: Biblical Languages (pre-seminary), Bible and Theology, Theology/Philosophy, Christian Ministry, Youth Ministry, Global Studies, and Theology/Church History. The Biblical Languages concentration is a pre-seminary language program that enables students to enter Southern Baptist seminaries on a "fast-track". The Bible and Theology concentration is designed to allow intensive study in biblical and theological studies. The Theology/Church History concentration provides a blend of theology and church history. The Theology/Philosophy concentration is an academically-based emphasis designed to help students to articulate and defend the Christian faith in view of non-Christian religious viewpoints. The Christian Ministry and Youth Ministry concentrations allow students to focus on a more directed area of ministry preparation. The Global Studies concentration is designed to enable students to develop a plan for their involvement in the spread of the gospel throughout the world. In addition, through participation in the academic program of the Focus on the Family Institute in Colorado Springs, Colorado, students may earn a full concentration for the Christian Studies degree. The School of Christian Ministries also offers a Bachelor of Applied Theology (B.A.T.) degree, an intensively practical degree, focused on the training of the next generation of pastoral leaders. The program includes internship units in every semester's study.

Dr. Robert K. Jabs School of Business. The School of Business provides a variety of business-based programs that prepare students to be competitive in the workforce. Undergraduate majors include Accounting and Business Administration with concentrations in business technology, management, and marketing. At the graduate level, the School of Business provides the Master of Business Administration with two areas of emphasis: management and church business administration. The University, through its School of Business and MBA program, is accredited by the Association of Collegiate Business Schools and Programs (ACBSP). The School offers the following business degrees: Bachelor of Science in Business Administration and Bachelor of Science in Accounting in its undergraduate program; Bachelor of Arts in Business Administration through its Degree Completion Program; and a Master of Business Administration.

The School of Behavioral Sciences. The School of Behavioral Sciences consists of the undergraduate Psychology, Sociology, Behavioral Sciences and Christian Behavioral Science programs. It also includes the Graduate Counseling Psychology program, the Center for the Study of Human Behavior, and the University Counseling Center. The School of Behavioral Sciences provides general education courses and degrees in the subject areas of Anthropology, Christian Behavioral Science, Sociology, Social Work and Psychology. Bachelor of Arts degrees are available in four majors: Behavioral Sciences, Christian Behavioral Science, Psychology and Sociology. Most majors include a core of courses and a choice of concentrations. All majors prepare students for entry-level positions in the behavioral sciences and for admission to graduate programs in Psychology, Sociology, Social Work, or Anthropology. Four key components of the School's distinctive philosophy include: significant student/professor interaction, intentional integration of biblical world view, interdisciplinary approach, and sound academic instruction.

College of Professional Studies. The College of Professional Studies is dedicated to offering quality instruction through flexible, distinctive and practical degree programs for those seeking preparation for career advancement, management opportunities or career change. The College of Professional Studies offers the opportunity for returning students or students seeking a career change to pursue their education at the University main campus or off-site locations.

College of Arts and Sciences. The College of Arts & Sciences is comprised of five departments: Communication and Visual Arts; History, Political Science, and Criminal Justice; Kinesiology; Modern Languages and Literature; and Natural and Mathematical Sciences. Together they reflect and promote studies in and personal pursuit of the finest in human artistic, intellectual, scientific and spiritual achievements. All curricula are aimed at enriching the lives of students by enabling them to grow in sensitivity to themselves, their heritages, and the world around them. To achieve these ends, the College directs the University Honors Program for select students and a series of Integrated Humanities courses for all students that cross the usual disciplinary boundaries in order to provide for vital interdisciplinary interaction. The College sponsors Overseas Study Tours each summer, open to majors in all the University programs, providing special opportunities and challenges to personal and intellectual growth.

## **STUDENT ENROLLMENT**

The University's FTE enrollment, which was 2,916 in 2005-06, increased to an FTE enrollment of 4,014 in 2009-10, representing a 37.7% increase. In fall 2009, the University enrolled the largest freshman and transfer class in its history of 942 students (FTE), which increased FTE undergraduate enrollment to 2,751. In 2009-10, approximately 91% of students come from California with approximately 76% from San Bernardino and Riverside counties.

The following is a tabulation of full-time and part-time student enrollments for the fall semester for 2005-06 through 2009-10. Non-traditional students are students who are older than typical students pursuing their first Bachelor's degree. Both tables below refer to fall data only.

### **Headcount Enrollment**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Traditional	1,649	1,950	2,302	2,475	2,620
Graduate	690	786	801	917	883
Non-Traditional	<u>766</u>	<u>673</u>	<u>672</u>	<u>621</u>	<u>602</u>
<b>Total Headcount</b>	<b>3,105</b>	<b>3,409</b>	<b>3,775</b>	<b>4,013</b>	<b>4,105</b>

### FTE Enrollment

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Traditional	1,735	2,048	2,414	2,587	2,751
Graduate	560	646	633	737	768
Non-Traditional	<u>621</u>	<u>569</u>	<u>558</u>	<u>533</u>	<u>495</u>
<b>Total FTE Enrollment</b>	<b>2,916</b>	<b>3,263</b>	<b>3,605</b>	<b>3,857</b>	<b>4,014</b>

The following table sets forth information regarding the University's Spring enrollment.

### Enrollment Actuals for Spring 2010

as of January 7, 2010 *(all figures are subject to change)*

	<u>Traditional Enrollment</u>				
	<u>Uncleared Headcount</u>	<u>Cleared Headcount</u>	<u>Total Headcount</u>	<u>Total FTE</u>	<u>FTE Goal</u>
Traditional – Returning Students:	571	1,815	2,386	2,505.6	2,520
Traditional – New Students:	101	35	136	138.6	
ACCESS Undergraduate – Returning Students:	0	1	1	1.0	21
ACCESS Undergraduate – New Students:	1	0	1	1.0	
<b>Total Traditional Enrollment:</b>	<b>673</b>	<b>1,851</b>	<b>2,524</b>	<b>2,646.2</b>	<b>2,541</b>

	<u>Degree Completion Enrollment</u>				
	<u>Uncleared Headcount</u>	<u>Cleared Headcount</u>	<u>Total Headcount</u>	<u>Total FTE</u>	<u>FTE Goal</u>
Main Campus – Returning Students:	150	308	458	398.4	394
Main Campus – New Students:	4	49	53	47.8	
Beaumont – Returning Students:	4	10	14	11.1	25
Chino – Returning Students:	2	2	4	2.5	7
High Desert – Returning Students:	3	9	12	10.3	25
San Bernardino – Returning Students:	15	28	43	36.8	66
San Bernardino – New Students:	0	2	2	1.8	
<b>Total Degree Completion Enrollment:</b>	<b>178</b>	<b>408</b>	<b>586</b>	<b>508.7</b>	<b>517</b>

	<u>Graduate Enrollment</u>				
	<u>Uncleared Headcount</u>	<u>Cleared Headcount</u>	<u>Total Headcount</u>	<u>Total FTE</u>	<u>FTE Goal</u>
Main Campus – Returning Students:	198	565	763	673.3	
Main Campus – New Students:	48	39	87	82.3	
Other – Returning Students:	0	1	1	0.7	
<b>Total Graduate Enrollment:</b>	<b>246</b>	<b>605</b>	<b>851</b>	<b>756.3</b>	<b>763</b>

	<u>Total Enrollment</u>				
<b>Totals:</b>	<b>1,097</b>	<b>2,864</b>	<b>3,961</b>	<b>3,911</b>	<b>3,821</b>

The following table sets forth the University's initial projection for Fall 2010 enrollment.

## PROJECTED FALL 2010 FTE Enrollment

Traditional	2,926
Graduate	718
Non-Traditional	<u>545</u>
<b>Total FTE Enrollment</b>	<b>4,189</b>

## STUDENT APPLICATIONS, ACCEPTANCES, AND MATRICULATIONS

Management of the University believes the University has historically enjoyed strong enrollment demand. Over the last five years (2005-06 through 2009-10), applications increased 53.5% for the undergraduate programs (including transfer applications), 41.0% for the graduate schools, and decreased 33.9% for non-traditional applicants. During the same time period, enrollments have increased 58.6% for the undergraduate programs (including transfers), 37.1% for the graduate schools, and have decreased 20.3% for non-traditional applicants.

During academic years 2005-06 through 2009-10, the average acceptance rate for new undergraduate applicants at the University was 71.0% with a matriculation rate of 60.8%.

The following tables highlight the University's undergraduate inquiry, application, acceptance, and enrollment statistics.

### Undergraduate Admissions Statistics

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Inquiries	19,721	26,643	24,021	23,480	25,191
Applications	1,544	1,930	2,028	2,030	2,370
Acceptances	1,082	1,320	1,427	1,477	1,740
Acceptance Rate	70.1%	68.4%	70.4%	72.8%	73.4%
Enrollment	694	832	872	889	966
Matriculation Rate	64.1%	63.0%	61.1%	60.2%	55.5%

### Graduate Admissions Statistics

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Inquiries	1,207	1,250	1,078	1,048	1,151
Applications	500	525	538	636	705
Acceptances	367	330	323	386	387
Acceptance Rate	73.4%	62.9%	60.0%	60.7%	54.9%
Enrollment	241	264	265	323	324
Matriculation Rate	65.7%	80.0%	82.0%	83.7%	83.7%

### Degree Completion Program Admissions Statistics\*

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Inquiries	1,129	1,065	943	832	554
Applications	375	414	334	296	248
Acceptances	249	225	196	174	145
Acceptance Rate	66.4%	54.3%	58.7%	58.8%	58.5%
Enrollment	213	205	175	169	133
Matriculation Rate	85.5%	91.1%	89.3%	97.1%	91.7%

*\*Degree Completion Program is for non-traditional students*

## ENROLLMENT BY MAJOR

The following three tables detail the enrollment by major based upon student type for 2009-10.

### Traditional

School	Students (FTE)
ACCESS	13
College of Arts and Sciences	959
School of Behavioral Sciences	296
School of Business Admin.	358
School of Christian Studies	151
School of Education	223
School of Engineering	160
School of Music	92
School of Nursing	388
<u>Undeclared</u>	<u>111</u>
TOTAL	2,751

### Graduate

Major	Students (FTE)
Athletic Training	23
Business Admin.	73
Counseling Ministries	5
Counseling Psychology	176
Education	324
English	16
Forensic Psychology	22
Kinesiology	29
Music	20
Nursing	29
Pre-Nursing	9
Public Admin.	41
<u>Special Admit</u>	<u>1</u>
TOTAL	768

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### Degree Completion

Major	Students (FTE)
Behavioral Science	2
Business Admin.	79
Christian Studies	15
Criminal Justice	6
Criminal Justice Admin.	26
Early Childhood Studies	25
English	18
History	1
Interdisciplinary Studies	57
Kinesiology	33
Liberal Studies	119
Nursing	11
Political Science	19
Psychology	46
Sociology	29
<u>Special Admit</u>	<u>9</u>
TOTAL	495

As of the 2008-09 academic year, the University's six-year graduation rate was 59% of those who enrolled as freshmen. The following table sets forth the percentage of students that enroll in the University as freshman and return to the University for their sophomore year.

### Freshman/Sophomore Retention Rates

<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
77%	82%	85%	78%	73%

### STUDENT EXAM RESULTS

For the 2009-10 academic year, 447 applicants took the SATWs and 205 took the ACTs. The University's historical ACT and SAT scores for undergraduate admissions are shown in the following tables.

#### Historical ACT Scores

Score	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
13-17	53	103	40	51	29
18-22	91	201	106	136	121
23-27	44	94	59	66	51
28+	3	6	9	10	4

## SATW Scores

<u>Scores</u>	<u>Class entering fall 2006</u>			<u>Class entering fall 2007</u>			<u>Class entering fall 2008</u>			<u>Class entering fall 2009</u>		
	<u>Critical Reading</u>	<u>Math</u>	<u>Writing</u>	<u>Critical Reading</u>	<u>Math</u>	<u>Writing</u>	<u>Critical Reading</u>	<u>Math</u>	<u>Writing</u>	<u>Critical Reading</u>	<u>Math</u>	<u>Writing</u>
700-800	5	1	1	7	2	6	6	7	3	3	5	2
600-699	46	34	39	58	61	52	64	65	53	58	74	63
500-599	154	156	162	191	165	179	224	197	205	190	150	159
400-499	155	161	153	181	183	183	199	201	210	158	169	177
300-399	40	44	42	21	46	36	40	57	55	36	46	41
200-299	2	5	4	4	5	3	1	7	8	2	3	3

## TUITION

The following table summarizes the tuition rates charged by the University for the past five academic years.

### Semester Tuition Rates (not including fees)

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<b><u>Traditional Undergraduate:</u></b>					
Full-Time Tuition (13-18 units)	\$8,125	\$8,840	\$9,620	\$10,465	\$10,933
<b><u>Degree Completion (Non-Traditional):</u></b>					
Course tuition (per unit)	\$425	\$435	\$445	\$455	\$455
Emergency Service Personnel (per unit, CJAD only) <sup>1</sup>	340	355	371	371	371
Nursing Tuition (per unit, RN to BSN only) <sup>2</sup>	N/A	500	550	550	550
Prior Learning Portfolio Units (per unit)	120	135	152	152	152
Audit tuition (per unit)	\$110	\$125	\$140	\$140	\$140
<b><u>Graduate (per unit):</u></b>					
Master of Business Administration	\$460	\$485	\$511	\$525	\$535
Master of Arts in Counseling Ministry	N/A	525	540	555	565
Master of Arts in Forensic Psychology	N/A	N/A	540	555	565
Master of Arts in Disability Studies	N/A	N/A	N/A	454	464
Master of Science in Counseling Psychology	510	525	540	555	565
Master in Education	424	434	444	454	464
Master of Arts in English	424	434	444	454	464
Master of Science in Kinesiology	424	434	444	454	464
Master of Science in Nursing	N/A	N/A	550	550	560
Master of Music	424	434	444	454	464
Master of Public Administration	N/A	434	455	465	475
Traditional courses <sup>3</sup>	625	680	740	805	841
Continuing Education Units	110	125	140	140	140
Audit	\$110	\$125	\$140	\$140	\$140

<sup>1</sup>CJAD is Criminal Justice Active-Duty

<sup>2</sup>RN and BSN are Registered Nurse and Bachelor of Science in Nursing

<sup>3</sup>Traditional courses are Undergraduate courses

Undergraduate tuition and fees of other universities and colleges that management believes are the University's primary competitors range from \$9,500 to \$15,500 per semester in 2009-10, while the University's tuition and mandatory fees totaled \$11,633 per semester.

The average tuition and fees for academic year 2009-10 for those institutions that the University considers its major competitors for undergraduate students are as follows:

**Comparative Tuition and Fees  
(per semester)**

<u>Institution</u>	<u>Tuition and Fees</u>
Biola University	\$13,872
Azusa Pacific University	13,625
Point Loma Nazarene University	12,920
<b>California Baptist University</b>	<b>11,633</b>
UC Riverside*^	4,570
CSU Fullerton*^	2,331
CSU San Bernardino*^	1,612

*Source: Respective websites of competing institutions*

*^Per quarter, three quarters in typical school year*

*\*Tuition and fees for California state residents*

The average resident expenses, for academic year 2009-10 for those institutions that the University considers its major competitors are as follows:

**Resident Expenses  
(per semester)**

<u>Institution</u>	<u>Room and Board</u>
UC Riverside^	\$3,633
CSU San Bernardino^	2,329
Point Loma Nazarene University	3,750
CSU Fullerton^*	1,925
Biola University	3,490
Azusa Pacific University	3,492
<b>California Baptist</b>	<b>3,375</b>

*Source: Respective websites of competing institutions*

*^Per quarter*

*\*Room only*

**FACULTY AND STAFF**

The University's faculty currently includes 164 permanent full-time faculty members and 175 adjunct faculty members. Approximately 65% of the full-time faculty holds terminal degrees. The following table shows the number of full-time non-tenured, part-time and full-time tenured faculty for the past five academic years.



**Full-Time Faculty, Part-Time Faculty and Full-Time Tenured Faculty**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Full-time Non-tenured	71	80	82	93	103
Full-time Tenured	25	32	38	39	39
Lecturers	<u>-</u>	<u>8</u>	<u>8</u>	<u>15</u>	<u>22</u>
<b>Total F/T Faculty</b>	<b>96</b>	<b>120</b>	<b>128</b>	<b>147</b>	<b>164</b>
Adjunct Faculty	130	165	201	177	175

The approximate student/faculty ratio for academic year 2009-10 is 18:1.

The University currently employs 357 staff members as support staff, administrators, and service staff. The University Police consists of 12 full-time officers. There is no union for University employees.

**UNIVERSITY BUILDINGS**

The California Baptist University campus is located on Magnolia Avenue in Riverside, California. The University-owned buildings total approximately 346,057 square feet and are used almost entirely for academic and housing purposes. The existing buildings were built from 1921 through 2007 and vary from one to four stories in height. Management believes all of the University's buildings have been maintained in good condition. Some buildings have been updated with the addition of sprinklers and fire alarms. A provision for annual maintenance and repair has been, and continues to be, a major component of the University's operating budget.

The following table identifies the buildings owned by the University and the approximate net square footage of each, the date of purchase or construction, and the principal use of each building.

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<b><u>Building Name</u></b>	<b><u>Approximate Square Footage</u></b>	<b><u>Date of Purchase or Construction</u></b>	<b><u>Principal Use</u></b>
James Building	96,838	1925/1934	Classrooms
Ceramics Building	6,200	1938	Classrooms, Central plant
Library	27,4002	1921	Library
Wallace Theater	14,240	1973	Theater, Classrooms
Mission Hall/Athletic Modulares	19,700	1997	Offices, Classrooms
Maintenance Building	10,000	1975	Maintenance
Gymnasium	22,301	1969	Classrooms and Athletics
Aquatic Center	4,725	1998	Showers and Lockers
Baseball Storage Building	1,105	2001	Maintenance and Storage
School of Nursing Building	12,900	1999	Classrooms, Offices
Diana Hall	5,415	1997	Offices, Classrooms
Building 36 Modular	2,160	1998	Offices, Classrooms
Yeager Center	94,500	2003	Administrative Offices, Classrooms, Dining Hall, Student Services
The Cottages	34,743	2005	Student Housing
Engineering Projects Lab	3,673	2005	Classrooms/Labs
Music Building	32,000	2005	Classrooms
Rose Garden Village Apartments	56,026	2005	Senior housing/Student housing
Royal Rose Apartments	32,000	2005	Senior housing/Student housing

In addition to the above properties, the University owns 23 single family homes, which the University currently uses to house students and faculty.

The University continues to experience a shortage of facilities though great efforts have been made to use existing facilities to their maximum potential. The University is considering a range of possible strategies to address its facilities needs in the coming two years as enrollment continues to grow, which could entail the incurrence of additional indebtedness, using cash from operations and/or fundraising. In particular, the University prioritizes capital projects for the School of Engineering, a dining commons, wrestling practice area, science laboratories, and student activities facilities. Cost estimates for such a capital program range from \$10 million to \$20 million.

### **Acquisition Project**

The University will use a portion of the proceeds received from the sale of the 2010 Student Housing Project to the Borrower to acquire the land underlying a commercial complex adjacent to the eastern corner of the University's campus (the "Adams Plaza"), to make improvements to the approximately 48,500 square foot space that the University currently leases at Adams Plaza and/or to finance educational facilities for the benefit of the University (together, the "Acquisition Project").

In December, 2006, Lancer Properties LLC ("Lancer Properties") originally acquired the buildings in Adams Plaza with the proceeds of a \$16.7 million conventional loan and entered into a ground lease with the landowner, a third-party. The \$16.7 million conventional loan, which does not have operating covenants associated therewith, is due in January 2017. Lancer Properties is a special purpose limited liability company and its sole member is the University. The University will certify at the closing for the Series 2010 Bonds that Lancer Properties, for tax purposes, is disregarded as an entity separate from the University pursuant to Section 301.7701-3 of the Treasury Regulations, promulgated under the Internal Revenue Code of 1986, as amended and in effect on the date the Series 2010 Bonds are issued. As part of the original acquisition of Adams Plaza, Lancer Properties received an option to purchase the Adams Plaza land and it will assign its option to purchase to the University. The University plans to use

the proceeds to purchase Adams Plaza, and the University exercised the purchase option on December 10, 2009. Lancer Properties will continue to own and operate the Adams Plaza buildings pursuant to the ground lease and expects to occupy substantially all of Adams Plaza by 2015.

Subsequent to the University's fiscal year ending June 30, 2009, the University acquired the remaining membership interests in Lancer Properties making the University its sole member. Lancer Properties is discussed in Note 17 and Note 16 accompanying the University's audited financial statements for the fiscal years ended June 30, 2008 and June 30, 2009, respectively. It is expected that the business of Lancer Properties will change significantly in the coming years as the University renovates and occupies a greater proportion of the Adams Plaza. See APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF CALIFORNIA BAPTIST UNIVERSITY."

Management of the University believes that the University has prioritized the Acquisition Project as a key resource for accomplishing its strategic vision and meeting its critical needs for academic and auxiliary space. The University contemplates that it will develop the Acquisition Project space it leases for a combination of uses, including, but not limited to, student recreation center, bookstore, copy center, mailroom (including student mailboxes), academic departments and related faculty/staff office space in order to free up locations elsewhere on campus to be used for additional classroom space. The renovation cost of the existing Adams Plaza space leased by the University for these purposes is expected to exceed the amount available from the sale of the Royal Rose and Rose Garden Village apartment complexes. The University anticipates that it will first renovate approximately 37,000 square feet of leased Adams Plaza space for student activities, including a student recreation center with racquetball courts, climbing wall, fitness center, half-court basketball, and a juice bar. Management of the University believes that the student recreation center will serve as a recruiting tool for future students. The University has conceptual drawings for this renovation project and estimates that the contemplated interior space renovations will cost approximately \$100 per square for a total of approximately \$3.7 million. The University contemplates adding a new façade to the exterior of the building to improve the space's visual appeal. Adams Plaza is currently a dated strip mall-style center and requires upgrades to look more like the rest of campus. The University also plans to provide better access between the campus and Adams Plaza. The properties are adjacent; however, in order for students to access Adams Plaza, they currently have to go outside campus gates and around to the front of Adams Plaza to enter. A new connection for vehicles and pedestrian traffic through the side of the campus and the back of Adams Plaza will provide improved student access. In addition, the University anticipates renovating additional space at Adams Plaza as it becomes available to the University and on-campus locations that will become available subsequent to moving University activities and departments to Adams Plaza. The University does not currently anticipate that it will spend its own operational funds on the renovation of Adams Plaza and the development of access to the current University campus.

## **ACCREDITATIONS, MEMBERSHIPS, AND AFFILIATIONS**

### **Memberships and Affiliations**

The University is owned and operated by the California Southern Baptist Convention (CSBC). CSBC is one of the largest evangelical Protestant denominations in California with 450,000 members in approximately 1,800 language and multi-ethnic congregations that cooperate with the Southern Baptist Convention (SBC), the largest Protestant denomination in America. The SBC has over 16 million members in more than 42,000 churches in the United States and is the second largest religious group in the nation. Neither the CSBC nor the SBC are responsible for the repayment of the Bonds.

## **Accreditations**

The University is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (WASC). The School of Business at the University is nationally accredited by the Association of Collegiate Business Schools and Programs (ACBSP). Additionally, the University's School of Music is accredited by the National Association of Schools of Music (NASM). The School of Nursing is accredited by the Council of Collegiate Nursing Education (CCNE). The Athletic Training program is accredited by the Commission on Accreditation of Athletic Training Education (CAATE).

The University is approved for teacher education by the State of California Commission on Teacher Credentialing. Licensing programs in the School of Nursing have been approved by the California Board of Registered Nursing. The University also holds memberships in the Association of Independent California Colleges and Universities, the International Association of Southern Baptist Colleges and Universities, the Council for Christian Colleges & Universities, and the Service Members Opportunity Colleges.

## **GOVERNANCE**

The University is owned and operated by the California Southern Baptist Convention under a Charter granted by the Secretary of State of California. The University is operated through a Board of Trustees elected by the Convention. The responsibility of the Board is two-fold: to hold in trust the properties, endowment and the good name of the University, and to improve the educational quality of the institution. The main function of the Board is in the area of policy-making.

The Committees of the Board are an Executive Committee and standing committees for Academic Affairs, Student Services, Business Affairs, Institutional Advancement, and Board Development. Each committee meets at least twice a year at the call of the Chair of the respective committee. Written reports of standing committee work are provided to the Executive Committee prior to Board meetings or at the request of the Executive Committee.

The Board consists of 36 term members and no life members. Members serve three year terms. The Committee on Board Nominations of the CSCB nominates the proposed University Board members to the full Convention for approval.

The following is a list of the members of the Board for academic year 2009-10, the year that their respective term expires, and their principal business or professional affiliation.

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**California Baptist University  
Board of Trustees**

<u>Trustee</u>	<u>Principle Business Affiliation</u>
TERM EXPIRING 2009	
Mr. Walt Crabtree*	Retired Teacher
Rev. Anthony Dockery	Pastor
Mr. Charles Doremus	Real Estate Broker
Rev. David Gill*	Pastor
Dr. William K. Hall	Financial Advisor
Rev. Ralph Neighbour	Pastor
Mr. Lance Reid*	President/CEO
Mr. Gary Vick	Owner/Operator
Mr. Richard Yu*	CPA
TERM EXPIRING 2010	
Dr. Steve Bass	Minister
Dr. Bob Byrd	Dentist
Ms. Cindy Cook*	Missionary/homemaker
Mr. Jack Hawkins, Sr.	Retired
Mr. Tom Hixson	President/CEO
Ms. Eydie Miskel*	Homemaker/volunteer
Rev. Phil Neighbors	Pastor
Mrs. Janneth Russell	Homemaker
Mr. David Smith*	President/Executive
TERM EXPIRING 2011	
Mr. Chris Arledge	Attorney
Rev. Steve Davidson	Pastor
Dr. James Draper*	Retired
Mr. Gary Black	Retired
Rev. Tom Holladay	Pastor
Rev. Wayne Reynolds	Pastor
Mr. Bart Shifter*	Attorney
Mr. Jim Williams	CPA
Mr. Kyung Yi	Computer Software Consultant
Mrs. Michele Chandler	Teacher
Dr. Phoebe Lambeth	Corporate Officer
Mr. Don Nichols	Project Engineer/Eng. Director
Dr. J. T. Reed	Sr. Pastor
Mr. Jerry Todd	President
Dr. Walt Carney	Retired
Dr. Walter Price	Pastor
Mr. Terry Lowe	Pastor
Mr. Mike Staver	CEO/Professional Development Consultant

*\* not eligible for re-election*

The full Board meets three times a year. Between Board meetings, the Executive Committee has the power to transact all of the University's financial and executive business, except as otherwise provided by the bylaws.

The Board has a conflict of interest policy which governs each member of the Board and all officers of the administration. It covers such areas as fiduciary responsibility, disclosure of conflicts, and restraints on participation.

## **ADMINISTRATION**

The President of the University is charged with its administration. Assisting the President in this task are the Provost, the Vice President of Finance and Administration, the Vice President for Student Services, the Vice President for Institutional Advancement, the Vice President for Marketing and Communications, the respective deans of each of the Schools and Colleges, the Dean of Enrollment, and the Dean of Students. The following short biographies describe the University's key administrators.

Ronald L. Ellis, Ph.D., President. Ronald L. Ellis, has served as President of the University since 1994. He previously served as Executive Vice President for Campbellsville College in Campbellsville, Kentucky as well as in various administrative positions at Louisiana College and Baylor University and has taught junior high school history. He received his Ph.D. in Higher Education Administration from Texas A&M University, a master's degree in education at Baylor University, and holds a bachelor's degree in education from Houston Baptist University.

Jonathan Parker, Ed.D., Provost and Vice President for Academic Affairs. Jonathan Parker has served as Provost and Vice President for Academic Affairs of the University since 2000. He previously served as Dean of the School of Education at Charleston Southern University in Charleston, South Carolina from 1997 to 2000. Prior to this appointment, he was the chair of the education department at Huntington College in Huntington, Indiana. He has also served as an adjunct faculty member in education at Indiana-Purdue University in Fort Wayne, Indiana. He received his Ed.D. in educational psychology from the University of the Pacific and also holds degrees from San Francisco State University and the University of California in Santa Cruz.

Mark Howe, M.B.A., Vice President for Finance and Administration. Mark Howe is currently serving as the University's Vice President for Finance and Administration and Chief Financial Officer. He is the former vice president of Silicon Space, Inc., in San Diego, California, and has also served this organization as vice president of finance and strategy as well as its chief financial officer. Mr. Howe previously held upper management positions for organizations including USWeb/CKS, Metrix Communications, International Leasing Corporation, and National University in San Diego. He received his M.B.A. and bachelor's degrees from National University.

Kent Dacus, M.S., Vice President for Student Services. Kent Dacus has served as Vice President for Student Services since 1995, and previously served the University in various positions within the student services division, including Director of Admissions. Under his leadership, the student services division provides guidance and direction to the areas of undergraduate and graduate admissions, campus ministries, campus services, job placement and development, intercollegiate athletics, international students, student orientation, public safety, campus activities, recreational sports, and residence life. Mr. Dacus earned a bachelor's degree in political science and history from the University and a master's degree in education from Chapman University in Orange, California.

Mark A. Wyatt, D. Min., Vice President for Marketing and Communications. Mark A. Wyatt has served the University as its Vice President for Marketing and Communications since 2002. He also holds a faculty position of assistant professor of communication arts. Mr. Wyatt previously served as editor and

general manager of The California Southern Baptist news journal, the information link for Southern Baptists in California, since 1991. He is a 30-year veteran of print and broadcast media with experience as director and announcer for radio station WGUL in Florida, as anchor reporter at WSPA TV in Spartanburg, South Carolina and reporter for WHAS TV in Louisville, Kentucky. Mr. Wyatt is also an ordained Southern Baptist minister and has served as a pastor in Indiana. At the University he is responsible for the development of a comprehensive public relations program, including coordinating student recruitment initiatives, web site communication, market research, and developing and designing printed marketing materials.

Marilyn Johnson, Ed.D., Vice President for Institutional Advancement. Marilyn Johnson joined the University as Vice President for Institutional Advancement in 2009. Prior to joining the University, Ms. Johnson held the position of President of the Healthcare Foundation for the Yampa Valley Medical Center in Steamboat Springs, Colorado. She previously served as Vice President of Institutional Advancement for Nova Southeastern University, Vice President for Development and Alumni Relations and Executive Director of the Foundation, University of Nevada, Reno; Vice President for Institutional Advancement and Foundation, Executive Director, and lecturer at California State University, Los Angeles; Associate Vice President, University Relations and Development and lecturer, California State University, Long Beach; Associate Athletics Director, Senior Women's Administrator and Compliance Officer, Lecturer, and Dean for Student Affairs, San Diego State University. In her current position at the University, Ms. Johnson is responsible for programs including development, planned giving, fundraising, capital campaigns and alumni affairs. She earned a bachelor's degree in education from California State Polytechnic University in Pomona and a master's degree in education from San Diego State University. She began doctoral studies at the University of Southern California and completed an Ed.D. degree in Higher Education Administration at Nova Southeastern University.

David Poole, M.S., Vice President for Online and Professional Studies. David Poole joined the University in January 2010 and brings a proven track record in faith-based higher education and strong business expertise to this newly created position at the University. Mr. Poole brings more than 30 years' experience in the business and education fields to his new post including significant experience in enrollment management, marketing administration, operations, and program development. Since 2004, Mr. Poole has served as vice president for institutional advancement at Hope International University in Fullerton, California where his duties included enrollment management, donor relations, marketing and public relations. He previously served as associate dean for graduate and executive programs for the Argyros School of Business and Economics at Chapman University in Orange, California. For 13 years Mr. Poole was Executive Director for all Executive Programs at Pepperdine University in Malibu, California, and led the program to national ranking. Prior to his work at Pepperdine, Mr. Poole directed marketing for a mid-sized geotechnical engineering firm; held various management positions in the retail industry; and served as department chair for one of the largest performing arts programs in the California public school system. Mr. Poole received both his Bachelor of Arts in Music Education and Master of Science in Administration and Technology from Pepperdine University. He is presently a candidate in the Ed.D. program in Higher Education at California State University, Fullerton.

## **FINANCIAL MATTERS**

The following summaries and discussions of financial matters should be read in conjunction with the financial statements of the University, related notes, and the independent auditors' report included as Appendix D to the Official Statement. The financial statements in Appendix D have been audited by Vicenti Lloyd Stutzman LLP, Independent Auditors, Glendora, California.

## Accounting Matters

The University operates on a fiscal year ending June 30. The following tables derived from the audited financial statements summarize the Statement of Activities for the five fiscal years ended June 30, 2005 through 2009 and the 2009-2010 Budget and the Statement of Financial Position for fiscal years ended June 30, 2008 and June 30, 2009.

### California Baptist University Statement of Unrestricted Activities<sup>1</sup>

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Budget 2009-10</u>
<b>Revenues:</b>						
Net tuition and fees	\$31,655,858	\$38,258,391	\$42,629,838	\$50,500,808	\$54,803,867	\$60,050,287
Sales and service	6,984,915	9,236,247	12,539,631	11,605,722	11,194,022	12,395,304
Private gifts	1,519,455	2,473,885	1,121,513	1,426,293	1,265,262	1,000,000
Grants and contracts	0	0	0	0	335,043	0
Cooperative program	1,237,157	1,290,658	1,286,656	1,138,972	890,594	750,000
Investment return (note 5)	104,489	134,027	119,002	140,308	(337,538)	0
Net unrealized gain (loss) on investments	0	46,550	186,199	(149,263)	(1,013,309)	0
Interest income	119,889	68,765	280,080	529,949	182,884	333,676
Net gain on sale of assets (note 16)	0	0	10,617,860	0	0	0
Other	<u>819,366</u>	<u>1,062,182</u>	<u>1,171,709</u>	<u>1,474,402</u>	<u>918,894</u>	<u>870,080</u>
<b>Total Revenue</b>	<u>\$42,441,129</u>	<u>\$52,570,705</u>	<u>\$69,952,488</u>	<u>\$66,667,191</u>	<u>\$68,239,719</u>	<u>\$75,399,347</u>
Net assets released from restrictions	\$3,502,281	\$4,537,429	\$3,012,614	\$3,420,170	\$4,330,505	\$0
<b>Total Revenue and Net Assets Released from Restrictions</b>	<u>\$45,943,410</u>	<u>\$57,108,134</u>	<u>\$72,965,102</u>	<u>\$70,087,361</u>	<u>\$72,570,224</u>	<u>\$75,399,347</u>
<b>Expenses:</b>						
Educational and general activities	\$34,392,067	\$46,923,016	\$55,882,167	\$56,556,416	\$62,614,512	\$59,620,125
Auxiliary expenditures	6,744,440	7,760,990	11,309,734	11,508,937	11,385,295	9,663,282
Development and fundraising expenses	<u>1,147,863</u>	<u>1,851,728</u>	<u>2,122,913</u>	<u>1,870,454</u>	<u>1,777,634</u>	<u>1,115,940</u>
<b>Total Expenses</b>	<u>\$42,284,370</u>	<u>\$56,535,734</u>	<u>\$69,314,813</u>	<u>\$69,935,807</u>	<u>\$75,777,441</u>	<u>\$70,399,347</u>
<b>Increase (Decrease) In Net Assets</b>	\$3,659,040	\$572,400	\$3,650,289	\$151,554	\$(3,207,217)	\$5,000,000
<b>Beginning Net Assets</b>	<u>\$ 9,683,035</u>	<u>\$13,342,075</u>	<u>\$13,914,475</u>	<u>\$17,564,764</u>	<u>\$18,379,672</u>	<u>\$15,172,455</u>
<b>Ending Net Assets</b>	<u><b>\$13,342,075</b></u>	<u><b>\$13,914,475</b></u>	<u><b>\$17,564,764</b></u>	<u><b>\$17,716,318</b></u>	<u><b>\$15,172,455</b></u>	<u><b>\$20,172,455</b></u>

<sup>1</sup>Derived from the University's audited financial statements, See "APPENDIX D"

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**California Baptist University**  
**Statement of Financial Position<sup>1</sup>**

	<u>June 30, 2008</u>	<u>June 30, 2009</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$7,749,982	\$4,256,321
Restricted cash and cash equivalents	6,132,506	6,132,506
Accounts receivable - students	2,711,306	3,301,602
Less: Allowance for doubtful accounts	(264,077)	(547,662)
Accounts receivable – other, net	4,579,824	6,971,787
Inventories	696,783	715,007
Prepaid expenses and other assets	<u>1,573,211</u>	<u>1,593,251</u>
Total current assets	\$ 23,179,535	\$22,422,812
<b>LONG-TERM ASSETS:</b>		
Notes receivable	\$1,703,540	\$1,648,972
Long-term debt issuance costs	<u>1,686,658</u>	<u>1,613,923</u>
Total long-term assets	<u>\$3,390,198</u>	<u>\$3,262,895</u>
<b>LONG-TERM INVESTMENTS:</b>		
Treasury notes, bills, and other securities	411,919,723	410,474,019
Real estate	<u>84,875</u>	<u>84,875</u>
Total long-term investments	<u>\$12,004,598</u>	<u>\$ 10,558,894</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost:</b>		
Land	\$15,379,650	\$15,379,650
Land improvements	9,359,867	9,523,634
Buildings	71,028,341	70,951,507
Building improvements	11,456,324	16,763,623
Equipment and furniture	19,066,604	21,014,911
Vehicles	436,684	474,185
Construction-in-progress	3,727,614	175,307
Accumulated depreciation	<u>(24,210,286)</u>	<u>(29,387,400)</u>
Total property, plant and equipment	<u>106,244,798</u>	<u>104,895,417</u>
Total assets	<u>\$144,819,129</u>	<u>\$141,140,018</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$3,377,720	\$2,540,226
Accrued liabilities	3,363,344	2,814,156
Accrued interest payable	864,745	349,166
Funds held in custody for others	749,834	881,122
Deposits and deferred revenue	1,341,361	1,622,196
Notes payable	1,106,252	911,095
Capital lease obligations	1,640,994	1,820,692
Bonds payable	<u>-</u>	<u>995,000</u>
Total current liabilities	<u>\$12,444,250</u>	<u>\$11,933,653</u>
<b>LONG-TERM LIABILITIES:</b>		
Equity Line	\$ -	\$2,500,000
Notes payable	9,106,742	7,835,921
Capital lease obligations	2,672,309	1,824,801
Bonds payable	88,800,000	87,805,000
Federal student loan funds	<u>1,011,060</u>	<u>1,002,442</u>
Total long-term debt	<u>\$101,590,111</u>	<u>\$100,968,164</u>
<b>NET ASSETS:</b>		
Unrestricted	\$18,379,672	\$15,172,455
Temporarily restricted	3,369,255	1,572,866
Permanently restricted	<u>9,035,841</u>	<u>11,492,880</u>
Total net assets	<u>\$ 30,784,768</u>	<u>\$ 28,238,201</u>
Total liabilities and net assets	<u>\$144,819,129</u>	<u>\$141,140,018</u>

<sup>1</sup>Derived from the University's audited financial statements, See "APPENDIX D"

## **Management's Discussion of Financial Performance**

Over the past five years, the University has experienced marked improvement in the overall financial condition of the organization. The University has made substantial investments in new construction, capital acquisitions, and capital improvements of the existing facilities in order to accommodate its growth in student body and resident students.

During the past five years, net tuition revenues have grown 73.2%, long-term investments have risen 30.7%, and unrestricted net assets have increased by 65.9%. During this same time period, expenses have grown 79.2%.

In 2004-05, 2005-06, and 2006-07, the University purchased a significant number of homes and other buildings in order to exercise control over the majority of its campus block. The University was uncertain whether these properties might be available for purchase in the future and made a conscientious choice to incur the additional debt. The University's California Statewide Communities Development Authority (California Baptist University) Series 2007A and California Statewide Communities Development Authority (California Baptist University) Series 2007B (together, the "CBU Series 2007 Bonds") refunded the majority of the debt incurred during that period to make it more affordable.

The University's auditor prepared calculations prescribed in the financial covenants associated with the CBU Series 2007 Bonds. The University is in compliance with those covenants. Those calculations are provided as an attachment hereto in Appendix D.

Pursuant to the Contingent Operating Expense Agreement, the University has been reimbursed all operating expenses incurred to date on behalf of Lancer Educational Housing LLC (the "Borrower"). No amounts are owed to the University under the Contingent Operating Expense Agreement. See "SECURITY FOR THE BONDS – Management Agreement" and "SECURITY FOR THE BONDS – Contingent Operating Expense Agreement".

As a result of a decrease in anticipated non-traditional and graduate students for 2009-10, the non-traditional and graduate tuition revenue are projected to have deficits of approximately \$715,000 and \$350,000, respectively (which were previously budgeted at \$8.2 million and \$9.55 million, respectively). Undergraduate enrollment was higher than expected, resulting in a tuition surplus of \$230,000 which was previously budgeted at \$53.8 million. The net projected deficit in overall tuition receipts is approximately \$830,000. The University is already taking steps to cover this amount by permitting certain positions to remain vacant and deferring certain expenses where possible.

## **BUDGET PROCEDURES**

The University's annual budget is based on revenue estimates of student tuition and fees, gifts, grants, auxiliary enterprise revenues and other miscellaneous revenues, and on expenditure estimates submitted by the academic and administrative centers of the University. The initial revenue and expenditure estimates are prepared by the Vice President for Finance and Administration and reviewed by University officers. Final recommendations are submitted to the Business Affairs Committee of the Board and, upon their acceptance, are presented to the Board at its May meeting for consideration and approval.

Budgetary control is the responsibility of the Vice President for Finance and Administration. Actual performance to budget is monitored on a monthly basis via the use of a fund accounting system designed exclusively for colleges and universities.

The FY 2010 budget assumed that Cal Grants from the State of California to the University would be funded fully, and the University expects to receive approximately \$7.0 million in Cal Grants.

The administration included a \$5.0 million contingency in the budget with the intent of growing net assets and cash in a best case scenario, and to cover any shortfall in the Cal Grants, student enrollment, or gifts if encountered. The \$5.0 million budgeted surplus in FY 2010 is funded through additional revenues from increased enrollment and tuition increases and a reduction of expenditures by suspending both annual salary increases and the University's contribution to retirement plans and filling only those vacant positions that are necessary for the daily operation of the University.

## **INVESTMENT MANAGEMENT**

The University's investment assets consist principally of mutual fund investments. From 2004-05 to 2008-09, the University's total long-term investments increased from \$8.0 million to \$10.5 million, an increase of approximately 31%. The University invests its endowment with the California Baptist Foundation (the "Foundation") with 70% of the assets invested in equities and 30% in fixed income. The Foundation is wholly owned and operated by the University and was created to solicit contributions to the University. The University's Board of Trustees governs the Foundation. Due to the market environment over the past year, the asset mix at the end of fiscal year 2009 was 58% equities and 42% fixed income. The Investment Committee of the Board of Trustees will be monitoring the University's investments over the next couple of months to determine if and when to rebalance the asset mix. The University's endowment funds are invested with the objective to preserve the principal value of the funds in both absolute and real terms and to maximize the total rate of return earned by the endowment funds over the long term, without assuming an unreasonable degree of risk.

The primary purpose of the long-term investments is to ensure the long-term continuance of the University's mission as an educational institution. The management of investment funds is directed toward (1) generating income to provide for current needs, (2) maintaining a base that provides inflation-adjusted purchasing power to meet future needs, and (3) providing for emergency needs.

Some of the factors which the Trustees consider when managing the University's investment funds are (1) the trade-off between immediate income needs and maintaining the purchasing power of the funds, (2) the relationship between earnings and incurring a reasonable amount of risk, (3) the expected rate of inflation, and (4) the priority of financial needs of the University.

The Board of Trustees and its Business Affairs Committee are authorized to retain one or more investment counselors. Investment counselors assume the investment management of funds and assets owned or administered by the University. In discharging this authority, the Business Affairs Committee can act in the place and stead of the Board and may receive reports from, pay compensation to, and enter into agreements with such counselors. The Board may also grant exceptions to investment policies when appropriate.

To accomplish the University's investment objectives, the counselor is authorized to utilize portfolios of equity securities (common stocks and convertible securities), fixed-income securities, and short-term (cash) investments. As a guide to accomplishing these objectives, the counselor remains within the ranges provided in the table below. These ranges can be modified from time to time by the Business Affairs Committee with approval by the Board. The actual investment targets are set within these limits by the counselor in conjunction with the University's designated financial officer.

### Acceptable Ranges for Investment Allocation

Investment Funds	Asset Classes		
	Equity Securities (Common/convertible)	Fixed-income securities (U.S.& corporate bonds)	Short-term reserves (Cash/1-year notes)
Operating Reserves	0%	0-50%	50-100%
Annuity Reserves	30-60%	35-75%	5-35%
Charitable Trusts	30-60%	35-75%	5-35%
Endowments	50-80%	15-50%	5-20%

The investment policy is reviewed annually by the Business Affairs Committee and is revised as required to recognize current market and economic conditions in general and the current income needs of the University in particular.

### UNIVERSITY'S DEVELOPMENT PROGRAM

The Office of Institutional Advancement raises funds through major gifts, campaigns, events, contracts with friends of the University, Athletics, Alumni and membership/donor organizations, the Board of Visitors (a business advisory group), and Women of Vision, which supports the School of Nursing.

The University's total philanthropic support from cash and stock gifts from 2004-05 to 2008-09 was \$32,514,119.

The following table indicates this support for the past five years. This summary information reflects actual cash and pledge payments, and does not include new pledges.

### Sources of Philanthropic Support (Cash and stock gifts)

<i>Constituent Status</i>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Totals</u>
Major Donors	\$390,938	\$492,477	\$309,072	\$663,626	\$860,777	<b>\$2,716,890</b>
Alumni	176,299	193,058	194,973	137,849	146,404	<b>848,583</b>
Board of Visitors	54,875	148,642	144,168	376,283	120,259	<b>844,227</b>
Women of Vision	28,966	76,007	65,365	37,553	34,456	<b>242,347</b>
Parent Club	29,615	72,662	67,947	58,124	21,904	<b>250,252</b>
Parent / Relative	13,180	24,757	34,792	20,098	16,650	<b>109,477</b>
Trustee / Former Trustee	15,116	13,606	8,836	8,214	13,551	<b>59,323</b>
Faculty / Staff	37,075	54,976	72,138	74,623	54,398	<b>293,210</b>
Faculty Emeriti	725	465	540	1,000	2,460	<b>5,190</b>
Business / Corp.	722,906	288,021	383,883	500,320	323,148	<b>2,218,278</b>
Church	365,542	385,378	350,948	453,872	450,230	<b>2,005,970</b>
Foundation	662,205	828,776	893,476	621,195	560,833	<b>3,566,485</b>
Estate	785,368	101,661	13,060	2,540	19,223	<b>921,852</b>
Friends	477,139	500,400	640,958	871,146	849,966	<b>3,339,609</b>
Current Student	350	415	50	100	-	<b>915</b>
Organization	336,926	297,396	282,310	404,714	301,893	<b>1,623,239</b>
Miscellaneous	128,101	128,858	1,367,211	69,091	116,418	<b>1,809,679</b>
Matching Gift Company	1,060	4,150	4,150	2,150	650	<b>12,160</b>
Citizen's Committee	250	650	250	-	-	<b>1,150</b>
Coop. Program of the CSBC	1,252,110	1,296,723	1,286,656	1,138,972	890,594	<b>5,865,055</b>
Trust/Endowment Fund	410,258	1,711,394	1,040,305	161,232	2,457,039	<b>5,780,228</b>
<b>TOTALS</b>	<b>\$5,889,004</b>	<b>\$6,620,472</b>	<b>\$7,161,088</b>	<b>\$5,602,702</b>	<b>\$7,240,853</b>	<b>\$32,514,119</b>

## STUDENT FINANCIAL AID

Approximately 90% of the undergraduate students enrolled at California Baptist University receive some form of student financial assistance. Approximately 75% of students receive more than \$6,500 in financial aid.

During fiscal year 2008-09, University students received approximately \$73 million through financial aid programs, including University funded loans. The table below sets forth the funding sources of the financial aid programs for University students.

	<b>Financial Aid Assistance</b>				
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Institutional	\$6,674,500	\$6,684,534	\$11,180,522	\$13,453,439	\$15,956,248
Private	928,647	2,839,718	792,428	828,087	750,480
Federal	2,789,064	2,866,344	2,911,810	3,196,587	3,756,638
State	5,259,792	5,498,392	5,635,441	5,779,039	6,532,076
Loans	<u>28,444,270</u>	<u>31,423,428</u>	<u>34,548,203</u>	<u>40,568,158</u>	<u>46,339,957</u>
<i>Total</i>	<u>\$44,096,273</u>	<u>\$49,312,416</u>	<u>\$55,068,404</u>	<u>\$63,825,310</u>	<u>\$73,335,399</u>

## OUTSTANDING INDEBTEDNESS

As of June 30, 2009, the outstanding indebtedness of the University was as follows:

<b>Outstanding Indebtedness</b>	
Equity Line of Credit	\$2,500,000
Capital Lease Obligations	3,645,493
Notes payable	8,747,016
CBU Series 2007 Bonds	<u>88,800,000</u>
<b>TOTAL</b>	<b>\$103,692,509</b>

See also the Financial Statements of the University attached hereto as Appendix D.

## STUDENT HOUSING

Upon closing of the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2007A and California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2007B (together, the “Series 2007 Housing Bonds”), six student housing complexes with approximately 1,166 beds (the “Existing Facilities”), were transferred by the University to Lancer Educational Housing, LLC (the “Borrower”). The University owns and operates three housing complexes and single family homes (the “University-Owned Student Housing”). At the time of that transfer, the Borrower anticipated constructing or acquiring additional housing. The Borrower will acquire the 121 unit Rose Garden Village and the 94 unit Royal Rose apartment complexes from the University which are located adjacent to the University’s campus (the “2010 Student Housing Project”) on or about February 18, 2010 with a portion of the proceeds of approximately \$14 million in revenue bonds it seeks to have issued on its behalf by California Statewide Communities Development Authority.

The Existing Facilities are managed and operated by the University pursuant to the Management Agreement executed and delivered in connection with the Series 2007 Housing Bonds. Operating expenses are funded by the University with the expectation of being reimbursed pursuant to the Management Agreement executed and delivered in connection with the Series 2007 Housing Bonds. Additionally, all students residing in University-Owned Student Housing and the Existing Facilities are subject to the Residential Life Policy. Pursuant to the Contingent Operating Expense Agreement executed and delivered in connection with the Series 2007 Housing Bonds, the University shall fund operating expenses related to the Existing Facilities if revenues after funding debt service are insufficient to pay these expenses. The University's obligation under the Contingent Operating Expense Agreement shall extend for 34 years 364 days from June 28, 2007 irrespective of whether the University is managing the Existing Facilities. The University's obligations with respect to the 2010 Student Housing Project and the Contingent Operating Expense Agreement are proposed to be substantially similar to those associated with the Existing Facilities.

The following student housing options are offered at the University's campus:

#### **University-Owned Student Housing**

<u>Student Housing</u>	<u>Style</u>	<u># CBU Beds</u>	<u># Public Units</u>	<u>Occupied by</u>
Cottages	Suite-Style	174	N/A	Sophomores/Freshmen
Royal Rose*	Apartment	13	81	Senior Citizens, Sophomores/Juniors/Seniors
Rose Garden	Apartment	160	49	Senior Citizens, Sophomores/Juniors/ Seniors
Single Family Homes	House	71	N/A	Sophomores/Juniors/Seniors

#### **Lancer-Owned Student Housing**

<u>Student Housing</u>	<u>Style</u>	<u># Beds</u>	<u>Demographic</u>
Smith	Dorm	152	Male Freshmen
Simmons	Dorm	254	Female Freshmen
Adams Villas	Apartment	66	Sophomores/Juniors/Seniors
Magnolia	Apartment	166	Sophomores/Juniors/Seniors
Lancer Arms	Apartment	350	Sophomores/Juniors/Seniors
University Place	Apartment	288	Sophomores/Juniors/Seniors

*\*Property consists of ninety-three one-bedroom and one two-bedroom apartments which was HUD restricted for affordable senior housing until January 2009 and not used for student housing. The University has started to convert these units into student housing.*

### **RESIDENTIAL LIFE POLICY**

The University seeks to express its educational philosophy in many ways, but especially in and through the residential experiences of its students. The University has set its residential life policy and developed and acquired housing with the goal of becoming a residential campus.

The University generally requires traditional, single students less than twenty-one (21) years of age, or students who receive institutional aid in excess of \$6,500 per academic year, to live on campus. Exceptions are made for those living with parents, a legal guardian(s), or approved relatives, upon verification of residency. Approximately 90% of the undergraduate students enrolled at California Baptist University receive some form of student financial assistance. Approximately 75% of students receive more than \$6,500 in financial aid.

Students who are in pursuit of a first undergraduate program are given priority during the housing assignment process. See also APPENDIX A – “THE FACILITIES – THE BORROWER – Background.”

## **INSURANCE**

The University carries standard industry insurance policies, including real and personal property, general comprehensive liability, educator's legal liability, workers' compensation and employer's liability, as well as international workers' compensation and employer's liability, automobile liability, umbrella liability, limited professional liability, kidnap and ransom insurance, law enforcement insurance, and athletic insurance.

## **LITIGATION**

The University is not aware of any litigation pending or threatened wherein an unfavorable decision would adversely affect its ability to carry out its obligations under the documents described herein or would have a material adverse impact on the financial condition of the University.

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## **APPENDIX C**

### **AUDITED FINANCIAL STATEMENTS OF THE BORROWER, INCLUDING BOND COVENANT CALCULATIONS**

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**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**Riverside, California**

**Report on Audit of Financial Statements**  
**For the Year Ended June 30, 2009**

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**AUDITED FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2009**

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## INDEPENDENT AUDITORS' REPORT

Lancer Educational Housing Corporation  
Riverside, CA 92504

We have audited the accompanying statement of financial position of Lancer Educational Housing Corporation (the Organization), a California non-profit corporation, as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization at June 30, 2009, and the results of its activities and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

  
VICENTI, LLOYD & STUTZMAN LLP

September 14, 2009

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2009**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 328,426
Accounts receivable - related party (see note 5)	1,254,494
Prepaid expenses	<u>1,020,194</u>
Total current assets	<u>2,603,114</u>

**LONG-TERM ASSETS:**

Deposits with trustee	2,445,241
Long-term debt issuance costs	643,329
Property, plant and equipment (net of depreciation)	25,018,252
Construction in progress	<u>1,222,281</u>
Total long-term assets	<u>29,329,103</u>

<b>TOTAL ASSETS</b>	<b><u><u>\$ 31,932,217</u></u></b>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	500
Accrued liabilities - related party (see note 5)	<u>3,604,374</u>
Total current liabilities	<u>3,604,874</u>

**LONG-TERM LIABILITIES:**

Bonds payable (see note 2)	<u>29,518,055</u>
Total long-term liabilities	<u>29,518,055</u>

Total liabilities	33,122,929
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**NET ASSETS**

Unrestricted net assets	<u>(1,190,712)</u>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 31,932,217</u></u></b>
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*The accompanying notes are an integral part of these financial statements.*

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2009**

	<u>2009</u>	<u>Budget</u>
<b>REVENUES:</b>		
Student housing fees	\$ 4,618,496	\$4,521,424
Interest income	12,639	84,000
Laundry income	<u>16,360</u>	<u>21,000</u>
<b>Total revenues</b>	<u>4,647,495</u>	<u>4,626,424</u>
<b>EXPENSES:</b>		
Student housing and general activities:		
Contracted Services - California Baptist University	761,856	977,635
Contracted Services - Other	671,605	372,448
Repair and Maintenance	238,401	260,750
Depreciation expense	658,374	658,374
Utilities	489,027	514,300
Insurance expense	69,137	52,015
Interest expense	1,711,446	1,568,652
Telephone	161,546	222,250
Loss on impairment of construction in progress	407,427	-
Other operating expense	<u>263,692</u>	<u>-</u>
<b>Total expenses</b>	<u>5,432,511</u>	<u>4,626,424</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	(785,016)	<u>\$ -</u>
<b>BEGINNING UNRESTRICTED NET ASSETS</b>	<u>(405,696)</u>	
<b>ENDING UNRESTRICTED NET ASSETS</b>	<u><u>\$ (1,190,712)</u></u>	

*The accompanying notes are an integral part of these financial statements.*

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2009**

**CASH FLOWS from OPERATING ACTIVITIES:**

Change in net assets	\$ (785,016)
Adjustments to reconcile change in change in unrestricted net assets to net cash provided by operating activities:	
Depreciation	658,374
Amortization expense	38,581
Loss on impairment of construction in progress	407,427
(Increase)/decrease in operating assets:	
Accounts receivable	1,215,706
Prepaid expenses	(1,020,194)
Increase/(decrease) in operating liabilities:	
Accounts payable	(307,249)
Accrued liabilities	80,421
Net cash provided by operating activities	<u>288,050</u>

**CASH FLOWS from INVESTING ACTIVITIES:**

Purchases of investments (deposits with trustee)	<u>(11,650)</u>
Net cash used by investing activities	<u>(11,650)</u>
<b>Net increase in cash and cash equivalents</b>	<b>276,400</b>
<b>Cash and cash equivalents at June 30, 2008</b>	<b><u>52,026</u></b>
<b>Cash and cash equivalents at June 30, 2009</b>	<b><u><u>\$ 328,426</u></u></b>

*The accompanying notes are an integral part of these financial statements.*



**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Organization

Lancer Educational Housing Corporation (the Organization) is a California non-profit public benefit corporation that has been organized and operates to provide student housing facilities. The Organization is the sole voting member of Lancer Educational Housing, LLC (the Company), a California limited liability company organized to serve as a title holding company. The Company was not established for any purpose other than to support the tax exempt charitable purposes of the Organization.

These financial statements contain the activity of both Lancer Educational Housing Corporation and Lancer Educational Housing, LLC.

Basis of Accounting

The financial statements have been prepared on the accrual basis accounting.

Donor Imposed Restrictions

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

**Unrestricted net assets** - Net assets not subject to donor-imposed restrictions.

**Temporarily restricted net assets** - Net assets subject to donor-imposed restrictions that will be met by actions of the University and/or the passage of time. The Organization had no temporarily restricted net assets as of June 30, 2009.

**Permanently restricted net assets** - Net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes. The Organization had no permanently restricted net assets as of June 30, 2009.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

Donor Imposed Restrictions (continued)

Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift.

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and from state income taxes; accordingly, no provision for income taxes has been made in these financial statements.

Lancer Educational Housing LLC qualifies as a tax exempt title holding company under California Revenue and Taxation Code Section 23701x and has an application for tax exempt status pending.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated on the straight-line method. Useful lives used in the calculation of accumulated depreciation by major category of assets are as follows:

Buildings and improvements (considering the date originally constructed or purchased and remaining useful life)	15-40 years
Equipment and fixtures	10 years

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

Property, Plant and Equipment (continued)

Property, plant, and equipment balances as of June 30, 2009 are as follows:

Buildings	\$ 26,355,000
Accumulated depreciation	<u>(1,316,748)</u>
Property, plant and equipment, net	<u>\$ 25,018,252</u>

Estimates

The preparation of financial statements in conformity with principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - CSCDA REVENUE BONDS:**

In June 2007, Lancer Educational Housing, LLC (the Company) obtained financing through the California Statewide Communities Development Authority (CSCDA). The amount loaned to the Company was \$29,955,000 to be used to acquire certain student housing facilities owned by California Baptist University. The bonds are considered limited obligations of the Company, secured by a pledge of certain gross revenues and a deed of trust on the leasehold interest of the student housing facilities acquired. The loan agreement requires the Company to comply with various covenants, conditions and restrictions, including maintaining certain financial ratios.

The bonds bear interest rates ranging from 5.4% to 9.125%.

The Company is required to maintain in a bond reserve cash account an amount equal to the bond reserve requirement which is currently \$2,366,000, which represents an amount equal to the greatest amount of bond debt service in any fiscal year during the period commencing the fiscal year the determination is being made and terminating with the last fiscal year in which any bond is due. Commencing on June 1, 2007 the Company must deposit for credit to the bond fund account an amount sufficient to pay principal and interest payable on the next ensuing payment date.

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2009**

**NOTE 2 - CSCDA REVENUE BONDS: (continued)**

A portion of the bonds are subject to early redemption at the option of the Borrower on any date after June 1, 2017 together with accrued interest.

Costs associated with the issuance of these bonds have been capitalized as a long-term asset. These costs are amortized over the term of the bonds. Amortization costs for the year ended June 30, 2009 were \$22,976.

Bonds payable are reported on the balance sheet net of a \$436,945 bond discount. The discount is being amortized to interest expense over the life of the bonds. The amortized bond discount charged to interest expense for the year ended June 30, 2009 was \$15,605.

Future maturities under the bonds payable are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ -
2011	650,000
2012	695,000
2013	740,000
2014	790,000
Thereafter	<u>27,080,000</u>
Total future maturities	29,955,000
Less unamortized discount	<u>(436,945)</u>
Net bonds payable	<u>\$29,518,055</u>

**NOTE 3 - SUPPLEMENTAL DISCLOSURE FOR CASH AND CASH FLOW INFORMATION:**

For the purpose of the statement of cash flows, cash and cash equivalents represent investments in highly liquid accounts or debt instruments with an original maturity of three months or less.

Cash paid for interest during the year ended June 30, 2009 was \$1,672,865.

**NOTE 4 - CONCENTRATION OF CREDIT RISK:**

The Organization occasionally has a need to maintain a cash balance with a single financial institution in excess of the \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2009, deposits in excess of the FDIC limit amounted to \$78,426.

**LANCER EDUCATIONAL HOUSING CORPORATION**  
**(A California Non-Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2009**

**NOTE 5 - RELATED PARTY:**

The Organization's board is comprised of two employees of California Baptist University (the University) and three other unrelated persons. The University is a private institution of higher education, offering both undergraduate and graduate courses to students. The University is located in Riverside, California.

Lancer Educational Housing, LLC's student housing facilities are currently managed by the University under a management agreement. The University also has a contingent operating expense agreement by which the expenses related to the facilities are paid for by the University and reimbursed by the Company. At June 30, 2009, the Company had an accounts receivable from the University in the amount \$1,254,494 and an amount owed to the University of \$3,604,374.

**NOTE 6 - GROUND LEASE AGREEMENT:**

The Company has a ground lease with California Baptist University (a related party). The title to the facilities any other improvements that may be constructed by the Company during the lease term, and any additions, alterations, restorations, repairs or replacements thereto, shall be vested in the Company until the expiration of the lease term. The ground lease term is 33 years with the residual value of the facilities becoming available to the University through right of first refusal and either a gift or a purchase at the conclusion of the lease which constitutes fair and equitable consideration for the conveyance of the leasehold interest. The University leases the land to the Company for the purpose of maintaining, operating and managing, the housing facilities. The Company intends to maintain, operate and manage the facilities principally for the use and benefit of the students of the University.

**NOTE 7 - DEVELOPMENT FEE DISPUTE:**

Pursuant to a reimbursement agreement, the Company agreed to reimburse a development company for certain reimbursable expenditures, which was defined in the reimbursement agreement as amounts paid to "third parties" in furtherance of a student housing project. The student housing project was suspended in its early stages. Although the reimbursement agreement does not contain provisions regarding a development fee, the development company asserts that the Company agreed to pay a \$600,000 development fee pursuant to the Reimbursement Agreement. The Company disagrees and believes the current claim, reduced by the development company to \$300,000, is clearly inconsistent with the Reimbursement Agreement, as well as the understanding of the Company. Therefore, the Company has not accrued any liability related to this claim.

September 14, 2009

Board of Directors  
Lancer Educational Housing LLC  
c/o Mark Howe  
8432 Magnolia Avenue  
Riverside, California 92504

Re:

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY  
REVENUE BONDS (CALIFORNIA BAPTIST UNIVERSITY), SERIES 2007 A,

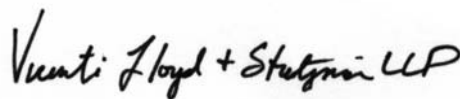
and

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY  
REVENUE BONDS (LANCER EDUCATIONAL STUDENT HOUSING PROJECT),  
SERIES 2007 A (together, the "Bonds")

We have audited, in accordance with generally accepted auditing standards, the financial statements of Lancer Educational Housing LLC (LLC) as of June 30, 2009 and for the year then ended, and have issued our report thereon dated September 14, 2009.

In connection with our audit, nothing came to our attention that would lead us to believe that an Event of Default had occurred. In addition, we found that the LLC was in compliance at June 30, 2009 with the Additional Debt and Rate Covenant as outlined in Section 5.14 and 5.16, respectively in the California Statewide Communities Development Authority Revenue Bonds Series 2007 A and Taxable Series 2007 B (Lancer Educational Student Housing Project) Loan Agreement.

This report is intended solely for the information and use of the Board of Directors, the management of the LLC, the California Statewide Communities Development Authority, and for the LLC to disclose pursuant to the Continuing Disclosure Agreement it has entered into in connection with the Bonds.



VICENTI, LLOYD & STUTZMAN LLP

**2210 E. Route 66, Suite 100, Glendora, CA 91740**

Tel **626.857.7300** | Fax **626.857.7302** | E-Mail **INFO@VLSLLP.COM** | Web **WWW.VLSLLP.COM**

**Lancer Educational Housing, Inc.  
Loan Agreement Covenant Tests  
For the Year Ended June 30, 2009**

**Additional Debt                      Section 5.14**

No additional debt for June 30, 2009.

**Rate Covenant:                      Section 5.16**

Rent Rate = Revenue	\$	4,647,495
Bond Debt Service		1,643,641
Result >= %150		283%
		Passed

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## **APPENDIX D**

### **AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY, INCLUDING BOND COVENANT CALCULATIONS**

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**CALIFORNIA BAPTIST UNIVERSITY**  
**Riverside, California**

**Report on Audit of Consolidated Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**



**CALIFORNIA BAPTIST UNIVERSITY**  
**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2009 and 2008**

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## INDEPENDENT AUDITORS' REPORT

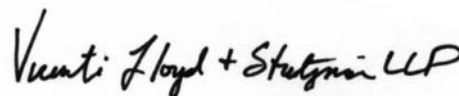
Board of Trustees  
California Baptist University  
8432 Magnolia Avenue  
Riverside, CA 92504

We have audited the accompanying consolidated statements of financial position of California Baptist University as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Baptist University at June 30, 2009 and 2008, and the results of its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued a report dated September 14, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



VICENTI, LLOYD & STUTZMAN LLP

September 14, 2009

# CALIFORNIA BAPTIST UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,256,321	\$ 7,749,982
Restricted cash and cash equivalents	6,132,506	6,132,506
Accounts receivable - students	3,301,602	2,711,306
Less: Allowance for doubtful accounts	(547,662)	(264,077)
Accounts receivable - other, net	6,971,787	4,579,824
Inventories	715,007	696,783
Prepaid expenses and other assets	<u>1,593,251</u>	<u>1,573,211</u>
Total current assets	<u>22,422,812</u>	<u>23,179,535</u>
<b>LONG-TERM ASSETS:</b>		
Notes receivable	1,648,972	1,703,540
Long-term debt issuance costs	<u>1,613,923</u>	<u>1,686,658</u>
Total long-term assets	<u>3,262,895</u>	<u>3,390,198</u>
<b>LONG-TERM INVESTMENTS:</b>		
Treasury notes, bill, and other securities	10,474,019	11,919,723
Real estate	<u>84,875</u>	<u>84,875</u>
Total long-term investments	<u>10,558,894</u>	<u>12,004,598</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost:</b>		
Land	15,379,650	15,379,650
Land improvements	9,523,634	9,359,867
Buildings	70,951,507	71,028,341
Building improvements	16,763,623	11,456,324
Equipment and furniture	21,014,911	19,066,604
Vehicles	474,185	436,684
Construction-in-progress	175,307	3,727,614
Accumulated depreciation	<u>(29,387,400)</u>	<u>(24,210,286)</u>
Total property, plant and equipment	<u>104,895,417</u>	<u>106,244,798</u>
Total assets	<u>\$ 141,140,018</u>	<u>\$ 144,819,129</u>

*The accompanying notes are an integral part of these financial statements.*

**CALIFORNIA BAPTIST UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,540,226	\$ 3,377,720
Accrued liabilities	2,814,156	3,363,344
Accrued interest payable	349,166	864,745
Funds held in custody for others	881,122	749,834
Deposits and deferred revenue	1,622,196	1,341,361
Notes payable	911,095	1,106,252
Capital lease obligations	1,820,692	1,640,994
Bonds payable	<u>995,000</u>	<u>-</u>
Total current liabilities	<u>11,933,653</u>	<u>12,444,250</u>
<b>LONG-TERM LIABILITIES:</b>		
Equity line	2,500,000	-
Notes payable	7,835,921	9,106,742
Capital lease obligations	1,824,801	2,672,309
Bonds payable	87,805,000	88,800,000
Federal student loan funds	<u>1,002,442</u>	<u>1,011,060</u>
Total long-term debt	<u>100,968,164</u>	<u>101,590,111</u>
<b>NET ASSETS:</b>		
Unrestricted	15,172,455	18,379,672
Temporarily restricted	1,572,866	3,369,255
Permanently restricted	<u>11,492,880</u>	<u>9,035,841</u>
Total net assets	<u>28,238,201</u>	<u>30,784,768</u>
Total liabilities and net assets	<u>\$ 141,140,018</u>	<u>\$ 144,819,129</u>

*The accompanying notes are an integral part of these financial statements.*

**CALIFORNIA BAPTIST UNIVERSITY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2009**

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total Net Assets</b>
<b>REVENUES:</b>				
Student tuition and fees	\$ 70,760,115	\$ 90,033	\$ -	\$ 70,850,148
Tuition discounts	<u>(15,956,248)</u>			<u>(15,956,248)</u>
Net tuition and fees	54,803,867	90,033	-	54,893,900
Sales and service	11,194,022			11,194,022
Private gifts	1,265,262	2,426,922	2,457,039	6,149,223
Grants and contracts	335,043			335,043
Cooperative program	890,594			890,594
Investment return	(337,538)	(612,074)		(949,612)
Net unrealized loss on investments	(1,013,309)	(399,106)		(1,412,415)
Interest income	182,884			182,884
Other	<u>918,894</u>	<u>1,028,341</u>		<u>1,947,235</u>
<b>TOTAL REVENUE</b>	68,239,719	2,534,116	2,457,039	73,230,874
Net assets released from restrictions	<u>4,330,505</u>	<u>(4,330,505)</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>72,570,224</u>	<u>(1,796,389)</u>	<u>2,457,039</u>	<u>73,230,874</u>
<b>EXPENSES:</b>				
Educational and general activities:				
Instruction	30,063,706			30,063,706
Academic support	3,495,058			3,495,058
Student services	16,203,855			16,203,855
Institutional support	12,101,413			12,101,413
Scholarships and fellowships	750,480			750,480
Auxiliary expenditures	11,385,295			11,385,295
Development and fundraising expenses	<u>1,777,634</u>			<u>1,777,634</u>
<b>TOTAL EXPENSES</b>	<u>75,777,441</u>	<u>-</u>	<u>-</u>	<u>75,777,441</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(3,207,217)	(1,796,389)	2,457,039	(2,546,567)
<b>BEGINNING NET ASSETS</b>	<u>18,379,672</u>	<u>3,369,255</u>	<u>9,035,841</u>	<u>30,784,768</u>
<b>ENDING NET ASSETS</b>	<u>\$ 15,172,455</u>	<u>\$ 1,572,866</u>	<u>\$ 11,492,880</u>	<u>\$ 28,238,201</u>

*The accompanying notes are an integral part of these financial statements.*



**CALIFORNIA BAPTIST UNIVERSITY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2008**

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total Net Assets</b>
<b>REVENUES:</b>				
Student tuition and fees	\$ 63,954,246	\$ 96,483	\$ -	\$ 64,050,729
Tuition discounts	<u>(13,453,438)</u>			<u>(13,453,438)</u>
Net tuition and fees	50,500,808	96,483	-	50,597,291
Sales and service	11,605,722			11,605,722
Private gifts	1,426,293	2,531,820	161,231	4,119,344
Cooperative program	1,138,972			1,138,972
Investment return	140,308	435,849		576,157
Net unrealized gain (loss) on investments	(149,263)	(1,041,747)		(1,191,010)
Interest income	529,949			529,949
Other	<u>1,474,402</u>	<u>957,952</u>		<u>2,432,354</u>
<b>TOTAL REVENUE</b>	66,667,191	2,980,357	161,231	69,808,779
 Net assets released from restrictions	<u>3,420,170</u>	<u>(3,420,170)</u>	<u>-</u>	<u>-</u>
 <b>TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>70,087,361</u>	<u>(439,813)</u>	<u>161,231</u>	<u>69,808,779</u>
 <b>EXPENSES:</b>				
Educational and general activities:				
Instruction	26,146,288			26,146,288
Academic support	3,184,311			3,184,311
Student services	15,501,346			15,501,346
Institutional support	10,896,384			10,896,384
Scholarships and fellowships	828,087			828,087
Auxiliary expenditures	11,508,937			11,508,937
Development and fundraising expenses	<u>1,870,454</u>			<u>1,870,454</u>
<b>TOTAL EXPENSES</b>	<u>69,935,807</u>	<u>-</u>	<u>-</u>	<u>69,935,807</u>
 <b>INCREASE (DECREASE) IN NET ASSETS</b>	151,554	(439,813)	161,231	(127,028)
 <b>BEGINNING NET ASSETS, BEFORE RESTATEMENT</b>	17,564,764	3,952,432	10,075,034	31,592,230
Adjustment for restatement (See Note #19)	<u>663,354</u>	<u>(143,364)</u>	<u>(1,200,424)</u>	<u>(680,434)</u>
<b>BEGINNING NET ASSETS, RESTATED</b>	<u>18,228,118</u>	<u>3,809,068</u>	<u>8,874,610</u>	<u>30,911,796</u>
<b>ENDING NET ASSETS</b>	<u>\$ 18,379,672</u>	<u>\$ 3,369,255</u>	<u>\$ 9,035,841</u>	<u>\$ 30,784,768</u>

*The accompanying notes are an integral part of these financial statements.*

# CALIFORNIA BAPTIST UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2009 and 2008

<b>CASH FLOWS from OPERATING ACTIVITIES:</b>	<b>2009</b>	<b>2008</b>
<b>Change in Net Assets from Operating Activities</b>	\$ (2,546,567)	\$ (127,028)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,210,957	4,777,147
Amortization of bond issuance costs	72,735	72,737
Loss on disposal of fixed assets	376,800	-
Realized (gain) loss on investments	1,238,835	(301,264)
Net unrealized (gain) loss on investments	1,412,415	1,191,010
Contributions restricted for long-term purposes	(2,457,039)	(161,231)
(Increase)/decrease in operating assets:		
Accounts receivable - students - (net)	(306,711)	(44,382)
Accounts receivable - other	(2,391,963)	(4,135,147)
Notes receivable	188,795	(303,980)
Inventories	(18,224)	(65,829)
Prepaid expenses, and other assets	(154,267)	(378,352)
Increase/(decrease) in operating liabilities:		
Accounts payable	(837,494)	861,834
Accrued liabilities	1,435,233	4,070,836
Deferred revenue and deposits	280,835	(1,711,603)
Funds held for others	131,288	200,226
Net cash provided by operating activities	1,635,628	3,944,974
<b>CASH FLOWS from INVESTING ACTIVITIES:</b>		
Net purchases of investments	(1,205,546)	(59,198)
Purchase of property, plant, and equipment	(3,148,462)	(5,624,499)
Net cash used by investing activities	(4,354,008)	(5,683,697)
<b>CASH FLOWS from FINANCING ACTIVITIES:</b>		
Repayments of capital lease obligations	(1,731,258)	(1,408,379)
Repayments of notes payable	(1,492,444)	(852,429)
Repayments of bonds payable	-	(29,414,357)
Collections of contributions restricted for long-term purposes	2,457,039	161,231
Change in federal student loan funds	(8,618)	27,764
Net cash used by financing activities	(775,281)	(31,486,170)
<b>Net decrease in cash and cash equivalents</b>	(3,493,661)	(33,224,893)
<b>Cash and cash equivalents at the beginning of the year</b>	7,749,982	40,974,875
<b>Cash and cash equivalents at the end of the year</b>	<u>\$ 4,256,321</u>	<u>\$ 7,749,982</u>

*The accompanying notes are an integral part of these financial statements.*

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

California Baptist University is a private institution of higher education, offering both undergraduate and graduate courses to students. The University is located in Riverside, California.

#### **GENERAL:**

The University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into three classes of net assets — permanently restricted, temporarily restricted, or unrestricted, as follows:

<b><u>Fund Group</u></b>	<b><u>Net Asset Class</u></b>
Current Unrestricted Fund (Operating Fund)	Unrestricted
Current Restricted Funds	Temporarily Restricted
Endowment Funds	Unrestricted/Temporarily/Permanently Restricted
Net Investment in Plant	Unrestricted
Unexpended Plant Funds	Unrestricted/Temporarily Restricted
Loan Funds	Temporarily Restricted

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

**Unrestricted net assets** - Net assets not subject to donor-imposed restrictions.

**Temporarily restricted net assets** - Net assets subject to donor-imposed restrictions that will be met by actions of the University and/or the passage of time.

**Permanently restricted net assets** - Net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

**CALIFORNIA BAPTIST UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift.

Income and realized net gains on investments of endowment and similar funds are reported as follows:

1. As increases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
2. As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
3. As increases in unrestricted net assets in all other cases.

**NET ASSETS:**

Unrestricted net assets consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Operating Fund	\$ 6,763,470	\$ 8,759,160
CBCDF Deficit	(480,971)	(489,475)
Underwater endowments	(1,013,309)	-
Plant Funds	<u>9,903,265</u>	<u>10,109,987</u>
Total	<u>\$ 15,172,455</u>	<u>\$ 18,379,672</u>

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

Temporarily restricted net assets consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Current Restricted Funds	\$ 1,401,289	\$ 1,982,677
Unexpended Plant Funds - Restricted projects	167,984	127,129
Loan Funds	3,593	3,593
Endowment earnings to be distributed	-	902,791
Net unrealized gains on endowments	<u>-</u>	<u>353,065</u>
Total	<u>\$ 1,572,866</u>	<u>\$ 3,369,255</u>

For the years ended June 30, 2009 and 2008 permanently restricted net assets consist of endowment principal in the amount of \$11,492,880 and \$9,035,841, respectively.

Release of restrictions on net assets received prior to adoption of SFAS No. 116 - The University has adopted prospectively the provisions of SFAS No. 116 concerning release from restrictions on temporarily restricted net assets upon incurrence of an expense when both unrestricted and temporarily restricted net assets are available for that purpose.

Contributions with restrictions met in the same year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Temporarily restricted net assets released from restrictions during the year are from the following categories:

	<u>2009</u>	<u>2008</u>
Instruction	\$ 1,250,443	\$ 311,604
Academic support	66,990	34,410
Student services	1,475,135	1,483,659
Institutional support	27,684	66,116
Scholarships and fellowships	831,381	828,087
Fundraising	219,296	232,751
Auxiliary expenditures	92,628	93,033
Capital additions and transfers	<u>366,948</u>	<u>370,510</u>
Total	<u>\$ 4,330,505</u>	<u>\$ 3,420,170</u>

**CALIFORNIA BAPTIST UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Years Ended June 30, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**ACCOUNTS RECEIVABLE:**

Allowance for doubtful accounts is accounted for on the reserve method.

**INVESTMENTS:**

The University considers its marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value.

**INVENTORIES:**

Inventories are valued at the lower of cost (first-in/first-out) or market.

**INCOME TAXES:**

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes; accordingly, no provision for income taxes is made in the financial statements.

**PROPERTY, PLANT AND EQUIPMENT:**

Property, plant and equipment are stated at cost of purchase or fair market value at date of gift.

Depreciation is calculated on the straight-line method. Useful lives used in the calculation of accumulated depreciation by major category of assets are as follows:

Buildings and improvements (considering the date originally constructed or purchased and remaining useful life)	15-40 years
Equipment and fixtures	10 years
Vehicles	7 years

Depreciation expense for the years ended June 30, 2009 and 2008 was \$5,210,957 and \$4,777,147 respectively.

**CALIFORNIA BAPTIST UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Years Ended June 30, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**METHOD OF CONSOLIDATION:**

The accompanying consolidated financial statements include the accounts of California Baptist University Development Foundation, a wholly owned tax exempt corporation. The purpose of the Foundation is to seek out contributions, predominantly long term gifting, of which the University is the recipient. The University funds the operating expenditures of the Foundation.

The accompanying 2009 consolidated financial statements include the accounts of Royal Rose, Inc., a wholly owned corporation. The purpose of the corporation is to hold certain rental real estate pursuant to a lease agreement between the University and the corporation. All inter-company accounts and transactions have been eliminated.

**CONCENTRATION OF RISK:**

The University maintains several cash deposits with financial institutions. Because of the need to periodically maintain high balances in its accounts for operational purposes, a portion of the deposits were uninsured at the end of the fiscal year.

**ESTIMATES:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**FUNCTIONAL EXPENSES:**

Expenses are charged directly to program or management in general categories based on specific identification. Indirect expenses such as depreciation, interest and maintenance expenses have been allocated based on percentage of functional expenditures to total expenditures.

**RECLASSIFICATIONS:**

Certain reclassifications have been made to the 2008 financial information and related notes.

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 2 - CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents were comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash available for operations	\$ 4,189,766	\$ 7,631,931
Cash available for student financial aid	66,555	118,051
Cash restricted for bond reserve	<u>6,132,506</u>	<u>6,132,506</u>
Total	<u>\$ 10,388,827</u>	<u>\$ 13,882,488</u>

### **NOTE 3 - INVESTMENTS:**

Investments are carried at fair value. Cost and fair values are as follows at June 30:

Description (Level):	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Land (3)	\$ 6,500	\$ 6,500 *	\$ 6,500	\$ 6,500 *
Property of a dissolved church (3)	78,375	78,375 *	78,375	78,375 *
Stocks (1)	-	-	714,924	843,796
Mutual Funds (1)	<u>-</u>	<u>-</u>	<u>796,346</u>	<u>802,182</u>
Non-endowment investments	84,875	84,875	1,596,145	1,730,853
Church debenture notes (3)	7,750	7,750 *	7,750	7,750 *
Texas Baptist Foundation (1)	114,972	156,851	114,972	211,422
California Baptist Foundation - Partnership (3)	239,293	239,293 *	239,293	239,293 *
California Baptist Foundation - Funds (1)	<u>11,171,354</u>	<u>10,070,125</u>	<u>9,558,666</u>	<u>9,815,280</u>
Endowment investments	<u>11,533,369</u>	<u>10,474,019</u>	<u>9,920,681</u>	<u>10,273,745</u>
Total investments	<u>\$ 11,618,244</u>	<u>\$ 10,558,894</u>	<u>\$ 11,516,826</u>	<u>\$ 12,004,598</u>

\* Market values are not readily available. Variances from cost are not expected to result in a material adjustment to the aggregate fair value of the University's investments.

In accordance with SFAS No. 157, levels 1 through 3 have been assigned to the fair value measurement of investments. The fair value level of measurement is determined as follows:

Level 1 - quoted prices in an active market for identical assets.

Level 2 - quoted prices for similar assets and market-corroborated inputs.

Level 3 - the organization's own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.



# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 3 - INVESTMENTS: (continued)**

The following schedule summarizes the investment activity of the University and its classification in the consolidated statement of activities for the years ended June 30, 2009 and 2008:

	<b><u>June 30, 2009</u></b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Interest and dividends	\$ 9,950	\$ -	\$ 9,950
Realized loss on sale on investment	(510,086)		(510,086)
Interest and dividends distributed by California Baptist Foundation	162,598	244,675	407,273
Distributions from California Baptist Foundation		(396,700)	(396,700)
Income activity at California Baptist Foundation		268,700	268,700
Net realized losses at California Baptist Foundation		<u>(728,749)</u>	<u>(728,749)</u>
Total investment return	<u>\$ (337,538)</u>	<u>\$ (612,074)</u>	<u>\$ (949,612)</u>

	<b><u>June 30, 2008</u></b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Interest and dividends	\$ 12,262	\$ -	\$ 12,262
Interest and dividends distributed by California Baptist Foundation	128,046	244,204	372,250
Distributions from California Baptist Foundation		(371,088)	(371,088)
Income activity at California Baptist Foundation		261,469	261,469
Net realized gains at California Baptist Foundation		<u>301,264</u>	<u>301,264</u>
Total investment return	<u>\$ 140,308</u>	<u>\$ 435,849</u>	<u>\$ 576,157</u>

### **NOTE 4 - NOTES RECEIVABLE:**

Notes receivable consist primarily of loans due from students under the Perkins Loan program.

# **CALIFORNIA BAPTIST UNIVERSITY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008**

### **NOTE 5 - ENDOWMENT FUNDS:**

The University's endowment consists of approximately 100 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

The University has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Therefore, the University expects its endowment assets, over time, to produce an average rate of return greater than the spending policy plus inflation. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 5 - ENDOWMENT FUNDS: (continued)**

The University has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The University expects the current spending policy to allow its endowment funds to grow at a rate greater than inflation, which is consistent with the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

#### **Endowment Net Asset Composition by Type of Fund as of June 30, 2009:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,013,309)	\$ -	\$ 11,492,880	\$ 10,479,571

#### **Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ -	\$ 1,255,856	\$ 9,035,841	\$ 10,291,697
Investment return:				
Investment income	162,598	(622,648)	-	(460,050)
Net depreciation	(1,013,309)	(399,106)	-	(1,412,415)
Total investment return	(850,711)	(1,021,754)	-	(1,872,465)
Contributions	-	-	2,457,039	2,457,039
Endowment spending	(162,598)	(234,102)	-	(396,700)
<b>Endowment net assets, ending</b>	<b>\$ (1,013,309)</b>	<b>\$ -</b>	<b>\$ 11,492,880</b>	<b>\$ 10,479,571</b>

Due to cumulative losses on investments, at June 30, 2009 the fair value of assets for all the donor-restricted endowment funds was less than the amounts required by donors in the amount of \$1,013,309. This resulted in the deficit being charged against the unrestricted net asset class for the year ended June 30, 2009.

**CALIFORNIA BAPTIST UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2009 and 2008**

**NOTE 6 - CAPITAL LEASE OBLIGATIONS:**

The University has lease financing agreements, secured by equipment and furniture costing \$5,169,961, expiring between April 2009 and November 2012, bearing interest rates between 2.14% and 9.2%. The outstanding balance at June 30, 2009 and June 30, 2008 was \$3,645,493 and \$4,313,303, respectively.

Minimum future capital lease payments are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$1,995,061
2011	1,039,825
2012	742,311
2013	166,704
Less: Amount representing interest	<u>(298,408)</u>
Present value of future minimum lease payments	<u>\$3,645,493</u>

**NOTE 7 - OPERATING LEASES:**

The University has commitments for lease agreements for various equipment and properties which meet the criteria for classification as operating leases. Generally, the leases provide for renewal for various periods at stipulated rates. The minimum lease commitment on these leases, including renewal options exercised after June 30, 2009 is as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 1,883,351
2011	1,746,359
2012	1,544,595
2013	1,299,940
2014	827,381
Thereafter	<u>1,788,292</u>
Total	<u>\$9,089,918</u>

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### NOTE 8 - LONG-TERM DEBT:

	<u>2009</u>	<u>2008</u>
Real property, a residence, was purchased by the University. A 15 year adjustable rate mortgage in the amount of \$324,200 was obtained to finance the purchase. The current interest rate is 5.3% and cannot exceed 11.9% for the remainder of the term. The payments are due monthly in the amount of \$2,736.	\$ 11,190	\$ 43,870
Real property, land and building, located at 3492 Wilma Court, Riverside, California was purchased by the University. A 30 fixed rate mortgage in the amount of \$236,400, bearing 6.125% interest and maturing May 2038, was obtained from an unrelated third party to finance the purchase. The payments are due monthly in the amount of \$1,436.	233,320	236,170
The University purchased a vehicle and obtained a 5 year loan in the amount of \$25,428. The loan bears no interest. Monthly payments are \$706.	14,127	22,603
Various real property was purchased by the University. Three 5 year promissory notes totaling \$803,750, bearing interest rates between 8% and 8.25%, were obtained to finance these purchases. Payments totaling \$6,027 are due monthly until maturity, at which time the remaining principal and interest is due.	747,952	761,966
The University financed the purchase and construction of the University cottages with loans secured by personal property. Two 6 year loans totaling \$1,637,736, bearing 6.35% interest per annum were obtained to finance these purchases. The payments total \$17,804 and are due monthly.	1,026,175	1,243,978
Two real properties were purchased by the University. Two 30 year fixed rate loans, bearing interest rates of 5.9% and 7.5%, were obtained to finance these purchases. One loan was paid off as of June 30, 2009. Monthly payments totaled \$5,453.	309,245	837,997
The University purchased equipment and obtained a 5 year loan in the amount of \$951,074. The loan bears an interest rate of 7.9%. Monthly payments are \$19,221.	325,353	521,958

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 8 - LONG-TERM DEBT: (continued)**

	<u>2009</u>	<u>2008</u>
The University purchased equipment and obtained a 3 year loan in the amount of \$28,650. The loan bears an interest rate of 8.75%. Monthly payments are \$908.	\$ 19,920	\$ 28,650
The University purchased equipment and obtained a 5 year loan in the amount of \$1,566,073. The loan bears an interest rate of 7.7%. Monthly payments are \$31,537.	420,957	752,924
The University obtained a \$2,400,000 1 <sup>st</sup> Trust Deed loan on real property. The loan has an interest rate of 6.8% with monthly payment of \$16,775 for 10 years ending May 2016, at which time the remaining principal and interest is due.	2,273,228	2,316,278
The University purchased equipment and obtained a 3 year loan in the amount of \$180,780. The loan bears an interest rate of 4%. Monthly payments are \$5,710.	44,172	105,640
The University purchased a vehicle and obtained a 5 year loan in the amount of \$32,234. The loan bears an interest rate of 2.9%. Monthly payments are \$578.	9,070	15,651
The University obtained a 30 year \$360,000 promissory note to finance and purchase real estate. The note has a fixed interest rate of 6.5%. Monthly payments are \$2,275.	349,047	353,506
The University obtained a \$3,000,000 loan from Evangelical Christian Credit Union secured by real property. The loan has an interest rate of 7.25% and matures in June 2012. Monthly payments are \$20,478.	2,939,544	2,971,802
The University purchased a boom lift and obtained a 5 year loan in the amount of \$26,521. The loan bears an interest rate of 7% . Monthly payments are \$452.	23,716	-
The University issued Bonds in the amount of \$88,800,000, to refinance selected long term obligations and continue capital expansion. (See Note 9)	<u>88,800,000</u>	<u>88,800,000</u>
Total notes and bonds payable obligations	<u>\$97,547,016</u>	<u>\$99,012,994</u>

**CALIFORNIA BAPTIST UNIVERSITY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2009 and 2008**

**NOTE 8 - LONG-TERM DEBT: (continued)**

Future maturities under notes and bonds payable are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 1,906,095
2011	5,156,303
2012	4,392,586
2013	1,277,739
2014	1,383,942
Thereafter	<u>83,430,351</u>
Total	<u>\$97,547,016</u>

**NOTE 9 - CSCDA REVENUE BONDS:**

In June 2007, the University obtained financing through the California Statewide Communities Development Authority (CSCDA). The amount loaned to the University was \$88,800,000 to be applied to refinancing, construction, rehabilitation and acquisition of educational facilities and equipment. The bonds are considered unconditional general obligations of the University, secured by a pledge of certain gross revenues. The loan agreement requires the University to comply with various covenants, conditions and restrictions, including maintaining certain financial ratios.

The bonds bear interest rates ranging from 5.3% to 9%.

The University is required to maintain in a bond reserve cash account an amount equal to the bond reserve requirement which is currently \$6,137,158, which represents an amount equal to the greatest amount of bond debt service in any fiscal year during the period commencing with the fiscal year the determination is being made and terminating with the last fiscal year in which any bond is due. Commencing on November 1, 2007 the University must deposit for credit to the bond fund account an amount sufficient to pay principal and interest payable on the next ensuing payment date. Principal is payable annually each November 1st.

A portion of the bonds are subject to early redemption at the option of the University on any date after November, 2018 together with accrued interest.

## **CALIFORNIA BAPTIST UNIVERSITY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008**

#### **NOTE 10 - DEBT ISSUANCE COSTS:**

In connection with the refinancing of debt and issuance of additional debt associated with University construction projects, the University incurred certain costs of issuance which have been capitalized as a long-term asset. These costs are amortized over the term of the related debt. Amortization costs for the year ended June 30, 2009 and June 30, 2008 were \$72,735 and \$72,737, respectively.

#### **NOTE 11 - EMPLOYEE RETIREMENT PLAN:**

The University has a contributory annuity plan (IRC 403(b)) covering all full-time employees who have completed service requirements and are at least 21 years of age. Contributions by employees are voluntary. For June 30, 2009 and 2008, the University had 327 and 325 participants, respectively, in the plan. The University's funding of the plan for June 30, 2009 and 2008 was \$1,468,053 and \$1,398,717, respectively.

#### **NOTE 12 - SUPPLEMENTAL DISCLOSURE FOR CASH AND CASH FLOWS:**

- A. Cash paid for interest during the years ended June 30, 2009 and 2008 was \$6,007,977 and \$5,829,160, respectively. Capitalized interest for the year ended June 30, 2009 and 2008 was \$-0- and \$129,900, respectively.
- B. Non-cash financing activities related to capital leases and mortgages incurred for the purchase of fixed assets during the years ended June 30, 2009 and 2008 was \$1,089,914 and \$2,648,910, respectively.
- C. For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent investments in highly liquid accounts or debt instruments with an original maturity of three months or less and do not include endowment fund investments.

#### **NOTE 13 - DEBT SERVICE PAYMENTS:**

Per the University's board policy, annual debt payments are limited to 15% or less of the annual operating income. This does not include operating lines of credit, short-term loans, or loans that can be paid back within three years out of regular reserves. The debt service payment and operating income for June 30, 2009 was \$6,979,417 and \$84,195,967, respectively, resulting in a ratio of 8.3%.



## **CALIFORNIA BAPTIST UNIVERSITY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008**

#### **NOTE 14 - CONDITIONAL ASSET RETIREMENT OBLIGATION:**

The University has a conditional asset retirement obligation related to asbestos and other hazardous material in the James Building. Regulations have been put into place after the construction of the building that require the University to handle and dispose of this type of material in a special manner if the building undergoes major renovations, is sold or demolished. Otherwise, the University is not required to remove the materials from the building. The University believes it does not have sufficient information to estimate the fair value of the asset retirement obligation because the settlement date or the range of potential settlement dates has not been specified by others and information is not available to apply an expected present value technique.

There are no plans or expectations of plans to undertake major renovations of the areas of the building that would require removal of the materials or demolition of the building. The James Building is considered to be an important historical part of the University and is expected to be maintained by repairs and maintenance activities that would not involve the removal of the materials. Also, the need for major renovations caused by technology changes, operational changes, or other factors have not been identified.

#### **NOTE 15 - LANCER EDUCATIONAL HOUSING LLC:**

Lancer Educational Housing, LLC is a California limited liability company (the sole voting member of which is Lancer Educational Housing Corporation ("LEHC"), an organization described in Section 501(c)(3) of the Internal Revenue Code) that has been organized and operates to provide student housing facilities. The board of LEHC is comprised of two University employees and three other unrelated persons. The University leases the land to the LLC for the purpose of maintaining, operating and managing, the housing facilities. The LLC intends to maintain, operate and manage the facilities principally for the use and benefit of the students of the University. The title to the facilities and any other improvements that may be constructed by the LLC during the lease term, and any additions, alterations, restorations, repairs or replacements thereto, shall be vested in the LLC until the expiration of the lease term. The ground lease term is 33 years with the residual value of the facilities becoming available to the University through right of first refusal and either a gift or a purchase at the conclusion of the lease which constitutes fair and equitable consideration for the conveyance of the leasehold interest.

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 15 - LANCER EDUCATIONAL HOUSING LLC: (continued)**

The University has elected not to consolidate the LEHC and the LLC into these financial statements based upon the relationship between the entities. The assets, liabilities, net assets, and change in net assets of the LLC as of and for the year ended June 30, 2009 and 2008 are as follows:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Assets:		
Cash and cash equivalents	\$ 328,426	\$ 52,026
Bond reserve fund	2,445,241	2,433,591
Accounts receivable	1,254,494	2,470,200
Prepaid expenses	1,020,193	-
Property, plant and equipment, net	26,240,533	27,306,334
Bond issuance costs	643,329	666,305
Total assets	<u>\$ 31,932,216</u>	<u>\$ 32,928,456</u>
Liabilities:		
Accounts payable	\$ 948,479	\$ 3,831,702
Bonds payable	29,518,055	29,502,450
Total liabilities	30,466,534	33,334,152
Net assets:		
Unrestricted net assets	<u>(1,190,712)</u>	<u>(405,696)</u>
Total liabilities and net assets	<u>\$ 29,275,822</u>	<u>\$ 32,928,456</u>
Revenues	4,647,495	4,106,445
Expenses	<u>(5,432,511)</u>	<u>(4,512,141)</u>
Change in net assets	<u>\$ (785,016)</u>	<u>\$ (405,696)</u>

### **NOTE 16 - LANCER PROPERTIES LLC:**

California Baptist University is a member of Lancer Properties, LLC, a Delaware limited liability company (LLC). The LLC has been organized and is restricted to operate for the sole purpose of acquiring, operating, and disposing of certain real property in Riverside, California and entering into a non-recourse loan transaction with LaSalle Bank National Association for \$16,700,000. The LLC owns the building at this location and has a ground lease for the use of the land.

Lancer Properties, LLC is restricted by its operating agreement from becoming a shareholder, member, or partner in any entity that acquires any other property; having ownership interest (legal or equitable) in any other property (real or personal); engaging in any business other than the operation and management of the property described above; incur or make any loans other than the loan described above; or merging with or being consolidated into any other entity.

# CALIFORNIA BAPTIST UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2009 and 2008

### **NOTE 16 - LANCER PROPERTIES LLC: (continued)**

Decisions of the members of Lancer Properties, LLC are restricted by the owner of the land and the lender. The members are not to be held personally liable for any debt, obligation, or liability of the LLC.

The University has elected not to consolidate Lancer Properties, LLC into these financial statements based upon the relationship between the entities. The assets, liabilities, member's equity, and change in member's equity of Lancer Properties LLC as of and for the year ended December 31, 2008, unaudited, (latest information available) are as follows:

	<b><u>12/31/2008</u></b>
Assets:	
Cash	\$ 264,033
Accounts receivable	148,593
Deposits with trustee	776,097
Long-term debt issuance costs	164,940
Property, plant and equipment, net	14,308,411
Construction in progress	<u>13,730</u>
Total assets	<u><u>\$ 15,675,804</u></u>
Liabilities:	
Accrued liabilities	\$ 209,525
Deposits	49,087
Note payable	<u>16,700,000</u>
Total liabilities	16,958,612
Member's equity	<u>(1,282,808)</u>
Total liabilities and net assets	<u><u>\$ 15,675,804</u></u>
	<b><u>12/31/2008</u></b>
Revenues	\$ 2,064,933
Expenses	<u>(2,809,638)</u>
Income before provision for income taxes	(744,705)
Income tax provision	<u>(13,495)</u>
Net income	(758,200)
Beginning member's equity	<u>(524,608)</u>
Ending member's equity	<u><u>\$ (1,282,808)</u></u>

**CALIFORNIA BAPTIST UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2009 and 2008**

**NOTE 17 - RELATED PARTY TRANSACTIONS:**

The University collected management fees from Lancer Educational Housing Corporation for managing the housing property for the year ended June 30, 2009 and 2008 in the amount of \$323,108 and \$307,749, respectively.

The University has accounts receivable from Lancer Educational Housing Corporation for management fees and expense advancements for June 30, 2009 and 2008 were \$3,604,373 and \$3,831,702, respectively.

**NOTE 18 - LINE OF CREDIT:**

The University obtained a long-term equity line of credit for \$2,592,000 from Evangelical Christian Credit Union, secured by real property. The interest rate is set at the prime rate plus 1.125%. At June 30, 2009 the outstanding balance was \$2,500,000.

**NOTE 19 - ADJUSTMENT FOR RESTATEMENT:**

In the process of evaluating underwater endowment funds the University discovered that some endowment gifts had been double recorded in prior years. In addition, inter-fund receivables and payables had not been properly cleared resulting in misclassifications in net assets. The adjustments were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Duplicate recording of gifts to CBF	\$ -	\$ -	\$ (680,434)	\$ (680,434)
Interfund reconciliation	<u>663,354</u>	<u>(143,364)</u>	<u>(519,990)</u>	<u>-</u>
Total restatement	<u>\$ 663,354</u>	<u>\$ (143,364)</u>	<u>\$ (1,200,424)</u>	<u>\$ (680,434)</u>

September 14, 2009

Board of Trustees  
California Baptist University  
8432 Magnolia Avenue  
Riverside, California 92504

Re:

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY  
REVENUE BONDS (CALIFORNIA BAPTIST UNIVERSITY), SERIES 2007 A,

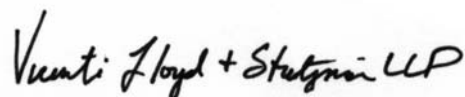
and

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY  
REVENUE BONDS (LANCER EDUCATIONAL STUDENT HOUSING PROJECT),  
SERIES 2007 A (together, the "Bonds")

We have audited, in accordance with generally accepted auditing standards, the financial statements of California Baptist University as of June 30, 2009 and for the year then ended, and have issued our report thereon dated September 14, 2009.

In connection with our audit, nothing came to our attention that would lead us to believe that an Event of Default had occurred. In addition, we found that the University was in compliance at June 30, 2009 with the Liquidity Covenant, Additional Debt, and Net Revenue Test as outlined in Section 5.13, 5.14 and 5.21, respectively in the California Statewide Communities Development Authority Revenue Bonds (California Baptist University) Series 2007 A and Taxable Series 2007 B Loan Agreement.

This report is intended solely for the information and use of the Board of Trustees, the Finance Committee, and the management of California Baptist University, the California Statewide Communities Development Authority, and for the University to disclose pursuant to the Continuing Disclosure Agreement it has entered into in connection with the Bonds.



VICENTI, LLOYD & STUTZMAN, LLP

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**California Baptist University**  
**Loan Agreement Covenant Tests**  
**For the Year Ended June 30, 2009**

	2009	2008	2007
<b>Liquidity Ratio:                      Section 5.13</b>			
Current Assets	\$ 22,422,812	\$ 23,889,792	\$ 52,490,675
Plus:			
Unrestricted Long-Term Investments	84,875	1,730,853	1,872,531
Minus:			
Amounts on Deposit in Debt Service Reserve Fund	(6,132,506)	(6,132,506)	(6,132,506)
Current Liabilities	<u>(11,933,653)</u>	<u>(12,444,250)</u>	<u>(37,785,948)</u>
Total Assets Available for Debt Service	4,441,528	7,043,889	10,444,752
Parity Debt:			
Bonds Payable	<u>88,800,000</u>	<u>88,800,000</u>	<u>88,800,000</u>
Total	88,800,000	88,800,000	88,800,000
Ratio Result	0.05	0.08	0.12
Ratio Requirement	0.05 - 1.0 Passed	0.05 - 1.0 Passed	
<b>Additional Debt Test                      Section 5.14</b>			
Total Revenues per GAAP financial statements	73,230,874	69,808,779	75,779,018
Total Maximum Debt Service	7,317,396	6,970,798	
Result <= %11	10.48% Passed	9.20% Passed	
<b>Net Revenues Test:                      Section 5.21</b>			
Net Revenues:			
Gross Revenues - Unrestricted	72,570,224	70,087,361	
Less Realized Gains (+Losses) on Investments (non cash)	510,086	-	
Add Unrealized Loss on Investments (non cash)	-	149,263	
Total Expenses	(75,777,441)	(69,935,807)	
Add Depreciation (non cash)	5,210,957	4,777,147	
Add Amortization (non cash)	72,735	72,737	
Add Total Debt Service	<u>5,184,620</u>	<u>4,363,721</u>	
Total Net Revenues	7,771,181	9,514,422	
Total Debt Service	5,184,620	4,363,721	
Result >= %110	150% Passed	218% Passed	

## **APPENDIX E**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

*The following is a summary of certain provisions of the Indenture and Loan Agreement which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture and Loan Agreement for a fully and complete statement of their provisions.*

### **DEFINITIONS**

“Accountant’s Report” means a written report or certificate signed by an independent certified public accountant of recognized national standing, or a firm of independent certified public accountants of recognized national standing, selected by the Borrower.

“Act” means 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.

“Act of Bankruptcy” means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such Person under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person’s assets shall be appointed in any proceeding brought against the Person or such Person’s assets; (e) assignment by such Person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

“Additional Bonds” means bonds, other than the Series A Bonds, the Series B Bonds, the Series 2010A Bonds and the Series 2010B Bonds, authorized to be issued pursuant to the Indenture to finance the costs of the Additional Student Housing Project or Additional Projects.

“Additional Payments” means the amounts payable to the Authority, the Trustee or other Persons pursuant to the Agreement.

“Additional Project” means any student, faculty or staff housing project constructed or acquired from time to time by the Borrower, other than the Additional Student Housing Project.

“Additional Student Housing Project” means the acquisition or construction of a housing facility for faculty, students and staff of the University by the Borrower and which, as of the date of the Indenture, is expected to commence construction if such housing facility is constructed, or commence negotiations if such housing facility is acquired, no later than the Fiscal Year ending June 30, 2008.

“Additional Student Housing Project Proforma Debt Service Coverage Ratio” means, for a period of ten Fiscal Years following the completion or acquisition of the Additional Student Housing Project, the ratio of Gross Revenues to Bond Debt Service plus projected Bond Debt Service with respect to the Additional Student Housing Project.

“Agreement” or “Loan Agreement” means the Loan Agreement, dated as of June 1, 2007, as amended and supplemented by that First Supplemental Loan Agreement, dated as of February 1, 2010,

each by and between the Authority and the Borrower, relating to the loan of the proceeds of the Bonds, and as it may from time to time be supplemented or amended.

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

“Authority” means the California Statewide Communities Development Authority, or its successors and assigns.

“Authorized Denomination” means \$100,000 or any integral multiple of \$5,000 in excess thereof; provided, however, that if the transfer restrictions set forth in the Indenture no longer apply, “Authorized Denomination” shall mean \$5,000 or any integral multiple thereof.

“Authorized Borrower Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Authority and the Trustee, as a person authorized to act on behalf of the Borrower. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Borrower by any officer of the Borrower and may designate an alternate or alternates.

“Authorized Authority Representative” means the Chair of the Authority, the Secretary of the Authority, any member of the Commission of the Authority or any other person designated as an Authorized Authority Representative by written certificate signed by the Chair or Secretary of the Authority and furnished to the Trustee and the Borrower.

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

“Beneficial Owner” means, with respect to any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of DTC or any successor securities depository for Book-Entry Bonds.

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

“Bond Debt Service” means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding Bonds which are Serial Bonds are retired as scheduled and that all Outstanding Bonds which are Term Bonds are redeemed or paid from mandatory Sinking Fund Installments as scheduled, (b) that portion of the principal amount of all Outstanding Bonds which are Serial Bonds maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Bonds which are Term Bonds required to be redeemed or paid from mandatory Sinking Fund Installments during such period.

“Bond Fund” means the Bond Fund established pursuant to the Indenture.

“Bonds” means the Series A Bonds, the Series B Bonds, the Series 2010A Bonds, the Series 2010B Bonds and any Additional Bonds issued under the Indenture.

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

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



“Borrower” means (i) Lancer Educational Housing, LLC, a California limited liability company, and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in the Agreement.

“Business Day” means a day which is not a Saturday, a Sunday, a day on which banks located in the city in which the Principal Corporate Trust Office of the Trustee is located are required or authorized to be closed or a day on which the New York Stock Exchange is not closed.

“Certificate of the Borrower” means a certificate signed by an Authorized Borrower Representative.

“Certificate of the Authority” means a certificate signed by an Authorized Authority Representative.

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

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

“Consultant” means a person, firm, association or corporation who or which is appointed by the Borrower for the purpose of passing on questions relating to the financial affairs, management or operations of the Borrower and, in the good faith opinion of the Borrower, has a favorable reputation for skill and experience in performing similar services in respect of entities engaged in reasonably comparable endeavors.

“Debt” means:

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

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

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

(2) which has a final maturity (or which, pursuant to the terms of a revolving credit or similar agreement or otherwise, is renewable or extendable at the option of the Borrower to a date or for a period or periods ending) more than one year after the date of creation thereof, notwithstanding the fact that payments in respect thereof (whether installment, serial maturity or sinking fund payments or otherwise) are required to be made less than one year after the date of the creation thereof.

“Debt Service Reserve Fund” means the fund which is established pursuant to the Indenture.

“Debt Service Reserve Requirement” means, with respect to the Debt Service Reserve Fund and as of any date of calculation, an amount equal the greatest amount of the Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due.

“Debt Service Reserve Valuation Date” means the Business Day preceding each January 1 and July 1, commencing with the Business Day preceding July 1, 2008.

“Deed of Trust Property” means the real estate described in Exhibit A to the Deed of Trust, including all buildings and structures thereon and improvements and fixtures thereto, as the same may be expanded from time to time.

“Determination Letter” means the letter issued by the Internal Revenue Service to the Member stating that the Member is an organization described in Section 501(c)(3) of the Code.

“Documents” means, collectively, the Indenture and the Agreement.

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

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

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

“Event of Default” as used with respect to the Indenture has the meaning specified therein, and as used with respect to the Agreement has the meaning specified therein.

“Facilities” means all of the real and personal property located at 8525 Diana Avenue, 8555 Diana Avenue, 8447, 8449, 8451 and 8471 Diana Avenue, 8374 and 8350 Magnolia Avenue, 3780 Adams Street and 8386 to 8398 Magnolia Avenue, in Riverside, California, in each case as the same may be improved and expanded from time to time, and, with respect to the Additional Student Housing Project or any Additional Project, all of the real and personal property associated with such Additional Student Housing Project or such Additional Project, in each case as they may be improved and expanded from time to time.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Borrower.

“Fitch” means Fitch Ratings, Inc., a corporation organized and existing under the laws of the state of Delaware, its successors and their assigns.

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

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

“Government Obligations” means any of the following:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America, or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including:

- United States of America treasury obligations;
- All direct or fully guaranteed obligations;
- Farmers Home Administration;
- General Services Administration;
- Guaranteed Title XI financing;
- Government National Mortgage Association (GNMA); and
- State and Local Government Series.

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

“Gross Revenues” means, with respect to any period, all income and revenues derived by the Borrower from the operation of the Facilities for such period, whether resulting from the original Facilities or from improvements, extensions, enlargements, repairs or betterments thereto, replacements thereof or otherwise, including (a) all fees, rents, interest, income, parking revenues, laundry and vending machine revenues, but specifically excluding Security Deposits and (b) any grants, loans, subsidies or other payments received by, or paid on behalf of, the Borrower in connection with its interest in the Facilities.

“Historical Debt Service Coverage Ratio” means the ratio of Income Available for Debt Service to Bond Debt Service for the immediately preceding three Fiscal Years.

“Income Available for Debt Service” means, with respect to any period, the excess of Gross Revenues over Operating Expenses of the Facilities, determined in accordance with GAAP, but excluding (a) any profits or losses on the sale or 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, bequest, donations and contributions, to the extent specifically restricted by a donor to a particular purpose inconsistent with their use for the funding of Bond Debt Service, and (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards.

“Indenture” means the Indenture of Trust, dated as of June 1, 2007, as originally executed and as supplemented and amended by that First Supplemental Indenture of Trust, dated as of February 1, 2010, each by and between the Authority and the Trustee, and as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions therein.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314; and Standard & Poor’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Borrower may designate in a Certificate of the Borrower delivered to the Trustee and the Authority.

“Loan Payment” means any amount that the Borrower is required to pay to the Trustee pursuant to the Agreement as a repayment of the loan of the Bond proceeds made by the Authority under the Agreement.

“Manager” means the University, or, in the event of an event of default under the Loan Agreement, such other Person appointed by the Trustee pursuant to the Lease.

“Moody’s” means Moody’s Investor’s Service, a corporation organized and existing under the laws of the state of New York, its successors and their assigns.

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

“Nominee” has the meaning specified in the Indenture.

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

“Operating Expenses” means all reasonable and necessary current expenses of the Borrower, paid or accrued, of operating, maintaining and repairing the Facilities, as calculated in accordance with GAAP, and shall include, without limiting the generality of the foregoing, any management fees related solely to the Facilities, insurance premiums, administrative expenses of the Borrower allocated solely to the Facilities, including the calculation of any rebate amount related to the Bonds, costs of materials and supplies, and charges for the accumulation of appropriate reserves for capital replacements and current expenses not annually recurrent but which are reasonably expected to be incurred in accordance with sound accounting practices, but shall not include any allowance for depreciation and other non-cash accounting adjustments, any costs of improvements, extensions or betterments, any accumulation of any reserves for operation or maintenance of any of the Facilities and any allowance for the redemption of any Bond.

“Opinion of Bond Counsel” means an Opinion of Counsel from a Bond Counsel.

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

“Outstanding,” when used as of any particular time with reference to the Bonds (subject to certain provisions of the Indenture relating to evidence of the rights of Owners), means all such Bonds theretofore authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; and

(c) Bonds with respect to which the liability of the Authority and the Borrower have been discharged.

“Owner” means, as of any time, the registered owner of any Bond as set forth in the Bond Register.

“Person” means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

“Permitted Encumbrances” means and includes: (i) liens for taxes, assessments and other governmental charges due but not yet payable unless contested to in good faith by appropriate proceedings which are being diligently pursued; (ii) landlord’s, warehouseman’s, carrier’s, worker’s, vendor’s, mechanic’s and materialmen’s liens and similar liens incurred in the ordinary course of business remaining undischarged for not longer than 60 days from the filing thereof unless contested to in good faith by appropriate proceedings which are being diligently pursued; (iii) attachments remaining undischarged for not longer than 60 days from the making thereof unless contested to in good faith by appropriate proceedings which are being diligently pursued; (iv) liens in respect of pledges or deposits under workers’ compensation laws, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation; (v) all leases which have been or should be capitalized in accordance with Generally Accepted Accounting Principles with respect to property (A) not previously owned by the Borrower or an affiliate and (B) not otherwise acquired in whole or in part with proceeds of the Bonds; (vi) purchase money security interests in property of the Borrower which property was not acquired in whole or in part with the proceeds of the Bonds; (vii) the rights of the Authority and the Trustee under the Agreement; (viii) liens on any property or assets owned by the Borrower existing on the date of the Indenture; (ix) liens created by the Indenture and the Agreement; (x) liens on property received by the Borrower through gifts, grants or bequests, and (xi) any lien arising by reason of an escrow established to pay debt service on the Bonds.

“Permitted Investments” means Government Obligations and any of the following:

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank;
- Rural Economic Community Development Administration;
- U.S. Maritime Administration;
- Small Business Administration;
- U.S. Department of Housing & Urban Development (PHAs);
- Federal Housing Administration; and
- Federal Financing Bank.

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System.

(3) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks 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 and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P;

(6) 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

(A) 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

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in subsection (2) of the definition of Government Obligations 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 (ii) 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;

(7) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;

(8) Investment agreements with providers (or guarantors) rated at least “Aa3” by Moody’s or “AA-” by Standard & Poor’s (supported by appropriate opinions of counsel); and

(9) Other forms of investments (including repurchase agreements) with financial institutions, the long-term debt of which is rated at least “A3” by Moody’s and “A-” by Standard & Poor’s, provided that the market value of the collateral is maintained at 102% for United States Treasury obligations and 104% for United States Agency obligations.

The value of the above investments shall be determined as follows:

(1) For the purpose of determining the amount in any fund, all Eligible Securities credited to such fund shall be valued at fair market value based on accepted industry standards and from accepted industry providers including, but not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns or Lehman Brothers; and

(2) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest thereon;

“Principal Corporate Trust Office” means the corporate trust office of the Trustee as designated in the Indenture or such other office designated by the Trustee from time to time.

“Principal Installment” means, with respect to any Principal Installment Date, the sum of (a) the aggregate amount of principal due with respect to Bonds that mature on such Principal Installment Date, plus (b) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

“Principal Installment Date” means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory Sinking Fund Installments.

“Proforma Debt Service Coverage Ratio” means, for a period of ten Fiscal Years following the completion of an Additional Project, the ratio of (i) Income Available for Debt Service plus the projected Income Available for Debt Service from such Additional Project to (ii) Bond Debt Service plus projected Bond Debt Service with respect to such Additional Project.

“Qualified Institutional Buyer” means an institution which meets at least one of the following criteria:

1. Any of the following entities, acting for its own account or the accounts of other Qualified Institutional Buyers, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the entity:

(a) Any insurance company as defined in Section 2(13) of the Securities Act of 1933, as amended;

NOTE: A purchase by an insurance company for one or more of its separate accounts, as defined by Section 2(a)(37) of the Investment Company Act of 1940 (the “Investment Company Act”), which are neither registered under Section 8 of the Investment Company Act nor required to be so registered, shall be deemed to be a purchase for the account of such insurance company.

(b) Any investment company registered under the Investment Company Act or any business development company as defined in Section 2(a)(48) of that Act;

(c) Any Small Business Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958;

(d) Any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees;

(e) Any employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974;

(f) Any trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in paragraph (1)(d) or (e) of this section, except trust funds that include as participants individual retirement accounts or H.R. 10 plans;

(g) Any business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940;

(h) Any organization described in Section 501(c)(3) of the Code, corporation (other than a bank as defined in Section 3(a)(2) of the Securities Act of 1933, as amended, or a savings and loan association or other institution referenced in Section 3(a)(5)(A) of the Securities Act of 1933, as amended, or a foreign bank or savings and loan association or equivalent institution), partnership, or Massachusetts or similar business trust; and

(i) Any investment adviser registered under the Investment Advisers Act.

2. Any dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, acting for its own account or the accounts of other Qualified Institutional Buyers, that in the aggregate owns and invests on a discretionary basis at least \$10 million of securities of issuers that are not affiliated with the dealer, provided, that securities constituting the whole or a part of an unsold allotment to or subscription by a dealer as a participant in a public offering shall not be deemed to be owned by such dealer.

3. Any dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934 acting in a riskless principal transaction on behalf of a Qualified Institutional Buyer.

NOTE: A registered dealer may act as agent, on a non-discretionary basis, in a transaction with a Qualified Institutional Buyer without itself having to be a Qualified Institutional Buyer.

4. Any investment company registered under the Investment Company Act, acting for its own account or for the accounts of other Qualified Institutional Buyers, that is part of a family of investment companies which own in the aggregate at least \$100 million in securities of issuers, other than issuers that are affiliated with the investment company or are part of such family of investment companies. "Family of investment companies" means any two or more investment companies registered under the Investment Company Act, except for a unit investment trust whose assets consist solely of shares of one or more registered investment companies, that have the same investment adviser (or, in the case of unit investment trusts, the same depositor), provided, that, for purposes of this section:

(a) Each series of a series company (as defined in Rule 18f-2 under the Investment Company Act [17 CFR 270.18f-2]) shall be deemed to be a separate investment company; and

(b) Investment companies shall be deemed to have the same adviser (or depositor) if their advisers (or depositors) are majority-owned subsidiaries of the same parent, or if one investment company's adviser (or depositor) is a majority-owned subsidiary of the other investment company's adviser (or depositor).

5. Any entity, all of the equity owners of which are Qualified Institutional Buyers, acting for its own account or the accounts of other Qualified Institutional Buyers.

6. Any bank as defined in Section 3(a)(2) of the Securities Act of 1933, as amended, any savings and loan association or other institution as referenced in Section 3(a)(5)(A) of the Securities Act of 1933, as amended, or any foreign bank or savings and loan association or equivalent institution, acting for its own account or the accounts of other Qualified Institutional Buyers, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it and that has an audited net worth of at least \$25 million as demonstrated in its latest annual financial statements, as of a date not more than 16 months preceding the date of sale under Rule 144A of the Securities Act of 1933 in the case of a U.S. bank of savings and loan association, and not more than 18 months preceding such date of sale for a foreign bank or savings and loan association or equivalent institution.

In determining the aggregate amount of securities owned and invested on a discretionary basis by an entity, the following instruments and interests shall be excluded: bank deposit notes and certificates of deposit; loan participations; repurchase agreements; securities owned but subject to a repurchase agreement; and currency, interest rate and commodity swaps.



The aggregate value of securities owned and invested on a discretionary basis by an entity shall be the cost of such securities, except where the entity reports its securities holdings in its financial statements on the basis of their market value, and no current information with respect to the cost of those securities has been published. In the latter event, the securities may be valued at market for purposes of this section.

In determining the aggregate amount of securities owned by an entity and invested on a discretionary basis, securities owned by subsidiaries of the entity that are consolidated with the entity in its financial statements prepared in accordance with generally accepted accounting principles may be included if the investments of such subsidiaries are managed under the direction of the entity, except that, unless the entity is a reporting company under Section 13 or 15(d) of the Securities Exchange Act of 1934, securities owned by such subsidiaries may not be included if the entity itself is a majority-owned subsidiary that would be included in the consolidated financial statements of another enterprise.

For purposes of this section, “riskless principal transaction” means a transaction in which a dealer buys a security from any person and makes a simultaneous offsetting sale of such security to a Qualified Institutional Buyer, including another dealer acting as riskless principal for a Qualified Institutional Buyer.

“Rebate Fund” means the Rebate Fund which is established in accordance with the Indenture.

“Rebate Requirement” means the amounts required to be rebated to the United States Treasury determined in accordance with the Tax Agreement.

“Record Date” means, with respect to each Interest Payment Date, the fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.

“Repair and Replacement Fund” means the Repair and Replacement Reserve Fund which is established in accordance with the Indenture.

“Reserved Rights” means the Authority’s rights under the Agreement to Additional Payments and to notices, indemnities, consultations, approvals, consents and opinions.

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

“Revenue Fund” means the Revenue Fund which is established in accordance with the Indenture.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Security Deposit” means the amount of money collected by or on behalf of the Borrower from the tenants of the Project to pay for repairs pursuant to the leases with such tenants.

“Series” means the Series A Bonds, the Series B Bonds, the Series 2010A Bonds, the Series 2010B Bonds and/or any series of Additional Bonds authorized to be issued under the Indenture, as the context requires.

“Series A Bonds” means the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Series 2007 A, issued under the Indenture.

“Series B Bonds” means the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Taxable Series 2007 B, issued under the Indenture.

“Serial Bonds” means Bonds for which no Sinking Fund Installments are established.

“Sinking Fund Installments” means the amounts set forth in the Indenture, subject to the credits provided therein.

“Standard & Poor’s” means Standard & Poor’s Ratings Service, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and any successors thereto.

“State” means the State of California.

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

“Surplus Fund” means the Surplus Fund which is established in accordance with the Indenture.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the Series A Bonds and the Series 2010A Bonds, that such interest is excluded from the gross income of the owners thereof (other than any owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments.

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

“Trust Estate” means all of the right, title and interest of the Authority in the Agreement and all amounts and securities in the funds held by the Trustee under the Indenture (excepting only moneys held in the Rebate Fund, Additional Payments paid by the Borrower pursuant to the Agreement and any amounts paid by the Borrower pursuant to certain provisions of the Agreement).

“University” means California Baptist University, the educational institution located in Riverside, California and owned and operated by the Borrower.

“Written Order of the Authority” and “Written Request of the Authority” mean, respectively, a written order or request signed by or on behalf of the Authority by an Authorized Authority Representative.

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

## THE INDENTURE

### The Bonds

**Restrictions on Registration and Transfer of Bonds.** Bonds may not be registered in the name of, or transferred to, any person except a Qualified Institutional Buyer; provided, that pursuant to the Indenture, Bonds registered in the name of Cede & Co. shall be deemed to comply with this requirement so long as each Beneficial Owner of the Bonds is a Qualified Institutional Buyer. In the event the Bonds (without credit enhancement, unless such credit enhancement extends to the maturity or redemption of the Bonds) are rated “A-” or higher by Moody’s, S&P or Fitch, or any other nationally recognized rating agency approved by the Authority, then the restrictions on registration and transfer of Bonds set forth in the Indenture shall no longer apply to the Bonds.

**Transfer and Exchange of Bonds.** Registration of any Bond may, in accordance with the terms of the Indenture, be transferred, upon the books of the Trustee required to be kept pursuant to the provisions of the Indenture, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond shall be surrendered for registration of transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same tenor and in Authorized Denominations. No registration of transfer of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of fifteen (15) days next preceding the date on which the Trustee gives any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required. So long as the restrictions on registration and transfer of Bonds as set forth above are in effect, the Trustee shall conclusively rely upon such written instrument of transfer as evidence that the transferee is a Qualified Institutional Buyer.

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of the same tenor and in Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange. No exchange of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of fifteen (15) days next preceding the date on which the Trustee gives notice of redemption, nor shall any exchange of Bonds called for redemption be required.

**Bond Register.** The Trustee will keep or cause to be kept at its Principal Corporate Trust Office the Bond Register which shall be sufficient for the registration of ownership and the registration of transfer of ownership of the Bonds. The Bond Register shall at all times, during regular business hours, be open to inspection by the Authority, the Trustee and the Corporation; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on the Bond Register, of ownership of the Bonds as provided in the Indenture.

**Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the Authority, upon the request and 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 and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bonds so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and destroyed and, upon the written request of the Authority, a certificate evidencing such destruction shall be delivered to the Authority, with a copy to the Corporation. If any Bond issued under the Indenture shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Authority, the Corporation

and the Trustee, and if such evidence be satisfactory to them and indemnity satisfactory to them shall be given by or on behalf of the Owner of such lost, destroyed or stolen Bond, 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 (or if any such Bond shall have matured, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to it). The Authority may require payment of a reasonable fee for each new Bond issued under this section and payment of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued under the provisions of this section in lieu of any Bond mutilated or 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 mutilated or so alleged to be lost, destroyed or stolen shall be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

**Conditions for the Issuance of Additional Bonds.** Subject to the provisions of the Agreement, the Authority may issue one or more Series of Additional Bonds as Parity Debt, payable from Gross Revenues and secured by the Deed of Trust as provided in the Indenture and secured by a pledge of and charge and lien upon the Trust Estate as provided in the Indenture equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of such Additional Bonds:

(A) The issuance of such Additional Bonds shall have been authorized by the Commission of the Authority and shall have been provided for by Supplemental Indenture which shall specify the following:

- (i) The purpose for which such Additional Bonds are to be issued;
- (ii) The authorized principal amount and Series designation of such Additional Bonds;
- (iii) The date and the maturity dates of and the sinking account payment dates, if any, for such Additional Bonds; provided that (1) all such Additional Bonds of like maturity shall be identical in all respects, except as to number and denomination, and (2) serial maturities for serial bonds or sinking account payments for term bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective maturity dates;
- (iv) The interest payment dates for such Additional Bonds;
- (v) The denomination or denominations of and method of numbering such Additional Bonds;
- (vi) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;
- (vii) The forms of such Additional Bonds;
- (viii) With respect to Additional Bonds issued for the Additional Student Housing Project, the Additional Student Housing Project Proforma Debt Service Coverage Ratio has been certified by the Borrower and the University to equal or exceed 1.05:1 and with respect to any other Additional Project, (1) the Historical Debt Service Coverage Ratio of the Borrower equals or exceeds 1:20:1 and (2) the Proforma Debt Service Coverage Ratio equals or exceeds 1:20:1, in each case as certified by the Borrower and the University to the Trustee; provided

however, that the foregoing test need not be met if the Owners of the Outstanding Bonds consent to the issuance of such Additional Bonds;

(ix) The Borrower delivers a written certificate to the Trustee stating that the Borrower is not in default under the Documents; and

(x) Such other provisions as are necessary or appropriate and not inconsistent therewith.

(B) The Agreement shall have been amended so as to increase the Loan Payments by an amount at least sufficient to pay the interest on, principal and premium, if any, of such Additional Bonds as the same become due.

**Procedure for the Issuance of Additional Bonds.** At any time after the sale of any Additional Bonds in accordance with the Act and the laws of the State and subject to the provisions of the Agreement, the Authority shall execute such Additional Bonds for issuance under the Indenture and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Order of the Authority, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the Issuance Date of such Additional Bonds by the Trustee (unless the Authority shall direct the Trustee to accept any of such documents bearing a prior date):

(A) A certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(B) A Written Request of the Authority as to the delivery of such Additional Bonds;

(C) An Opinion of Bond Counsel to the effect that (1) the Authority has the right and power under the laws of the State to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Authority, is in full force and effect and is valid and binding upon the Authority (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles), (2) the Supplemental Indenture creates a valid pledge of the Trust Estate, subject to the application thereof to the purposes and on the conditions permitted by the Indenture, (3) such Additional Bonds are valid and binding special obligations of the Authority (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and entitled to the benefits of the Indenture, and such Additional Bonds have been duly and validly, executed, issued and delivered in accordance therewith, (4) any Amendment to the Agreement required by this section has been duly executed and delivered, and (5) the delivery of such Additional Bonds will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Bonds;

(D) A Certificate of the Authority containing such statements as may be reasonably necessary, as determined by Bond Counsel, to show compliance with the conditions for the issuance of such Additional Bonds contained in the Indenture;

(E) A Certificate of the Borrower containing such statements as may be reasonably necessary, as determined by Bond Counsel to show compliance with the conditions for the issuance of such Additional Bonds.

Such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds or by Bond Counsel.

### **Pledge; Certain Funds and Accounts**

#### **Pledge of Trust Estate.**

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Trust Estate is irrevocably pledged to the punctual payment of the principal of and interest on the Bonds. Said pledge shall constitute a first lien on and security interest in the Trust Estate for the payment of the Bonds in accordance with the terms of the Indenture and shall attach, be perfected and be valid and binding from and after authentication and delivery of the Bonds, without any physical delivery thereof or further act. The Trust Estate is pledged under the Indenture shall be held in trust for the benefit of the Owners from time to time of the Bonds but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

(b) The Authority transfers, assigns, grants a security interest in and sets over to the Trustee the Trust Estate and any and all rights and privileges, other than the Reserved Rights it has under the Agreement, including, without limitation, the right to collect and receive directly all Gross Revenues under the Agreement and the right to hold and enforce any security interest; and any Gross Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. No rights of the Authority under the Tax Agreement, including those referenced in the Agreement, are assigned to the Trustee. The assignment under the Indenture is to the Trustee solely in its capacity as Trustee under the Indenture and subject to the provisions of the Indenture and in taking or refraining from taking any action under the Agreement pursuant to such assignment, the Trustee shall be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also shall be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Agreement and any other security agreement with respect to the Agreement, the Project or the Bonds, other than the Tax Agreement, and (2) to assure compliance with all covenants, agreements and conditions on the part of the Authority contained in the Indenture with respect to the Trust Estate.

(c) The Borrower may at its sole discretion from time to time deliver to the Trustee such additional or other security which is permitted by the Indenture to secure the payment of the principal of and interest on the Bonds, and any such additional or other security delivered by the Borrower shall be pledged to such payment, provided that there is delivered to the Trustee and the Authority an Opinion of Bond Counsel to the effect that the delivery of such additional or other security does not, in and of itself, adversely affect the Tax-Exempt status of interest on any of the Tax-Exempt Bonds.

(d) The Bonds do not constitute a debt or liability of the State or of any political subdivision thereof, other than the Authority, but shall be payable solely from the funds provided therefor. The Authority shall not be obligated to pay the principal of the Bonds, or the redemption premium or interest thereon, except from the funds provided under the Indenture and the Agreement and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof, including the Authority, is pledged to the payment of the principal of or the redemption premium or interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation or to make any appropriation for their payment. The Authority has no taxing power.

Notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any moneys derived from any source of income of any governmental body or political subdivision of the State or the Authority other than the Trust Estate, for any of the purposes mentioned in the Indenture, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. The Bonds are not general obligations of the Authority, and are payable from and secured only by the Trust Estate and the other assets pledged for such payment under the Indenture.

**Revenue Fund.** Upon the receipt of Gross Revenues from the Borrower, the Trustee shall deposit all such amounts in the “Lancer Educational Student Housing Revenue Fund” (the “Revenue Fund”), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Except as provided in the Indenture, moneys on deposit in the Revenue Fund shall be transferred by the Trustee, in the following order of priority:

(a) First, to the Bond Fund, in an amount equal to the interest due on the Bonds on the next two succeeding Interest Payment Dates; provided, however, if the requirement that amounts representing payment of interest for the next two succeeding Interest Payment Dates would lead to an Event of Default for failure to pay principal on the next succeeding Principal Payment Date, amounts on deposit in the Bond Fund to be applied to the second Interest Payment Date payment may be applied to principal due on such Principal Payment Date;

(b) Second, to the Bond Fund, in an amount equal to the principal due on the Bonds on the next Principal Payment Date;

(c) Third, to the Debt Service Reserve Fund, to the extent necessary to make up any deficiency in the Debt Service Reserve Requirement;

(d) Fourth, to the Repair and Replacement Fund, in an amount equal to the contribution required pursuant to the Indenture for such Fiscal Year;

(e) Fifth, to the Rebate Fund, to the extent necessary to satisfy the Rebate Requirement; and

(f) Sixth, to the Surplus Fund, any remaining amounts.

**Bond Fund.** The Trustee shall establish and maintain and hold in trust the “Lancer Educational Student Housing Bond Fund” (the “Bond Fund”), which shall be disbursed and applied only as authorized under the Indenture. Except as provided in certain provisions of the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due whether at maturity or upon redemption or acceleration.

Except to the extent such moneys are required to be held for the payment of principal of or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the Indenture, so long as no Event of Default (or any event which would be an Event of Default under the Indenture with the passage of time or the giving of notice or both) exists under the Indenture, on December 10th of each year, the Trustee, unless otherwise instructed by the Borrower, shall transfer to the Surplus Fund any moneys then on deposit in the Bond Fund in excess of the amount needed to pay interest on the Bonds on the next two succeeding Interest Payment Dates and principal due on the Bonds on the next Principal Payment Date, or shall deposit such funds in the Rebate Fund if so instructed by the Borrower.

### **Debt Service Reserve Fund.**

(a) The Trustee shall establish and maintain and hold in trust the “Lancer Educational Student Housing Debt Service Reserve Fund” (the “Debt Service Reserve Fund”). The Trustee shall deposit proceeds of the Bonds into the Debt Service Reserve Fund in the amount set forth in the Indenture. If, on any date on which the principal or redemption price of, or interest on, any of the Bonds is due, the amount in the Bond Fund (after taking into account any transfer from first, the Surplus Fund or second, the Repair and Replacement Fund) available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency.

(b) If on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, such excess shall be deposited in the Bond Fund. If on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement, the Trustee shall transfer the amount of such deficiency from amounts on deposit first, in the Surplus Fund, and second, the Repair and Replacement Fund, to the Debt Service Reserve Fund.

(c) Whenever the amount in the Debt Service Reserve Fund, together with the amount in the Bond Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Bond Fund.

(d) In the event of the refunding of the Bonds of a Series (or portions thereof), the Trustee shall, upon the written direction of an Authorized Borrower Representative, withdraw from the Debt Service Reserve Fund any or all of the amounts on deposit therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or redemption price, if any, of, and interest on, the Bonds of such Series (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Debt Service Reserve Fund in connection with such refunding, shall not be less than the Debt Service Reserve Requirement.

**Repair and Replacement Fund.** The Trustee shall establish and maintain and hold in trust the “Lancer Educational Student Housing Repair and Replacement Reserve Fund” (the “Repair and Replacement Fund”). Commencing on July 1, 2008, and on each July 1 thereafter, the Trustee shall transfer moneys from the Revenue Fund for deposit in the Repair and Replacement Fund. To the extent amounts are on deposit in the Revenue Fund, the amount to be so transferred shall equal \$175 (adjusted by 3% each following Fiscal Year) times the number of beds in the Facilities. Beginning on June 30, 2010, and every seven Fiscal Years thereafter, the amount on deposit in the Repair and Replacement Fund shall be reviewed by a Consultant to determine the sufficiency of such annual deposit and if the Consultant determines that the amount of such deposit should be adjusted, the amount of such deposit shall be so adjusted. Amounts on deposit in the Repair and Replacement Fund may be withdrawn from time to time and at any time upon receipt by the Trustee of a requisition of the Borrower to make capital improvements to the Facilities and to pay debt service on the Bonds in the event amounts on deposit in the Bond Fund and second, the Surplus Fund, are insufficient for such purposes. No minimum amount is required to be maintained in the Repair and Replacement Fund.

**Surplus Fund.** The Trustee shall establish and maintain and hold in trust the “Lancer Educational Student Housing Surplus Fund” (the “Surplus Fund”). On the 15th day of each month, to the extent there are moneys available in the Surplus Fund and the deposits required to be made pursuant to the Indenture have been made, the Borrower may submit a requisition of the Manager, in the form



attached to the Indenture as Exhibit E to reimburse the University for any Operating Expenses incurred by the University in connection with the Facilities. On September 1st of each year, commencing September 1, 2008, provided that the Borrower is in compliance with the Agreement (as evidenced by the calculation filed with the Trustee by the Borrower no later than August 1 of such year) any moneys remaining in the Surplus Fund, other than those moneys deposited in the Surplus Fund in the then-current Fiscal Year, shall be transferred by the Trustee to the Borrower, unless otherwise instructed by the Borrower, free and clear of the pledge and lien of the Indenture.

**Investment of Moneys.** Subject to the Indenture, any moneys in any of the funds and accounts established pursuant to the Indenture shall be invested upon the written direction of the Borrower signed by an Authorized Borrower Representative (such direction to specify the particular investment to be made), by the Trustee, if and to the extent then permitted by law, in Permitted Investments. In the absence of such written direction, the Trustee shall invest solely in units of a money-market fund or portfolio restricted to Government Obligations. Moneys in any fund or account established pursuant to the Indenture shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Permitted Investments payable at the option of the Owner) not later than the date on which such moneys will be required by the Trustee except that any investments of amounts in the Debt Service Reserve Fund shall mature no later than five years from the time of investment.

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

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the Borrower the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Borrower specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Borrower and, if requested, the Authority, periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee pursuant to this section.

**Amounts Remaining in Funds.** The Trustee, unless otherwise instructed by the Borrower, shall transfer to the Borrower (free and clear of the pledge and lien of the Indenture) all amounts remaining in any fund held by the Trustee under the Indenture after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee due and owing in accordance with the Agreement and the Indenture and (iii) all other amounts required to be paid under the Agreement and the Indenture, including the Rebate Requirement.

### **Certain Covenants of the Authority**

**Payment of Principal and Interest.** The Authority shall punctually pay, but only out of the Trust Estate and the other assets pledged therefor pursuant to the Indenture, the principal of and interest on every Bond issued under the Indenture at the times and places and in the manner provided therein and in the Bonds according to the true intent and meaning thereof. All such payments shall be made by the

Trustee as provided in the Indenture. When and as paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Borrower and, if requested, the Authority. The Trustee may retain or destroy such cancelled Bonds.

**Extension or Funding of Claims for Interest.** In order to prevent any accumulation of claims for interest after maturity, the Authority shall not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Authority, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

**Preservation of Trust Estate.** The Authority shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment under the Indenture of the Trust Estate and the assignment to the Trustee of rights under the Agreement assigned to the Trustee under the Indenture, or the Trustee's enforcement of any such rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture.

**Compliance with Indenture.** The Authority shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of the Trust Estate or the other assets pledged under the Indenture in any manner other than in accordance with the provisions of the Indenture, and shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements thereof.

**Other Liens.** So long as any Bonds are Outstanding, the Authority shall not create any pledge, lien or charge of any type whatsoever upon all or any part of the Trust Estate or the other assets pledged under the Indenture, other than the lien of the Indenture.

**Further Assurances.** Whenever and so often as requested so to do by the Trustee, the Authority shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

#### **Events of Default; Remedies**

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

- (i) Failure to make payment of any installment of interest upon any Bond when such payment shall have become due and payable;
- (ii) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;

(iii) The occurrence of an “Event of Default” under the Agreement, as specified in the Indenture; or

(iv) Default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

No default specified in (iv) above shall constitute an Event of Default unless the Authority shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected.

Upon the occurrence and continuation of an Event of Default the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, shall, by notice in writing delivered to the Borrower, with copies of such notice being sent to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under the Indenture or clause (iv) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the Bonds under the Indenture the Trustee shall immediately declare all indebtedness payable under the Agreement with respect to the Bonds to be immediately due and payable in accordance with the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys’ fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Authority and to the Trustee) may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**Institution of Legal Proceedings by Trustee.** If one or more of the Events of Default under the Indenture shall happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) shall, proceed to protect or enforce its rights or the rights of the Owners under the Act or under the Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any

power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

**Application of Moneys Collected by Trustee.** Any moneys collected by the Trustee from the Borrower (except for moneys in the Rebate Fund) on or after the occurrence of an Event of Default shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of costs and expenses of collection, just and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and for advances made pursuant to the provisions of the Indenture.

Second: In case none of the principal of the Outstanding Bonds shall have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the Persons entitled thereto without discrimination or preference, except as specified in the Indenture.

Third: In case the principal of any of the Outstanding Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of interest in default in the order of maturity thereof; and then to the payment of principal of all Outstanding Bonds then due and unpaid; in every instance such payment to be made ratably to the Persons entitled thereto without discrimination or preference, except as specified in the Indenture.

Fourth: To the payment of fees and costs due and owing to the Authority and the Trustee, not covered under paragraph “First” of this section.

**Effect of Delay or Omission to Pursue Remedy.** No delay or omission of the Trustee or of any Owner of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given to the Trustee or to the Owners may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee, and the Owners of the Bonds, severally and respectively, shall be restored to their former positions and rights under the Indenture; and all remedies, rights and powers of the Authority, the Trustee, and the Owners of the Bonds shall continue as though no such proceedings had been taken.

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

**Trustee Appointed Agent for Owners.** The Trustee is appointed the agent and attorney of the Owners of all Bonds Outstanding under the Indenture for the purpose of filing any claims relating to the Bonds.

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of Owners of the Bonds,

it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

All rights of action under the Indenture or under any of the Bonds secured thereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Owners, subject to the provisions of the Indenture.

Notwithstanding anything to the contrary in the 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 Reserved Rights) under the Indenture or the 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 Borrower under the Agreement.

**Limitation on Owners' Right to Sue.** No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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 any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or her or their action to enforce any right under the Indenture, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

The right of any Owner to receive payment of the principal of and interest on such Bond out of the Trust Estate, as therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding any other provision of the Indenture.

### **Certain Provisions of the Indenture Relating to the Trustee**

**Duties, Immunities and Liabilities of Trustee.** The Trustee shall, prior to an Event of Default under the Indenture, and after the curing of all Events of Default under the Indenture which may have occurred, and the Trustee at all times shall, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default

under the Indenture (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act or its own willful misconduct, except that:

(a) Prior to the occurrence of any Event of Default under the Indenture and after the curing of all Events of Default which may have occurred, the duties and obligations of the Trustee shall at all times be determined solely by the express provisions of the Indenture; the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Indenture; and no covenants or obligations shall be implied into the Indenture which are adverse to the Trustee; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(i) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee unless it shall be proved that the Trustee, was negligent in ascertaining the pertinent facts;

(ii) the Trustee shall have the power to negotiate and enter into intercreditor agreements with respect to the common security for the payment of the Bonds and Secured Additional Debt;

(iii) the Trustee shall not be personally liable with respect to any action taken, permitted or omitted by it in good faith in accordance with the direction of the Owners of not less than a majority, or such other percentage as may be required under the Indenture, in aggregate principal amount of the Bonds Outstanding 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 the Indenture; and

(iv) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee, conforming to the requirements of the Indenture; but in the case of any such certificate or opinion which by any provision thereof is specifically required to be furnished to the Trustee, the Trustee, shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture.

(c) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Indenture and the Trustee shall not be responsible for any misconduct or negligence on the part of any attorney or agent appointed with due care by it under the Indenture.

None of the provisions contained in the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers. The permissive right of the Trustee to perform acts enumerated in the Indenture or the Agreement shall not be construed as a duty or obligation under the Indenture.

**Right of Trustee to Rely upon Documents, Etc.** Except as otherwise provided in the Indenture:

(a) The Trustee may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, direction, demand,

election or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any notice, request, direction, election, order or demand of the Authority mentioned in the Indenture shall be deemed to be sufficiently evidenced by an instrument signed in the name of the Authority by an Authorized Authority Representative, and any resolution of the Authority shall be evidenced to the Trustee by a Certified Resolution.

(c) The Trustee may consult with counsel of its selection (who may include its own counsel or counsel for the Authority or Bond Counsel) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel.

(d) Whenever in the administration of the trusts of the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority; and such Certificate of the Authority shall, in the absence of negligence or bad faith on the part of the Trustee, be full warrant to the Trustee, for any action taken or suffered by it under the provisions of the Indenture upon the faith thereof.

(e) The Trustee shall have no responsibility 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.

(f) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture, under the Agreement or any other document related to the Bonds unless it shall have actual knowledge at its Principal Corporate Trust Office.

(g) Before taking any action the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur under the Indenture.

(h) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

**Trustee Not Responsible for Recitals.** The Trustee assumes no responsibility for the correctness of the recitals contained in the Indenture except (with respect to the Trustee) for the Certificate of Authentication thereon. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of the Bonds. The Trustee shall not be accountable for the use or application by the Authority or the Borrower of any of the Bonds authenticated or delivered under the Indenture or of the proceeds of such Bonds except to the extent specifically provided in the Indenture.

**Right of Trustee to Acquire Bonds.** The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the Authority in the manner and to the same extent and with like effect as though it were not Trustee under the Indenture.

**Moneys Received by Trustee to Be Held in Trust.** Subject to the provisions of the Indenture, all moneys received by the Trustee shall, until used or applied as therein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or as otherwise provided therein.

**Qualifications of Trustee.** There shall at all times be a Trustee under the Indenture which shall be a corporation or banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$75,000,000, subject to supervision or examination by federal or state authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such corporation or banking association shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this section, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

**Resignation and Removal of Trustee and Appointment of Successor Trustee.**

(a) The Trustee may at any time resign by giving written notice to the Authority and the Borrower and by giving Notice by Mail to the Owners of such resignation. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Authority, with the advice and approval of the Borrower, shall promptly appoint a successor Trustee by an instrument in writing. If no successor Trustee shall have been so appointed and have accepted appointment within forty-five (45) days after the giving of such notice of resignation by the Trustee, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, or any Owner who has been a bona fide Owner for at least six (6) months may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor Trustee.

(b) In case at any time either of the following shall occur:

(i) the Trustee shall cease to be eligible in accordance with the provisions of the Indenture and shall fail to resign after written request therefor by the Authority or by any Owner who has been a *bona fide* Owner for at least six (6) months, or

(ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Trustee, and, with the advice of the Borrower, appoint a successor Trustee by an instrument in writing. Upon any removal of the Trustee, any outstanding fees and expenses of such former Trustee shall be paid in accordance with the Indenture.

(c) The Authority, in the absence of an Event of Default, or the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, with the advice and approval of the Borrower, at any time, or, upon the written request of the Authority shall, remove the Trustee, and, with the advice and approval of the Borrower, appoint a successor Trustee, by an instrument or concurrent instruments in writing signed by the Authority or such Owners, as the case may be.

(d) Any resignation or removal of the Trustee, and appointment of a successor Trustee, pursuant to any of the provisions of this section shall become effective only upon acceptance of appointment by the successor Trustee as provided in the Indenture.



**Acceptance of Trust by Successor Trustee.** Any successor Trustee appointed as provided in the Indenture shall execute, acknowledge and deliver to the Authority, the Borrower and to its predecessor Trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Indenture, with like effect as if originally named as Trustee therein; but, nevertheless, on the Written Request of the Authority or the request of the successor Trustee, the Trustee ceasing to act shall execute and deliver an instrument transferring to such successor Trustee, upon the trusts expressed in the Indenture, all the rights, powers and trusts of the Trustee so ceasing to act. Upon request of any such successor Trustee, the Authority shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and duties. Any Trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such Trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by the Indenture.

No successor Trustee shall accept appointment unless at the time of such acceptance such successor Trustee shall be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee as provided in this section, the successor Trustee shall give the Owners notice of the succession of such Trustee to the trusts under the Indenture.

**Merger or Consolidation of Trustee.** Any corporation or banking association into which the Trustee may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation or banking association succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee under the Indenture without the execution or filing of any paper or any further act on the part of any of the parties thereto, anything therein to the contrary notwithstanding, provided that such successor Trustee shall be eligible under the provisions of the Indenture.

**Accounting Records and Reports; Financing Statements.** The Trustee shall keep proper books of record and account in accordance with accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Trust Estate and the proceeds of the Bonds received by the Trustee. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and shall set forth, in the case of each Investment Security, (a) its purchase price, (b) its value at maturity or its sale price, as the case may be, (c) the amounts and dates of any payments to be made with respect thereto and (d) such documentation and evidence as is required to be obtained by the Borrower to establish that certain requirements of the Tax Agreement have been met. Such records shall be open to inspection by the Authority, the Borrower and by any Owner at any reasonable time during regular business hours on reasonable notice. The Trustee shall furnish to the Borrower and, upon request, the Authority, monthly statements of all investments made by the Trustee and all funds and accounts held by the Trustee. The Trustee shall maintain such records for six years following the discharge of all Outstanding Bonds.

The Trustee shall furnish to any Owner who may make written request therefor a copy of the most recent audited financial statements of the Borrower that are in the possession of the Trustee. The Trustee shall have no responsibility or liability with respect to the Borrower's failure to provide such statements, and the Trustee shall not be required to compel the Borrower to provide any such statements.

The Trustee shall not be responsible for the preparation or filing of any UCC financing statements or continuation statements under the Indenture.

**Tax Agreement.** The Trustee covenants and agrees that it will comply with all written instructions of the Borrower given in accordance with the Tax Agreement and will take any and all action as may be necessary in accordance with such written instructions. The Trustee shall not be accountable for the use by the Borrower of the proceeds of the Bonds.

**Appointment of Co-Trustee.** In the event the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted to the Trustee under the Indenture or hold title to the properties, in trust, as therein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional institution as a separate co-Trustee. In the absence of an Event of Default under the Indenture, the appointment of any such separate co-Trustee shall be subject to the approval of the Authority, following consultation with the Borrower.

(a) In the event that the Trustee appoints an additional institution as a separate co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, interest or lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such co-Trustee but only to the extent necessary to enable such co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such co-Trustee shall run to and be enforceable by either of them. Such co-Trustee may be removed by the Trustee at any time, with or without cause.

(b) Should any instrument in writing from the Authority be required by the co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. In case any co-Trustee, or a successor, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a successor to such co-Trustee.

#### **Amendment of the Indenture and Agreement**

**Modification without Consent of Owners.** The Authority and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, but subject to the conditions and restrictions contained in the Indenture, may enter into a Supplemental Indenture or Indentures, which Supplemental Indenture or Indentures thereafter shall form a part thereof; and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, may consent to any Amendment to any Document; in each case for any one or more of the following purposes:

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

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture or any Document, or in regard to matters or questions arising under the Indenture or any Document, as the Authority may deem necessary or desirable and which shall not materially adversely affect the interests of the Owners of the Bonds;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture as therefore supplemented and amended such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the Owners of the Bonds;

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

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

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

(g) to provide for the appointment of a co-Trustee or the succession of a new Trustee;

(h) to change Exhibit A to the Agreement in accordance with the provisions thereof and of the Tax Agreement; or

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

The Authority and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there shall have been delivered to the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of this section; (iii) will, upon the execution and delivery thereof be a valid and binding agreement of the Authority; and (iv) will not adversely affect the Tax-Exempt status of interest on Tax-Exempt Bonds.

Notwithstanding the foregoing provisions of this section, the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture, and the Trustee shall not enter into any Supplemental Indenture or consent to any Amendment without first obtaining the written consent of the Borrower. Any Supplemental Indenture or Amendment permitted pursuant to this section may be approved by an Authorized Authority Representative and need not be approved by resolution or other action of the Commission of the Authority.

**Modification with Consent of Owners.** Subject to the provisions of the Indenture, with the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, (i) the Authority and the Trustee may from time to time and at any time enter into a Supplemental Indenture or Indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture as theretofore supplemented and amended; (ii) the Authority and the Borrower may enter into any Amendment; and (iii) the Trustee may consent to any Amendment to any Document and any other matters for which its consent is required pursuant to the Indenture; provided, however, that no such Supplemental Indenture or Amendment will have the effect of extending the time for payment or reducing any amount due and payable by the Borrower pursuant to the Agreement without the consent of the Owners of all Bonds then Outstanding; and that no such

Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures or Amendments, or permit the creation of any lien on the Trust Estate and the other assets pledged as security for Bonds under the Indenture prior to or on a parity with the lien of the Indenture, except as permitted therein, or permit the creation of any preference of any Owner over any other Owner, except as permitted therein, or deprive the Owners of the Bonds of the lien created by the Indenture upon the Trust Estate and the other assets pledged to the payment of the Bonds under the Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture.

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of this section; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Authority; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; and (3) evidence of the consent of the Owners, as aforesaid, the Trustee shall join with the Authority in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Borrower's written consent thereto.

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

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in this section, the Trustee shall mail a notice (prepared by the Borrower) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to each Owner at the address contained in the Bond Register. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

**Effect of Supplemental Indenture or Amendment.** Upon the execution of any Supplemental Indenture or any Amendment to the Agreement pursuant to the provisions of the Indenture or the Agreement, as the case may be, shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture and the Agreement of the Authority, the Trustee, the Borrower and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture and under the Agreement subject in all respects to such Supplemental Indentures and Amendments, and all the terms and conditions of any such Supplemental Indenture or Amendment shall be part of the terms and conditions of the Indenture or the Agreement, as the case may be, for any and all purposes.

## **Defeasance**

**Discharge of Indenture.** If all Bonds shall be paid and discharged in any one or more of the following ways:

(a) by the payment of the principal of and interest on all Bonds as and when the same become due and payable; or

(b) by providing for the payment of the principal of and interest on all Bonds as provided under the following caption; or

(c) by the delivery to the Trustee, for cancellation by it, of all Bonds;

and if all other sums payable under the Indenture by the Borrower and the Authority shall be paid and discharged, then thereupon the Indenture shall be satisfied and discharged and shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the Authority, and upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee and the Authority to charge and be reimbursed by the Borrower for any expenditures which it may thereafter incur in connection therewith.

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

**Discharge of Liability on Particular Bonds.** (a) Any Bond or a portion thereof shall be deemed to be paid within the meaning of the Indenture when payment of the principal of such Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided therein) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable Government Obligations as provided below; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for giving such notice.

(b) In the event of the provision of the payment of less than the full principal amount of a Bond in accordance with subsection (a) of this section, the principal amount of the Bond as to which such payment is not provided for shall be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with subsection (a) of this section is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

(c) Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable Government Obligations as provided below to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in subsection (a) above, such Bond, or the applicable portion thereof, shall be deemed to be paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money and/or Government Obligations deposited with the Trustee for such purpose, and all liability of the Authority and the Borrower in respect of such Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Authority and the Borrower shall remain liable for the payment of the principal of and interest on such Bond, or the applicable portion thereof, but only from, and the Owners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or Government Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture relating to rebate and the following section.

**Deposit of Money or Securities with Trustee.** Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or Government Obligations in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or nonprepayable, noncallable Government Obligations held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) An amount of money equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount of money 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) nonprepayable, noncallable Government Obligations, the principal of and the interest on which when due will provide money at the times and in the amounts sufficient, together with the other moneys held by the Trustee for such purpose (as evidenced by an Accountant's Report) 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 or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money and the payments on such Government Obligations to the payment of such principal or redemption price and interest with respect to such Bonds. The Trustee shall not be responsible for verifying the sufficiency of money and Government Obligations deposited with the Trustee to provide for the payment of the principal of and interest on Bonds but may conclusively rely for all purposes of the Indenture on an Accountant's Report as to such sufficiency.

### **Miscellaneous Provisions of the Indenture**

**Successors and Assigns of Authority.** All the covenants, stipulations, promises and agreements in the Indenture contained, by or on behalf of the Authority, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not. If any of the powers or duties of the Authority shall hereafter be transferred by any law of the State, and if such transfer shall relate to any matter or thing permitted or required to be done under the Indenture by the Authority, then the body or official of the State who shall succeed to such powers or duties shall act and be obligated in the place and stead of the Authority as provided in the Indenture.

**Limitation of Rights.** Nothing in the 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 Borrower and the Owners of the Bonds any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein 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 Borrower and the Owners of the Bonds.

**Waiver of Notice.** Whenever in the Indenture the giving of notice to a Person 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.

### **Evidence of Rights of Owners.**

(a) Any request, consent or other instrument required by the Indenture to be signed and executed by Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Owners in person or by 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, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee, the Trustee and the Authority if made in the manner provided below.

(b) 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 affidavit of a witness of such execution or 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 or writing acknowledged to him or her the execution thereof. The fact and the date of execution of any request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

(c) The ownership of Bonds shall be proved by the Bond Register.

(d) Any request, consent or vote of the Owner shall bind every future Owner of the same Bond and the Owner 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 pursuance of such request, consent or vote.

(e) Except as otherwise provided under the Indenture, in determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned by the Authority, by the Borrower or by any other direct or indirect 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, the Borrower, or any other direct or indirect obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided that, for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this subsection (e) if the pledgee shall certify to 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, the Borrower or any other direct or indirect 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.

(f) In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Owners upon such notice and in accordance with such rules and regulations, including the right of the Owners to be represented and vote by proxy, as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

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

**Governing Law; Venue.** The Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Indenture shall be enforceable in the State, and any action arising out of the Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement.

**Unclaimed Moneys.** Notwithstanding any provisions of the Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest on, any Bonds remaining unclaimed for two (2) years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), shall then be repaid to the Borrower upon its written request, and the Owners of such Bonds shall thereafter be entitled to look only to the Borrower for payment thereof, and all liability of the Authority and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Borrower as aforesaid, the Trustee shall (at the request and cost of the Borrower) first give notice by mail to each affected Owner, which notice shall be in such form as may be deemed appropriate by the Borrower and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Borrower of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Borrower as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Borrower for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Borrower (without interest thereon).

**Moneys Held for Particular Bonds.** Except as otherwise provided in the Indenture, the amounts held by the Trustee for the payment of the interest, principal, or redemption price due on any date with respect to particular Bonds which are deemed paid shall be set aside on its books and held in trust by it for the Owners entitled thereto.

**Non-Liability of Authority.** The Authority shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from the Trust Estate and other moneys and assets received by the Trustee pursuant to the Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Authority or any member is pledged to the payment of the principal (or Redemption Price) or interest on the Bonds. The Authority shall not 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 the Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Agreement.

The Trustee acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower to the Trustee pursuant to the Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the payments to be made under the Agreement shall ever prove insufficient to pay all principal (or redemption price) 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 Borrower in accordance with the 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) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.



## **THE LOAN AGREEMENT**

### **Loan Payments and Other Amounts Payable.**

(a) With respect to each Series of the Bonds, the Borrower covenants and agrees to pay to the Trustee as a Loan Payment, on or before each date provided in or pursuant to the Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration) and/or interest on such Series of the Bonds, until the principal of and interest on such Series of Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration) and interest on such Series of Bonds as provided in the Indenture.

Each payment made by the Borrower pursuant to the Agreement shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) then payable on the Bonds of such Series; provided that any amount held by the Trustee in the Bond Fund on any due date for a Loan Payment under the Agreement shall be credited against the Loan Payment due on such date, to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the available amounts held by the Trustee in the Bond Fund and the Debt Service Reserve Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments with respect to the Bonds of such Series under the provisions of the Agreement.

(b) To ensure the availability of moneys in the Bond Fund to pay when due the principal of and interest on the Outstanding Bonds, but without duplication, the Borrower shall deposit all Gross Revenues with the Trustee as set forth in the Agreement.

(c) On each Debt Service Reserve Valuation Date, the Trustee shall transfer from the Revenue Fund an amount such that, after the deposit of such amount in the Debt Service Reserve Fund, the amount on deposit therein shall be at least equal to the Debt Service Reserve Requirement.

### **Certain Covenants of the Borrower**

**Right of Access to the Project.** The Borrower agrees that during the term of the Agreement the Authority, the Trustee and the duly authorized agents of any of them, shall have the right (but not the duty) at all reasonable times during normal business hours to enter upon the site of the Facilities to examine and inspect the Facilities. The rights of access reserved to the Authority, the Trustee and their respective authorized agents may be exercised only after the party seeking such access shall have given reasonable advance notice and executed release of liability (which release shall not limit any of the Borrower's obligations under the Agreement) agreements if requested by the Borrower in the form then currently used by the Borrower.

### **Borrower's Maintenance of Its Existence; Consolidation, Merger, Sale or Transfer Under Certain Conditions.**

(a) The Borrower agrees that during the term of the Agreement and so long as any Bond is Outstanding, it will maintain its existence as a disregarded entity of an organization described in Section 501(c)(3) of the Code and a limited liability company organized under the laws of the State, and will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into a corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Borrower may, without violating the agreements contained in the Agreement,

consolidate with or merge into a corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation or an agency of the State all or substantially all of its assets as an entirety and thereafter dissolve; provided, that the surviving, resulting corporation, or the transferee of all or substantially all of the Borrower's assets (i) is a corporation (1) organized under the laws of the United States or any state, district or territory thereof; (2) is qualified to do business in the State; and (3) is an organization described in Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect; and (ii) assumes in writing all of the obligations of the Borrower under the Agreement. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Authority shall receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds and (B) an Opinion of Counsel reasonably acceptable to the Authority to the effect that after such merger, consolidation, sale or other transfer, the Agreement is a valid and binding obligation of the surviving, resulting or transferee corporation, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the Agreement will not be adversely affected by such sale or other transfer.

(b) Notwithstanding the foregoing, the Borrower need not comply with the foregoing transfer provisions and shall comply with the provisions set forth in this paragraph in the event that Lancer Educational Housing Corporation (the "Corporation") is granted exemption from the payment of federal income taxes by the Internal Revenue Service:

(i) Upon the Corporation's receipt of a 501(c)(3) determination letter from the Internal Revenue Service, the Corporation shall request the Member to transfer its interest in the Borrower to the Corporation; and

(ii) Such transfer shall be effected upon receipt by the Trustee and the Authority of (A) an Opinion of Bond Counsel to the effect that such transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds, (B) an Opinion of Counsel reasonably acceptable to the Authority to the effect that after such transfer, the Agreement continues to be a valid and binding obligation of the Borrower, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the Agreement will not be adversely affected by such transfer and (C) an Opinion of Counsel reasonably acceptable to the Authority to the effect that such transfer will not in and of itself affect the 501(c)(3) status of the Member.

Notwithstanding any other provision of the foregoing paragraphs (a) and (b), the Borrower need not comply with any of the provisions of the foregoing paragraphs (a) and (b) if, at the time of any transaction not satisfying the terms of the foregoing paragraphs (a) and (b), provision for the payment of all Outstanding Bonds will be made as provided in the Indenture.

(c) If a 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 merger, consolidation, sale or transfer shall be effected except in accordance with the provisions of this section.

(d) Another entity may also agree to become a co-obligor and jointly and severally liable with the Borrower (without the necessity of merger, consolidation or transfer of assets) under the Agreement. In such event, references in the Agreement to indebtedness of the Borrower shall apply to the combined indebtedness of the Borrower and such other entity, references to the financial condition or results of operation of the Borrower shall apply to the combined financial condition and results of

operation of the Borrower and such other entity, and the Borrower and such other entity shall be considered to be the Borrower for all purposes of the Agreement.

**Qualification in California.** The Borrower agrees that throughout the term of the Agreement it, or any successor or assignee as permitted by the Agreement, will be qualified to do business in the State.

**Special Services Covenant.** The Borrower shall maintain the Facilities as a housing facilities supporting the University as long as any Bonds remain Outstanding; provided, however, the Authority, upon review of such facts as it deems relevant, may, from time to time, allow the Borrower to provide alternative services which provide public benefit to the Program Participant and its residents, or deem this special services covenant to be satisfied in whole or in part. Failure to comply with the provisions of this section shall not constitute an Event of Default under the Agreement but shall be enforceable solely by the Authority by such action, at law or in equity, as the Authority in its sole discretion shall deem appropriate. This section shall not be enforceable by the Trustee, any Bondholder, the Program Participant, any resident of the Program Participant or by any other Person other than the Authority.

**Covenant with respect to Debt Service Reserve.** The Borrower will not cause the deposit of any policy of municipal bond insurance, surety bond, letter of credit or other reserve financial guaranty as a substitute for cash in the Debt Service Reserve Fund established under the Indenture.

**Additional Bonds.** The Borrower agrees that it shall not issue any Additional Bonds except pursuant to the Indenture.

**Additional Debt.** The Borrower agrees that it shall not issue additional Debt in connection with Additional Projects unless (a) the Historical Debt Service Coverage Ratio of the Borrower equals or exceeds 1:20 to 1, (b) the Proforma Debt Service Coverage Ratio equals or exceeds 1:20 to 1, in each case as certified by the Borrower and the University to the Trustee; provided, however, that the foregoing test need not be met if the Owners of the Outstanding Bonds consent to the issuance of such additional Debt and (c) the Borrower certifies to the Trustee that it is not in default under the Agreement. If any such additional Debt shall be issued as Additional Bonds, the Borrower agrees to follow the provisions of the Indenture. Any such additional Debt that is not issued as Additional Bonds shall be subordinate to the Bonds and any agreement executed in connection with such additional Debt shall provide that an event of default under such agreement shall not cause an Event of Default under the Agreement.

**Gross Revenue Pledge; Deed of Trust.** (a) In consideration of the issuance of the Bonds by the Authority and the loan of the proceeds thereof to the Borrower and to secure the payment of the Loan Payments and Additional Payments and the performance of the other obligations of the Borrower under the Agreement, the Borrower pledges and grants a security interest, to the extent permitted by law, to the Authority in all Gross Revenues and the proceeds thereof, to secure the obligations of the Borrower under the Agreement. The Borrower agrees that, as long as any of the Bonds remain Outstanding or any Additional Payments remain unpaid, it shall cause all of the Gross Revenues to be transferred to the Trustee and deposited in the Revenue Fund established by the Trustee under the Indenture. The Borrower agrees to cause such transfer of Gross Revenues to the Trustee on each Friday.

(b) To further secure the payment of Loan Payments and the performance of the other obligations of the Borrower under the Agreement, the Borrower grants to the Authority a security interest in the Deed of Trust Property. The Borrower has entered into the Deed of Trust to secure the Borrower's obligations under the Agreement. The Borrower shall execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Trustee, and to execute and deliver such other documents described in this section as the Authority or the Trustee may reasonably require in order to perfect or maintain as perfected such security interest, including continuation

statements, or give public notice thereof. Upon the Request of the Borrower, the Trustee shall file continuation statements with respect to such financing statements prior to the expiration thereof.

(c) The Authority, the Trustee and the Borrower agree that the Deed of Trust and such Uniform Commercial Code financing statements and other documents described in this section may be amended or terminated at any time provided that the Trustee agrees to such amendment or termination in writing. Such amendment or termination may be accomplished without the consent of the Authority or the Owners of the Bonds.

### **Damage, Destruction and Condemnation; Continuation of Payments**

**Obligation to Continue Payments.** So long as any Bonds are Outstanding, if (i) the Project or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty, or (ii) the temporary use of the Project or any portion thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Borrower shall nevertheless be obligated to continue to pay the amounts specified in the Agreement.

**Damage to or Condemnation of Project.** As between the Authority and the Borrower, the Borrower shall be entitled to the Net Proceeds of any insurance or condemnation award or portion thereof made for damages to or takings of the Project.

### **Events of Default and Remedies**

**Events of Default.** Any one of the following which occurs shall constitute an Event of Default under the Agreement:

(a) failure by the Borrower to pay or cause to be paid any amounts required to be paid under the Agreement when due or to make the deposits required to be made under the Agreement within three days of the day when such payment was due; or

(b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the Agreement, other than making the payments referred to in (a) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Authority, which notice shall specify such failure and request that it be remedied, unless the Authority and the Trustee shall agree in writing to an extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) any of the representations or warranties of the Borrower made in the Agreement or in the application filed with the Authority in connection with the Bonds was false or incorrect in any material respect when made; or

(d) an Act of Bankruptcy occurs with respect to the Borrower; or

(e) the occurrence of an Event of Default under the Indenture.

**Remedies on Default.** (a) Whenever any Event of Default under the Agreement shall have occurred and shall continue, the Authority or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due and thereafter to become due under the Agreement or the enforcement of the

performance and observance of any obligation, agreement or covenant of the Borrower under the Agreement, including but not limited to: (i) instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Borrower and collect in the manner provided by law moneys decreed to be payable; and (ii) by injunctive and other equitable relief, to require the Borrower to perform each of its obligations under the Agreement and to otherwise protect the Authority's rights under the Agreement.

(b) If, at any time after all of the Outstanding Bonds shall have been declared due and payable pursuant to the Indenture but such declaration has been rescinded in accordance with the Indenture, no amount shall be payable by the Borrower pursuant to the Agreement with respect to the principal of Bonds as to which the acceleration of maturity has been rescinded.

(c) In case the Trustee or the Authority shall have proceeded to enforce its rights under the Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Borrower, the Trustee and the Authority shall be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Borrower, the Trustee and the Authority shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Authority, the Trustee or the Borrower shall not be disturbed by reason of this provision).

**Agreement to Pay Attorneys' Fees and Expenses.** In the event the Borrower should default under any of the provisions of the Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under the Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower contained in the Agreement, the Borrower agrees to pay to the Authority or the Trustee the reasonable fees and expenses of such attorneys, such other reasonable expenses so incurred by the Trustee and such other expenses so incurred by the Authority, including the cost of the Authority and Attorney General employees.

**No Remedy Exclusive.** No remedy conferred by the Agreement 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 shall be cumulative and shall be in addition to every other remedy given under the Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Trustee to exercise any remedy reserved to it, it shall not be necessary to give any notice, other than such notice as may be expressly required under the Agreement.

**No Additional Waiver Implied by One Waiver.** In the event any agreement or covenant contained in the Agreement should be breached by the Borrower and thereafter waived by the Authority or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Agreement.

## **Prepayment**

**Option to Prepay Loan Payments.** So long as no Event of Default shall have occurred and be continuing under the Agreement, the Borrower shall have the option to prepay all or any portion of the Loan Payments by paying the applicable amount set forth in the Agreement. By virtue of the assignment under the Agreement to the Trustee of certain rights of the Authority, the Borrower shall pay any prepayment of Loan Payments directly to the Trustee. Such prepayments of Loan Payments shall be applied to provide for the payment of Outstanding Bonds (or portions thereof in Authorized

Denominations) as specified in the notice of prepayment in accordance with the Indenture and the related expenses and other costs specified in the Agreement.

Notwithstanding any partial prepayment of Loan Payments, the Agreement shall not be terminated until no Bonds remain Outstanding under the Indenture and all amounts payable by the Borrower under the Agreement have been paid.

**Amount of Prepayment.** (a) In the case of a prepayment of the entire amount of the Loan Payments remaining due under the Agreement, the amount to be paid shall be a sum sufficient, together with other funds and the principal of and interest on any United States Government Securities then on deposit with the Trustee and available for such purpose to provide for the payment of all then Outstanding Bonds, and the satisfaction and discharge of the Indenture, in accordance with the Indenture.

(b) In the case of the prepayment of a portion of the Loan Payments remaining due under the Agreement, the amount payable shall be a sum sufficient: (i) to provide for the payment of the Outstanding Bonds (or portions thereof) in Authorized Denominations of the maturities specified in the notice of prepayment in accordance with the Indenture; and (ii) to pay all reasonable and necessary fees and expenses of the Authority and the Trustee in connection with the receipt and application of such prepayment, including the establishment of an escrow to provide for the payment of such Bonds.

**Notice and Date of Prepayment.** The Borrower shall give written notice of any prepayment of Loan Payments to the Authority and the Trustee at least fifteen (15) days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to the Indenture, of any Bonds specified for redemption by the Borrower with such prepayment; provided that the Authority and the Trustee may agree to waive their respective rights to receive such notice or may agree to a shorter notice period. Such notice shall specify the principal amount of each maturity to be paid or redeemed with such prepayment, the date or dates of redemption or payment of such Bonds, and the date upon which such prepayment will be made. Notwithstanding anything to the contrary in the Agreement, each notice of the prepayment of Loan Payments shall state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed date of prepayment of an amount sufficient to effect such prepayment and such notice shall be of no force and effect and the prepayment need not be made and the Loan Payments will not become due and payable on the proposed prepayment date unless such an amount is so received on or prior to the proposed prepayment date.

### **Miscellaneous Provisions of the Agreement**

**Nonliability of Authority.** The Authority shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from amounts deposited in the Revenue Fund and other moneys and assets received by the Trustee pursuant to the Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Authority or the Program Participant is pledged to the payment of the principal (or redemption price) or interest on the Bonds. The Authority shall not 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 the Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Agreement.

The Borrower acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower to the Trustee pursuant to the Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture.

**Limitation of Rights.** Nothing in the Agreement expressed or implied is intended or shall be construed to give to any Person other than the Authority, the Trustee, the Borrower and the Owners of the

Outstanding Bonds any legal or equitable right, remedy or claim under or in respect of the Agreement or any covenant, condition or provision contained in the Agreement; 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 Borrower, and the Owners of the Outstanding Bonds.

**Governing Law; Venue.** The Agreement shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Agreement shall be enforceable in the State, and any action arising out of the Agreement shall be filed and maintained in a court in Sacramento County, California, unless the Authority waives this requirement.

**Waiver of Personal Liability.** No member, officer, agent or employee of the Program Participant or the Authority or any director, officer, agent or employee of the Borrower shall be individually or personally liable for the payment of any principal of, premium, if any, or interest on the Bonds or any other sum under the Agreement or under the Indenture or be subject to any personal liability or accountability by reason of the execution and delivery of the Agreement; but nothing contained in the Agreement shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by the Agreement.

#### **FIRST SUPPLEMENTAL INDENTURE**

*Unless the context otherwise requires, terms defined in the First Supplemental Indenture shall, for purposes of the Indenture and of the First Supplemental Loan Agreement and indenture supplemental thereto or agreement supplemental thereto, have the meanings specified below:*

“Deed of Trust” means that certain Leasehold Deed of Trust with Assignment of Rents and Fixture Filing, made as of June 28, 2007, by the Borrower to First American Title Company, for the benefit of the Trustee, as amended by the Amended and Restated Deed of Trust with Assignment of Rents and Fixture Filing, made as of February 18, 2010, by the Borrower to First American Title Company, for the benefit of the Trustee.

“First Supplemental Indenture” means the First Supplemental Indenture of Trust, dated as of February 1, 2010, by and between the Authority and the Trustee.

“First Supplemental Loan Agreement” means the First Supplemental Loan Agreement, dated as of February 1, 2010, by and between the Authority and the Borrower.

“Interest Payment Date” means June 1 and December 1, commencing December 1, 2007 with respect to the Series A Bonds and the Series B Bonds, and commencing June 1, 2010 with respect to the Series 2010 Bonds, or as otherwise set forth in any Supplemental Indenture.

“Lease” means that certain Lease Agreement, dated as of June 1, 2007, between the University and the Borrower, as amended by the Amendment to Lease Agreement, dated as of February 1, 2010, between the University and the Borrower.

“Member” means Lancer Educational Housing Corporation, a California nonprofit corporation, its successors and assigns.

“Project” has the meaning set forth in Exhibit A of the Loan Agreement, Exhibit B to the First Supplemental Loan Agreement, and/or in any other exhibit to the Loan Agreement, as the context requires.

“Series 2010 Bonds” means the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Series 2010A and Series 2010B (Federally Taxable), issued pursuant to the Indenture. The Series 2010 Bonds constitute Additional Bonds.

“Series 2010 Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of February 18, 2010, between the Borrower and U.S. Bank National Association, as Trustee and as dissemination agent, relating to the Series 2010 Bonds, as originally executed or as it may from time to time be supplemented or amended.

“Series 2010 Costs” means, with respect to the Additional Student Housing Project, the sum of the items, or any such item, of the cost of the acquisition, construction, installation, furnishing and equipping of the Additional Student Housing Project to the extent permitted by the Act, but shall not include any Series 2010 Costs of Issuance.

“Series 2010 Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Borrower and related to the authorization, issuance, sale and delivery of the Series 2010 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Series 2010 Bonds and any other cost, charge or fee in connection with the original issuance of the Series 2010 Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

“Series 2010 Costs of Issuance Fund” means the fund which is established pursuant to the First Supplemental Indenture.

“Series 2010 Issue Date” means February 18, 2010.

“Series 2010 Project Fund” means the Series 2010 Project Fund which is established in accordance with the First Supplemental Indenture.

“Series 2010 Rebate Fund” means the Rebate Fund which is established in accordance with the First Supplemental Indenture.

“Series 2010 Rebate Requirement” means the amounts required to be rebated to the United States Treasury determined in accordance with the Series 2010 Tax Agreement.

“Series 2010 Tax Agreement” means the Tax Certificate and Agreement related to the Series 2010 Bonds, dated as of the Series 2010 Issue Date, by and among the Authority, the Borrower, the Member and the University, as the same may be amended from time to time.

“Series 2010A Bonds” means the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Series 2010A, issued under the First Supplemental Indenture.

“Series 2010B Bonds” means the California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Taxable Series 2010B (Federally Taxable), issued under the First Supplemental Indenture.

“Tax Agreement” means the Tax Certificate and Agreement, dated June 28, 2007, by and among the Authority, the Borrower, the Member and the University as the same may be amended from time to



time, and any Tax Certificate and Agreement executed and delivered by the Authority and the Borrower in connection with the issuance of Additional Bonds.

**Series 2010 Costs of Issuance Fund.** The Trustee shall establish the “Lancer Educational Student Housing Costs of Issuance Fund” (the “Series 2010 Costs of Issuance Fund”) and within the Series 2010 Costs of Issuance Fund, the following subaccounts: the Tax-Exempt Subaccount of the Series 2010 Costs of Issuance Fund and the Taxable Subaccount of the Series 2010 Costs of Issuance Fund. The moneys in the Series 2010 Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Series 2010 Costs of Issuance of the Series 2010 Bonds. All payments from the Series 2010 Costs of Issuance Fund shall be reflected in the Trustee’s regular accounting statements. Any amounts remaining in an account of the Series 2010 Costs of Issuance Fund six months following the Series 2010 Issue Date shall be transferred to the Bond Fund.

**Series 2010 Project Fund.** The Trustee shall establish and maintain and hold in trust the “Lancer Educational Student Housing Project Fund” (the “Series 2010 Project Fund”) and within the Series 2010 Project Fund, the following subaccounts: the Tax-Exempt Subaccount of the Series 2010 Project Fund and the Taxable Subaccount of the Series 2010 Project Fund. The Trustee shall establish within the Series 2010 Project Fund such accounts and subaccounts as are specified in the Series 2010 Tax Agreement and, upon written direction from an Authorized Borrower Representative, such additional accounts and subaccounts as may be necessary or convenient to carry out the purposes of the Series 2010 Tax Agreement. The Trustee shall deposit proceeds of the Series 2010 Bonds into the Series 2010 Project Fund in the amount set forth in the First Supplemental Indenture. Before each payment is made from the Series 2010 Project Fund by the Trustee, there shall be filed with the Trustee a requisition in the form attached to the First Supplemental Indenture. Each such requisition 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. Upon receipt of each such requisition, signed by an Authorized Borrower Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

#### **Arbitrage Covenants; Rebate Fund.**

(a) The Authority covenants with all Persons who hold or at any time held Series 2010A Bonds that the Authority will not directly or indirectly use the proceeds of any of the Series 2010A Bonds or any other funds of the Authority or permit the use of the proceeds of any of the Series 2010A Bonds or any other funds of the Authority or take or omit to take any other action which will cause any of the Series 2010A Bonds to be “arbitrage bonds” or otherwise subject to federal income taxation by reason of Sections 103 and 141 through 150 of the Code and any applicable regulations promulgated thereunder. To that end the Authority covenants to comply with all covenants set forth in the Series 2010 Tax Agreement.

(b) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the “Lancer Educational Student Housing Rebate Fund” (herein called the “Series 2010 Rebate Fund”). Within the Series 2010 Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Borrower as necessary in order for the Authority and the Borrower to comply with the terms and requirements of the Series 2010 Tax Agreement. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Series 2010 Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Series 2010 Rebate Requirement, for payment to the United States of America, and none of the Borrower, the Authority or the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Series 2010 Rebate Fund shall be governed by the provisions summarized under this caption, by the Agreement and by the Series 2010 Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Borrower, including supplying all necessary information requested by the Borrower and the Authority in the manner set forth

in the Series 2010 Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Borrower.

(c) Upon receipt of the Borrower's written instructions, the Trustee shall remit part or all of the balances in the Series 2010 Rebate Fund to the United States of America, as so directed. In addition, if the Borrower so directs, the Trustee will deposit moneys into or transfer moneys out of the Series 2010 Rebate Fund from or into such accounts or funds as directed by the Borrower's written directions. Any funds remaining in the Series 2010 Rebate Fund after redemption and payment of all of the Series 2010A Bonds and payment and satisfaction of any Series 2010 Rebate Requirement and payment of all other amounts due and owing pursuant to the Agreement shall be withdrawn and remitted to the Borrower upon its written request.

(d) Notwithstanding any provision of the Indenture, the obligation of the Borrower to pay the Series 2010 Rebate Requirement to the United States of America and to comply with all other tax-related requirements shall survive the defeasance or payment in full of the Series 2010A Bonds.

(e) Notwithstanding any provisions of the foregoing and certain express covenants of the Borrower regarding the tax-exempt status of the Series 2010A Bonds, if the Borrower shall provide to the Authority and the Trustee an Opinion of Bond Counsel that any specified action required under such provisions is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Series 2010A Bonds, the Borrower, the Trustee and the Authority may conclusively rely on such opinion in complying with the foregoing requirements; and the covenants under the First Supplemental Indenture shall be deemed to be modified to that extent.

### **FIRST SUPPLEMENTAL LOAN AGREEMENT**

**Agreement to Acquire the Additional Student Housing Project.** The Borrower agrees that it will acquire, construct, equip, furnish and install or cause to be acquired, constructed, equipped, furnished and installed all facilities and real and personal property deemed necessary for the operation of the Additional Student Housing Project, substantially in accordance with the description of the Additional Student Housing Project attached to the First Supplemental Loan Agreement as Exhibit B. The Borrower further agrees to proceed with due diligence to acquire the Additional Student Housing Project.

In the event that the Borrower desires to alter or change the description of the Additional Student Housing Project, and such alteration or change substantially alters the purpose and description of the Additional Student Housing Project, the Authority will enter into, and will instruct the Trustee to consent to, such amendment or supplement as shall be required to reflect such alteration or change to the Additional Student Housing Project upon receipt of:

(i) a certificate of an Authorized Borrower Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Additional Student Housing Project as facilities that may be financed pursuant to the Act;

(ii) a copy of the proposed form of such amendment or supplement; and

(iii) an Opinion of Bond Counsel that such proposed changes will not adversely affect the Tax-Exempt status of interest on any Tax-Exempt Bonds.

**Loan to Borrower.** The Authority covenants and agrees, upon the terms and conditions in the Agreement, to make a loan to the Borrower for the purposes set forth above. Pursuant to said covenant and agreement, the Authority will use its best efforts to issue the Series 2010 Bonds upon the terms and conditions contained in the Agreement and the Indenture. The Authority and the Borrower agree that the

application of the proceeds of the sale of the Series 2010 Bonds as provided in the First Supplemental Indenture will be deemed to be and treated for all purposes as a loan to the Borrower of an amount equal to the aggregate principal amount of the Series 2010 Bonds.

**Maintenance and Repair; Taxes, Utility and Other Charges.** The Borrower agrees to maintain, or cause to be maintained, the Additional Student Housing Project (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Borrower agrees that as between the Authority and the Borrower, the Borrower will pay or cause to be paid all taxes and governmental charges of any kind lawfully assessed or levied upon the Additional Student Housing Project or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Additional Housing Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Additional Student Housing Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower, to the extent described above, shall be obligated to pay or cause to be paid only such installments as are required to be paid during the term of the Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Additional Student Housing Project or any part thereof will be subject to loss or forfeiture.

**Tax-Exempt Status of Interest on the Series 2010A Bonds.**

(a) It is the intention of the parties to the Agreement that interest on the Series 2010A Bonds shall be and remain Tax-Exempt, and to that end the covenants and agreements of the Authority and the Borrower below and the Series 2010 Tax Agreement are for the benefit of the Trustee and each and every Person who at any time will be an Owner of the Series 2010A Bonds.

(b) Each of the Borrower and the Authority covenants and agrees that it will not directly or indirectly use or permit the use of any proceeds of the Series 2010A Bonds or other funds, or take or omit to take any action that will cause any Series 2010A Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. Each of the Borrower and the Authority further covenants and agrees that it will not direct the Trustee to invest any funds held by it under the Indenture or the Agreement, in such manner as would, or enter into or allow any related person to enter into any arrangement (formal or informal) that would, cause any Series 2010A Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code. To such ends with respect to the Series 2010A Bonds, the Authority (to the extent expressly set forth in the Indenture, in the Series 2010 Tax Agreement and in the First Supplemental Loan Agreement) and the Borrower will comply with all requirements of Section 148 of the Code to the extent applicable to the Series 2010A Bonds. In the event that at any time the Authority or the Borrower is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or the Agreement, the Authority or the Borrower shall so instruct the Trustee in writing and the Trustee shall comply with such written instructions.

Without limiting the generality of the foregoing, the Borrower and the Authority agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full of the Series 2010A Bonds or provision for the payment of the Series 2010A Bonds in accordance with the Indenture. The Borrower specifically covenants to calculate or cause to be calculated and to pay or

cause to be paid for and on behalf of the Authority to the United States of America at the times and in the amounts determined under the Indenture the Series 2010 Rebate Requirement as described in the Series 2010 Tax Agreement, and under no circumstance shall payment of the Series 2010 Rebate Requirement be the obligation of the Authority.

(c) The Authority certifies, represents and agrees that it has not taken, and will not take, any action which will cause interest paid on the Series 2010A Bonds to become includable in gross income of the Owners of the Series 2010A Bonds for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code; and the Borrower certifies and represents that it has not taken or, to the extent within its control, permitted to be taken, and the Borrower covenants and agrees that it will not take or, to the extent within its control, permit to be taken any action which will cause the interest on the Series 2010A Bonds to become includable in gross income of the Owners of the Series 2010A Bonds for federal income tax purposes pursuant to such provisions of the Code.

(d) Notwithstanding the foregoing, the terms of the Indenture as summarized herein under the heading “Pledge; Certain Funds and Accounts – Amounts Remaining in Funds” or any provision of the Series 2010 Tax Agreement, if the Borrower shall provide to the Authority and the Trustee an Opinion of Bond Counsel that any specified action required under the foregoing provisions, the terms of the Indenture as summarized herein under the heading “Pledge; Certain Funds and Accounts – Amounts Remaining in Funds” or any provision of the Series 2010 Tax Agreement is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Series 2010A Bonds, the Borrower, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the foregoing provisions, the terms of the Indenture as summarized herein under the heading “Pledge; Certain Funds and Accounts – Amounts Remaining in Funds” or any provisions of the Series 2010 Tax Agreement; and such covenants shall be deemed to be modified to that extent.

**Continuing Disclosure.** The Borrower covenants and agrees to comply with the continuing disclosure requirements for the Series 2010 Bonds as promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, including without limitation complying with all of its obligations under the Series 2010 Continuing Disclosure Agreement. Notwithstanding any other provision of the Agreement, failure of the Borrower to comply with the requirements of Rule 15c2-12 applicable to the Series 2010 Bonds, as it may from time to time hereafter be amended or supplemented, shall not be considered an Event of Default thereunder or under the Indenture; however, the Trustee may (and, at the written request of the Owners of at least 25% aggregate principal amount of Outstanding Series 2010 Bonds and upon receipt of indemnity reasonably satisfactory to the Trustee, shall) or any Owner or Beneficial Owner of any Series 2010 Bond may, after written notice to the Borrower, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations.

**Investments.** The Borrower, by written request, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the Indenture, subject to the limitations set forth therein. The Borrower covenants that it will not direct the Trustee to make any investments and itself will not make any investments of the proceeds of the Series 2010 Bonds, or any other funds in any way pledged to the security of or reasonably expected to be used to pay the Series 2010 Bonds, which would cause any Tax-Exempt Bonds to be “arbitrage bonds” subject to federal income taxation by reason of Section 103(b)(2) of the Code. Nothing in this section shall prohibit the Borrower from receiving Bonds by gift, bequest or devise or from purchasing Series 2010 Bonds in the secondary market other than pursuant to an arrangement related to the loan made by the Agreement.

**Prohibited Uses.** No portion of the proceeds of the Series 2010 Bonds shall be used to finance or refinance any facility, place or building to be used (1) primarily for sectarian instruction or study or as a

place for devotional activities or religious worship or (2) by a person that is not a 501(c)(3) Organization or a Governmental Unit or by a 501(c)(3) Organization (including the Borrower) in an “unrelated trade or business” (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

**Rating Solicitation Requirement.** The Borrower covenants and agrees that it shall apply for a rating from a nationally recognized statistical rating organization (“NRSRO”) then recognized by the Securities and Exchange Commission if the Borrower believes that the rating that would be assigned by such NRSRO would be considered “investment grade” or the 2010 Bonds are advance refunded with securities with a “AAA” rating.

**Limitation on Encumbrances.** The Borrower covenants and agrees that it will not create, assume or suffer to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including any charge upon property purchased under conditional sales or other title retention agreements) upon the Borrower or any of its Property, whether now owned or hereafter acquired other than to secure Additional Bonds pursuant to the Indenture; provided, however, that notwithstanding the foregoing, the Borrower may create, assume or suffer to exist Permitted Encumbrances.

**Obligation to Continue Payments.** So long as any Bonds are Outstanding, if (i) the Additional Student Housing Project or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty, or (ii) the temporary use of the Additional Student Housing Project or any portion thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Borrower shall nevertheless be obligated to continue to pay the amounts specified in the Agreement as summarized herein under the heading “THE LOAN AGREEMENT – Loan Amounts and Other Amounts Payable,” to the extent not prepaid in accordance with the Agreement.

**Damage to or Condemnation of Additional Student Housing Project.** As between the Authority and the Borrower, the Borrower shall be entitled to the Net Proceeds of any insurance or condemnation award or portion thereof made for damages to or takings of the Additional Student Housing Project.

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## APPENDIX F

### PROPOSED FORM OF BOND COUNSEL OPINION

*Upon issuance of the Series 2010 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Series 2010 Bonds in substantially the following form:*

[Date of Delivery]

California Statewide Communities Development Authority  
Sacramento, California

California Statewide Communities Development Authority  
Revenue Bonds  
(Lancer Educational Student Housing Project), Series 2010A

and

California Statewide Communities Development Authority  
Revenue Bonds  
(Lancer Educational Student Housing Project), Series 2010B (Federally Taxable)  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Statewide Communities Development Authority (the “Authority”) in connection with issuance by the Authority of \$13,200,000 aggregate principal amount of California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Series 2010A (the “Series 2010A Bonds”) and \$775,000 aggregate principal amount of California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project), Series 2010B (Federally Taxable) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “Series 2010 Bonds”), issued pursuant to the provisions of the Joint Exercise of Powers Act (constituting Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code, and an Indenture of Trust, dated as of June 1, 2007, by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture of Trust, dated as of February 1, 2010 (as so supplemented, the “Indenture”), by and between the Authority and the Trustee. The Indenture provides that the Series 2010 Bonds are issued for the purpose of making a loan of the proceeds thereof to Lancer Educational Housing, LLC (the “Borrower”), a disregarded entity of Lancer Educational Housing Corporation, a California nonprofit corporation (“Lancer”), pursuant to a Loan Agreement, dated as of June 1, 2007, by and between the Authority and the Borrower, as supplemented by a First Supplemental Loan Agreement, dated as of February 1, 2010 (as so supplemented, the “Loan Agreement”), by and between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof relating to the Series 2010A Bonds (the “2010 Tax Agreement”), by and among the Authority, the Borrower, Lancer and California Baptist University (the “University”), opinions of counsel to the Trustee, the Borrower, Lancer and the University, certificates of the Authority, the Trustee, the Borrower, Lancer, the University and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Gresham Savage Nolan & Tilden, P.C., counsel to the Borrower, Lancer and the University, regarding, among other matters, the current qualification of Lancer as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Series 2010A Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that the opinion is subject to a number of qualifications and limitations. Failure of Lancer to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the Bond-financed facilities in activities that are considered unrelated trade or business activities of Lancer within the meaning of Section 513 of the Code, may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2010 Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. 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 speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2010 Bonds has concluded with their issuance, 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, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the 2010 Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2010A Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2010 Bonds, the Indenture, the Loan Agreement and the 2010 Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public authorities of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Limited Offering Memorandum or other offering material relating to the Series 2010 Bonds and express no opinion with respect thereto.



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

1. The Series 2010 Bonds constitute the valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2010 Bonds, of the Trust Estate and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. The Series 2010 Bonds are payable solely from the Trust Estate and the other amounts pledged therefor under the Indenture. The Series 2010 Bonds do not constitute a charge against the general credit of the Authority and are not secured by a legal or equitable pledge of, or charge or lien on, any property of the Authority or any of its income or receipts except the Trust Estate and the other amounts pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the State of California or any public agency thereof is pledged to the payment of the Series 2010 Bonds. The Series 2010 Bonds do not constitute a debt, liability, or obligation of the State of California or any public agency thereof other than the limited obligations of the Authority.

5. Interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series 2010 Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds.

Faithfully yours,

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## APPENDIX G

### FORMS OF CONTINUING DISCLOSURE AGREEMENT

#### FORM OF CONTINUING DISCLOSURE AGREEMENT – BORROWER

This Continuing Disclosure Agreement (the “**Disclosure Agreement**”) is executed and delivered by Lancer Educational Housing, LLC (the “**Borrower**”), and U.S. Bank National Association, a national banking association (the “**Dissemination Agent**”) in connection with the execution and delivery of \$13,200,000 California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2010A (the “**Series 2010A Bonds**”) and \$775,000 California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2010B (Federally Taxable) (the “**Series 2010B Bonds**”) (*collectively, the “Series 2010 Bonds*”). The Bonds are being executed and delivered pursuant to the Indenture of Trust dated as of June 1, 2007 (the “**Original Indenture**”), by and between the California Statewide Communities Development Authority (the “**Issuer**”) and U.S. Bank National Association, as trustee (the “**Trustee**”), as supplemented by the First Supplemental Indenture of Trust dated as of February 1, 2010 (the “**First Supplemental Indenture**” and, as so supplemented, the “**Indenture**”) by and between the Authority and the Trustee. The Borrower and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Borrower and the Dissemination Agent for the benefit of the Owners of the Bonds and to assist the Participating Underwriter (defined below) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**2010 Student Housing Project**” shall mean the acquisition, improvement, renovation and equipping of an existing 215 unit apartment complex on 7.25 acres located on the California Baptist University’s (the “**University**”) existing campus. The Borrower will purchase the building and appurtenances comprising the 2010 Student Housing Project from the University and will lease the real property underlying the buildings from the University pursuant to the Lease Agreement dated as of June 1, 2007 as amended, by and between the University and Borrower. A portion of the proceeds of the Series 2010 Bonds also will be used to improve, renovate and equip the 2010 Student Housing Project. The University will manage the operation and maintenance of the 2010 Student Housing Project.

“**Annual Report**” shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“**Disclosure Representative**” shall mean the University or the President of the Borrower or his or her designee, or such other officer or employee as the Borrower shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” shall mean the Dissemination Agent acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Borrower a written acceptance of such designation.

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

**“MSRB”** means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314; fax 703-797-6700.

**“National Repository”** shall mean MSRB’s Electronic Municipal Market Access (“EMMA”) System, located at the following website: <http://www.emma.msrb.org>.

**“Participating Underwriter”** shall mean George K. Baum & Company, as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

**“Quarterly Report”** shall mean the Quarterly Report provided by the Borrower pursuant to and as described in Sections 3 and 4.

**“Report”** shall mean collectively the Annual Report and the Quarterly Report. **“Repository”** shall mean each National Repository and the State Repository, if any.

**“Rule”** shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**“State”** shall mean the State of California.

**“State Repository”** shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

### Section 3. Provision of Reports.

(a) The Borrower shall, or shall cause the Dissemination Agent to provide to each Repository, not later than four months after the end of the Borrower’s fiscal year (presently June 30), commencing October 31, 2010 with the report for the fiscal year ending June 30, 2010, an Annual Report which is consistent with the requirements of Section 4(a) of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4(a) of this Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Borrower’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) The Borrower shall or shall cause the Dissemination Agent to provide each Repository, within forty-five days after the last day of each fiscal quarter, commencing with the quarter ending March 31, 2010, a Quarterly Report, which is consistent with the requirements of Section 4(b) of this Disclosure Agreement. The Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4(b) of this Disclosure Agreement.

(c) The Borrower shall be responsible for the preparation of the Report. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Report to Repositories, the Borrower shall provide the Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Report, the Dissemination Agent shall contact the Borrower to determine if the Borrower is in compliance with the second sentence of this subsection (c).

(d) If after the Dissemination Agent contacts the Borrower pursuant to subsection (b), the Borrower fails to verify to the Dissemination Agent that a Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the National Repository and the State Repository, if any, in substantially the form attached as *Exhibit A*.

(e) The Dissemination Agent shall:

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

(ii) if the Borrower requests the Dissemination Agent to provide the Report to the Repositories, file a report with the Borrower certifying that the Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

#### Section 4. Content of Reports.

(a) Annual Reports.

The Borrower's Annual Report shall be in a format suitable for filing with each Repository and shall contain or include by reference the following:

(i) The audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the Borrower from time to time. If the Borrower's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the final Limited Offering Memorandum, and the audited financial statements shall be filed in the same manner as the Annual Report, when they become available.

(ii) An update of that information that is described below that is material in the judgment of the Borrower, which is contained in the tables in Appendix A to the Limited Offering Memorandum with respect to the Bonds:

Introduction;

Cash Flow Projections (Presented for Each Month and for the Entire Fiscal Year);

Management Discussion;

Occupancy (Presented for Each Month and for the Entire Fiscal Year).

The items listed above may be included by specific reference to other documents, including official statements of debt issues for the benefit of the Borrower or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Borrower shall clearly identify each such other document so included by reference. The Borrower is solely responsible for the content and format of the Annual Report.

(b) Quarterly Reports.

The Borrower's Quarterly Report shall be in a format suitable for filing with each Repository and shall contain or include by reference the following:

(i) The unaudited financial statements of the Borrower, prepared in accordance with generally accepted accounting principles applicable to the Borrower from time to time, subject to normal year-end audit adjustments and the absence of footnotes.

(ii) An update of the information described below that is material in the judgment of the Borrower:

A calculation of debt service coverage in accordance with Section 5.14 of the Loan Agreement;

A discussion of marketing efforts;

Any changes in the University's policy regarding on-campus housing, including the requirement that most students live on campus;

On-campus housing related information, including housing owned by Borrower and the University, pertaining to occupancy rates and rental rate levels.

The items listed above may be included by specific reference to other documents, including official statements of debt issues for the benefit of the Borrower or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Borrower shall clearly identify each such other document so included by reference. The Borrower is solely responsible for the content and format of the Quarterly Report.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Borrower shall give, or cause to be given, notice to Dissemination Agent in writing, with instructions to the Dissemination Agent to file a notice of the occurrence of such Listed Event pursuant to subsection (c) of this Section 5 of the occurrence of any of the following events with respect to the Bonds (the following are "**Listed Events**"):

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondowners;
4. optional, contingent or unscheduled Bond prepayment calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions;
8. unscheduled draws on the debt service reserves reflecting financial difficulties; and
9. release, substitution or sale of property securing repayment of the Bonds.

(b) If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Listed Event or other event described in subsection (c) of this Section 5 and has received a notice of the occurrence in a format suitable for filing with the Municipal Securities Rulemaking Board and the State Repository, if any, the Dissemination Agent shall file such notice with the MSRB and the State

Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) of this Section 5 shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

(c) The Borrower shall give or cause to be given notice to the Dissemination Agent in writing, with instructions to the Dissemination Agent to file a notice pursuant to subsection (b) of this Section 5 of the occurrence of any such event other than the Listed Events that is material in the judgment of the University.

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

Section 7. Dissemination Agent. The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Borrower shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee. Any person succeeding to all or substantially all of the Trustee's corporate trust business shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties under this Disclosure Agreement upon 60 days prior written notice to the Borrower.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Borrower and the Dissemination Agent may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Borrower shall describe such amendment in the Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be

followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Section 10. Default. In the event of a failure of the Borrower or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent (at the written direction of the Owners of not less than 25 % in aggregate principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction therefor) shall, or the Participating Underwriter or any Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the Loan Agreement and the sole remedy under this Disclosure Agreement in the event of any failure of the Borrower or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. The Dissemination Agent shall not be required to take any action whatsoever to cause the Borrower to comply with its obligations under this Dissemination Agreement other than those specifically set forth in Section 3 hereof.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Borrower agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, fees, expenses and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct, as the case may be. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent, termination of this Agreement and payment of the Bonds. The Dissemination Agent shall have no liability for the Borrower's failure to report any event or any financial information or operating data as to which the Borrower has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in a fiduciary capacity. The obligations of the Borrower under this Section 11 shall survive resignation of the Dissemination Agent or the termination of this Dissemination Agreement.

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

To the Borrower:	Lancer Educational Housing, LLC
	8432 Magnolia Avenue



Riverside, California 92504  
Attention: President

To the Trustee/  
Dissemination Agent: U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, California 90071  
Attention: Corporate Trust Services

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Borrower, the Dissemination Agent, the Participating Underwriter, the Trustee and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Fees and Expenses. The Dissemination Agent shall be entitled to payment and reimbursement from the Borrower for its services rendered hereunder and all advances, counsel fees and other expenses reasonably made or incurred by the Dissemination Agent as described on ***Exhibit B*** set forth hereto.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. This Dissemination Agreement shall be construed in accordance with the laws of the State of California.

Dated: February \_\_, 2010

LANCER EDUCATIONAL HOUSING, LLC

By: \_\_\_\_\_  
Title: President

By: \_\_\_\_\_  
Title: Secretary

U.S. BANK NATIONAL ASSOCIATION,  
a national banking association,  
as Dissemination Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

[Signature Page to Continuing Disclosure Agreement]

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: California Statewide Communities Development Authority

Name of Borrower: Lancer Educational Housing, LLC

Name of Bonds: \$13,200,000 California Statewide Communities Development Authority  
Revenue Bonds (Lancer Educational Student Housing Project) Series  
2010A

\$775,000 California Statewide Communities Development Authority  
Revenue Bonds (Lancer Educational Student Housing Project) Series  
2010B (Federally Taxable)

Date of Execution and Delivery: February \_\_, 2010

NOTICE IS HEREBY GIVEN that the above-named Borrower has not provided a Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated as of February \_\_, 2010 between the Borrower and U.S. Bank National Association, a national banking association, as trustee. The Borrower has informed the undersigned that it anticipates that the Report will be filed by \_\_\_\_\_.

Dated:

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent on behalf of BORROWER

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

cc: Issuer

## **EXHIBIT B**

### **DISSEMINATION AGENT FEE SCHEDULE**

1. Annual Fee: \$\_\_\_\_\_

includes performance of all ordinary duties under the Dissemination Agreement. The performance of other than ordinary duties, such as seeking a compliance certificate under Article III of the Dissemination Agreement related hereto, shall be subject to extraordinary fees.

II. Repository Fee: \$\_\_\_\_/Repository

charge per filing applied per each Repository

III. Out-of-Pocket Expenses:

billed as incurred, including but not limited to Dissemination Agent's counsel fees and expenses.

This fee schedule is subject to review and change by the Dissemination Agent every two years.

## FORM OF CONTINUING DISCLOSURE AGREEMENT – UNIVERSITY

This Continuing Disclosure Agreement (the “**Disclosure Agreement**”) is executed and delivered by California Baptist University (the “**University**”), and U.S. Bank National Association, a national banking association (the “**Dissemination Agent**”) in connection with the execution and delivery of \$13,200,000 California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2010A (the “**Series 2010A Bonds**”) and \$775,000 California Statewide Communities Development Authority Revenue Bonds (Lancer Educational Student Housing Project) Series 2010B (Federally Taxable) (the “**Series 2010B Bonds**”) (*collectively, the “Bonds”*). The Bonds are being executed and delivered pursuant to the Indenture of Trust dated as of June 1, 2007 (the “**Original Indenture**”), by and between the California Statewide Communities Development Authority (the “**Issuer**”) and U.S. Bank National Association, as trustee (the “**Trustee**”), as supplemented by the First Supplemental Indenture of Trust dated as of February 1, 2010 (the “**First Supplemental Indenture**”) and, as so supplemented, the “**Indenture**”) by and between the Authority and the Trustee. The University and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the University and the Dissemination Agent for the benefit of the Owners of the Bonds and to assist the Participating Underwriter (defined below) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**2010 Student Housing Project**” shall mean the acquisition, improvement, renovation and equipping of an existing 215 unit apartment complex on 7.25 acres located on the University’s existing campus. The Borrower will purchase the building and appurtenances comprising the 2010 Student Housing Project from the University and will lease the real property underlying the buildings from the University pursuant to the Lease Agreement dated as of June 1, 2007 as amended, by and between the University and Borrower. A portion of the proceeds of the Series 2010 Bonds also will be used to improve, renovate and equip the 2010 Student Housing Project. The University will manage the operation and maintenance of the 2010 Student Housing Project.

“**Annual Report**” shall mean any Annual Report provided by the University pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“**Borrower**” shall mean Lancer Educational Housing, LLC.

“**Disclosure Representative**” shall mean the President of the University or his or her designee, or such other officer or employee as the University shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” shall mean the Dissemination Agent acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the University and which has filed with the University a written acceptance of such designation.

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

**“MSRB”** means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314; fax 703-797-6700.

**“National Repository”** shall mean MSRB’s Electronic Municipal Market Access (“EMMA”) System, located at the following website: <http://www.emma.msrb.org>.

**“Participating Underwriter”** shall mean George K. Baum & Company, as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

**“Quarterly Report”** shall mean the Quarterly Report provided by the University pursuant to and as described in Sections 3 and 4.

**“Report”** shall mean collectively the Annual Report and the Quarterly Report.

**“Repository”** shall mean each National Repository and the State Repository, if any.

**“Rule”** shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**“State”** shall mean the State of California.

**“State Repository”** shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

### Section 3. Provision of Reports.

(a) The University shall, or shall cause the Dissemination Agent to provide to each Repository, not later than four months after the end of the University’s fiscal year (presently June 30), commencing October 31, 2010 with the report for the fiscal year ending June 30, 2010, an Annual Report which is consistent with the requirements of Section 4(a) of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4(a) of this Disclosure Agreement; provided that the audited financial statements of the University may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the University’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) The University shall or shall cause the Dissemination Agent to provide each Repository, within forty-five days after the last day of each fiscal quarter, commencing with the quarter ending March 31, 2010, a Quarterly Report, which is consistent with the requirements of Section 4(b) of this Disclosure Agreement. The Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4(b) of this Disclosure Agreement.

(c) The University shall be responsible for the preparation of the Report. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Report to Repositories, the University shall provide the Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Report, the Dissemination Agent shall contact the University to determine if the University is in compliance with the second sentence of this subsection (c).

(d) If after the Dissemination Agent contacts the University pursuant to subsection (c), the University fails to verify to the Dissemination Agent that a Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the National Repository and the State Repository, if any, in substantially the form attached as *Exhibit A*.

(e) The Dissemination Agent shall:

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

(ii) if the University requests the Dissemination Agent to provide the Report to the Repositories, file a report with the University certifying that the Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

#### Section 4. Content of Reports.

(a) Annual Reports.

The University's Annual Report shall be in a format suitable for filing with each Repository and shall contain or include by reference the following:

(i) The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the University from time to time. If the University's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the final Limited Offering Memorandum, and the audited financial statements shall be filed in the same manner as the Annual Report, when they become available.

(ii) An update of that information described below that is material in the judgment of the University, which is contained in the tables in Appendix A or B to the Limited Offering Memorandum with respect to the Bonds:

Student Enrollment;  
Student Applications, Acceptances and Matriculations;  
Tuition and Fees;  
Faculty, Administration and Staff Changes;  
Financial Matters;  
Six-year graduation rate and sophomore retention rate;  
Updates on campus buildings and future capital expenditures;  
On-campus housing related information, including housing owned by Lancer Student Housing LLC and the University, pertaining to occupancy rates and rental rate levels;  
Litigation.

The items listed above may be included by specific reference to other documents, including official statements of debt issues for the benefit of the University or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The University shall clearly identify each such other document so included by reference. The University is solely responsible for the content and format of the Annual Report.

(b) Quarterly Reports.

The University's Quarterly Report shall be in a format suitable for filing with each Repository and shall contain or include by reference the following:

(i) The unaudited financial statements of the University, prepared in accordance with generally accepted accounting principles applicable to the University from time to time, subject to normal year-end audit adjustments and the absence of footnotes.

(ii) An update of the information described below that is material in the judgment of the University:

A calculation of debt service coverage in accordance with Section 5.14 of the Loan Agreement;

A discussion of marketing efforts;

Any changes in the University's policy regarding on-campus housing, including the requirement that most students live on campus;

On-campus housing related information, including housing owned by the Borrower and the University, pertaining to occupancy rates and rental rate levels.

The items listed above may be included by specific reference to other documents, including official statements of debt issues for the benefit of the University or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The University shall clearly identify each such other document so included by reference. The University is solely responsible for the content and format of the Quarterly Report.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the University shall give, or cause to be given, notice to Dissemination Agent in writing, with instructions to the Dissemination Agent to file a notice of the occurrence of such Listed Event pursuant to subsection (c) of this Section 5 of the occurrence of any of the following events with respect to the Bonds (the following are "**Listed Events**"):

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondowners;
4. optional, contingent or unscheduled Bond prepayment calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions;
8. unscheduled draws on the debt service reserves reflecting financial difficulties; and
9. release, substitution or sale of property securing repayment of the Bonds.



(b) If the Dissemination Agent has been instructed by the University to report the occurrence of a Listed Event or other event as described in subsection (c) of this Section 5 and has received a notice of the occurrence in a format suitable for filing with the MSRB and the State Repository, if any, the Dissemination Agent shall file such notice with the MSRB and the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) of this Section 5 shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

(c) The University shall give or cause to be given notice to the Dissemination Agent in writing, with instructions to the Dissemination Agent to file a notice pursuant to subsection (b) of this Section 5 of the occurrence of any such event other than the Listed Events that is material in the judgment of the University.

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

Section 7. Dissemination Agent. The University may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the University pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the University shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee. Any person succeeding to all or substantially all of the Trustee's corporate trust business shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties under this Disclosure Agreement upon 60 days prior written notice to the University.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the University and the Dissemination Agent may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

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

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

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

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

Section 10. Default. In the event of a failure of the University or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent (at the written direction of the Owners of not less than 25 % in aggregate principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction therefor) shall, or the Participating Underwriter or any Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the University or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the Loan Agreement and the sole remedy under this Disclosure Agreement in the event of any failure of the University or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. The Dissemination Agent shall not be required to take any action whatsoever to cause the University to comply with its obligations under this Dissemination Agreement other than those specifically set forth in Section 3 hereof.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the University agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, fees, expenses and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct, as the case may be. The obligations of the University under this Section shall survive resignation or removal of the Dissemination Agent, termination of this Agreement and payment of the Bonds. The Dissemination Agent shall have no liability for the University's failure to report any event or any financial information or operating data as to which the University has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in a fiduciary capacity. The obligations of the University under this Section 11 shall survive resignation of the Dissemination Agent or the termination of this Dissemination Agreement.

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

To the University: California Baptist University  
8432 Magnolia Avenue  
Riverside, California 92504  
Attention: Vice President for Finance and Administration

To the Trustee/  
Dissemination Agent: U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, California 90071  
Attn: Corporate Trust Services

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the University, the Dissemination Agent, the Participating Underwriter, the Trustee and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Fees and Expenses. The Dissemination Agent shall be entitled to payment and reimbursement from the University for its services rendered hereunder and all advances, counsel fees and other expenses reasonably made or incurred by the Dissemination Agent as described on ***Exhibit B*** set forth hereto.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. This Dissemination Agreement shall be construed in accordance with the laws of the State of California.

Dated: February \_\_\_\_, 2010

CALIFORNIA BAPTIST UNIVERSITY

By: \_\_\_\_\_  
Title: Chief Financial Officer

By: \_\_\_\_\_  
Title: Director for Financial Services

U.S. BANK NATIONAL ASSOCIATION,  
a national banking association,  
as Dissemination Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

[Signature Page to Continuing Disclosure Agreement]

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: California Statewide Communities Development Authority

Name of University: California Baptist University

Name of Bonds: \$13,200,000 California Statewide Communities Development Authority  
Revenue Bonds (Lancer Educational Student Housing Project) Series  
2010A

\$775,000 California Statewide Communities Development Authority  
Revenue Bonds (Lancer Educational Student Housing Project) Series  
2010B (Federally Taxable)

Date of Execution and Delivery: February \_\_, 2010

NOTICE IS HEREBY GIVEN that the above-named University has not provided a Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated as of February \_\_, 2010, between the University and U.S. Bank National Association, a national banking association, as trustee. The University has informed the undersigned that it anticipates that the Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent on behalf of UNIVERSITY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

cc: Issuer

## **EXHIBIT B**

### **DISSEMINATION AGENT FEE SCHEDULE**

1. Annual Fee: \$\_\_\_\_\_

includes performance of all ordinary duties under the Dissemination Agreement. The performance of other than ordinary duties, such as seeking a compliance certificate under Article III of the Dissemination Agreement related hereto, shall be subject to extraordinary fees.

- II. Repository Fee: \$\_\_\_\_/Repository

charge per filing applied per each Repository

- III. Out-of-Pocket Expenses:

billed as incurred, including but not limited to Dissemination Agent's counsel fees and expenses.

This fee schedule is subject to review and change by the Dissemination Agent every two years.

## APPENDIX H

### THE DTC BOOK-ENTRY SYSTEM

The information in this appendix concerning DTC and the DTC book-entry system has been obtained from sources believed to be reliable, but none of the Company, the Borrower or the Underwriter takes any responsibility for the accuracy or completeness thereof. Beneficial Owners should confirm the following information with DTC or the DTC Participants.

*None of the Authority, the Borrower, the Trustee, any additional Registrar or the Paying Agent, Wells Fargo Bank or the Underwriter has any responsibility or obligation to any Beneficial Owner with respect to (1) the accuracy of any records maintained by DTC or any DTC Participant (defined below), (2) the distribution by DTC or any DTC Participant of any notice that is permitted or required to be given to the Registered Owners of the Bonds under the Indenture, (3) the selection by DTC or any DTC Participant of the recipient of payment in the event of a partial redemption of the Bonds, (4) the payment by DTC or any DTC Participant of any amount received under the Indenture with respect to the Bonds, (5) any consent given or other action taken by DTC or its nominee as the Registered Owner of the Bonds or (6) any other related matter.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of the Bonds, and will be deposited with DTC or held by the Trustee or Paying Agent.

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, as amended. 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 S&P's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). No responsibility is taken and no representations are made as to the accuracy or the completeness of the content of such material contained on such websites as described in the preceding sentence,

including, but not limited to, updates of such information or links to other internet sites accessed through the aforementioned websites.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn recorded on the records of Direct and Indirect Participants. 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, defaults and proposed amendments to the Indenture. 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 Trustee and request that copies of the notices be provided directly to them.

Redemption notices will 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 in such maturity to be redeemed.

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

Payments with respect to the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority, the Trustee or the Paying Agent on the payable date in accordance with their



respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, the Authority, the Trustee or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments with respect to the Bonds to Cede & Co., or to such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Company, the Trustee or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or 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 as provided in the Indenture.

The Authority, at the direction of the Borrower, may at any time decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) with respect to the Bonds. In that event, Bond certificates will be printed and delivered to DTC.

\* \* \*

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**APPENDIX I**  
**INVESTOR LETTER**

February \_\_, 2010

California Statewide Communities  
Development Authority

George K. Baum & Company

Orrick, Herrington & Sutcliffe LLP

Peck, Shaffer & Williams LLP

California Statewide Communities Development Authority  
Revenue Bonds (Lancer Educational Student Housing Project)  
Series 2010A (Federally Tax-Exempt) and Series 2010B (Federally Taxable)

Ladies and Gentlemen:

In connection with the limited public offering of California Statewide Communities Development Authority (the “Authority”) Student Housing Revenue Bonds (Lancer Housing LLC Project) Series 2010A (Federally Tax-Exempt) and Series 2010B (Federally Taxable) (the “Series 2010 Bonds”), the undersigned purchaser of \$\_\_\_\_\_ principal amount of such Series 2010 Bonds hereby makes the following representations, warranties and covenants on the express understanding that this letter will be relied upon by you:

1. We have received and read the Amended and Restated Preliminary Limited Offering Memorandum dated January 20, 2010 (the “Preliminary Limited Offering Memorandum”), and have been afforded the opportunity to ask such questions of representatives of the Borrower as we have deemed necessary in making our investment decisions including the opportunity to request a site visit; and we have based our decision to invest in the Series 2010 Bonds on the Preliminary Limited Offering Memorandum, our own investigation, including, without limitation, our review of such documents, records, reports, financial statements and other information concerning the Borrower and the 2010 Student Housing Project (as defined in the Preliminary Limited Offering Memorandum) and discussions with representatives of the Borrower, the University and the Underwriter, as we have deemed necessary in making our investment decisions. We understand we will receive the final Limited Offering Memorandum (the “Limited Offering Memorandum”) at or near the time of closing of the Series 2010 Bonds, and we agree to read the Limited Offering Memorandum upon receipt.

2. We have the knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Series 2010 Bonds.

3. We acknowledge and understand that repayment of the Series 2010 Bonds is subject to a high degree of investment risk, and represent that we are capable of suffering a loss of its entire investment in the Series 2010 Bonds. We acknowledge and understand that we may have to bear the economic risk of the investment in the Series 2010 Bonds for an indefinite period of time.

4. We are a “Qualified Institutional Buyer” within the meaning of Rule 144A promulgated by the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended.

5. The Series 2010 Bonds have been purchased for our own account for investment and not with a view to the distribution, transfer or resale thereof in the capacity of a bond house, broker or other intermediary, nor with the intention to distribute or resell the Series 2010 Bonds, provided, however, that we reserve the right to dispose of all or any part of the Series 2010 Bonds if in the future we decide to do so in our sole discretion; provided, however, such sale is to only a Qualified Institutional Buyer in minimum denominations of \$100,000 or any multiple of \$5,000 in excess thereof unless the Series 2010 Bonds (without credit enhancement, unless such credit enhancement extends to the maturity or redemption of the Series 2010 Bonds) are rated “A3,” “A-,” “A-” or higher by Moody’s, S&P or Fitch, respectively, or any other nationally recognized rating agency approved by the Authority.

6. We are not relying upon the Underwriter for advice as to the merits and risks of an investment in the Series 2010 Bonds. The undersigned has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision.

7. The undersigned is duly authorized to make the representations, warranties and covenants set forth in this letter on behalf of the Investor, and the foregoing representations, warranties and covenants shall survive the execution and delivery to us of the Series 2010 Bonds and the instruments and documents contemplated thereby.

The foregoing representations shall survive the execution and delivery to us of the Series 2010 Bonds and the instruments and documents contemplated thereby.

Very truly yours,

[INSERT NAME OF INVESTOR]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SUMMARY OF INVESTMENT

Series: \_\_\_\_\_  
Principal Amount: \$ \_\_\_\_\_  
CUSIP Number: \_\_\_\_\_