

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based on 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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 Bonds. See "TAX MATTERS" herein.*

**\$88,885,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**VARIABLE RATE DEMAND REVENUE BONDS**  
**(CHAPMAN UNIVERSITY)**

**\$53,515,000**  
**2008 SERIES A**

**Consisting of**  
**\$21,665,000**  
**2008 SERIES B**

**\$13,705,000**  
**2008 SERIES C**

Dated: Date of Delivery

Price: 100%

Due: Series A—October 1, 2036  
Series B and Series C—October 1, 2026

**This cover page contains certain information for general reference only. It is not intended to be a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used (but not defined) in this cover page shall have the meanings given to such terms herein.**

The above-captioned bonds (the "Bonds") are issuable as fully-registered bonds registered in the name of a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Purchases and tenders of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. Payments of principal, interest and premium, if any, and the Purchase Price of the Bonds will be made to DTC by Union Bank of California, N.A., as Trustee. Disbursement of payments to DTC Participants is the responsibility of DTC and disbursement of payments to the beneficial owners is the responsibility of DTC Participants. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM."

The Bonds are being issued by the California Educational Facilities Authority (the "Authority"), which will loan the proceeds thereof to

**CHAPMAN UNIVERSITY**

pursuant to the Loan Agreement (as defined herein) to provide funds which Chapman University (the "University") will use to (i) refinance certain outstanding obligations of the University and (ii) to pay certain costs of issuance of the Bonds, all as more fully described herein. The principal, premium, if any, and interest on the Bonds are payable by the Trustee from the funds pledged under the Indenture described herein, including Base Loan Payments required to be made by the University under the Loan Agreement.

**THE BONDS ARE SUBJECT TO OPTIONAL REDEMPTION AND OPTIONAL AND MANDATORY TENDER FOR PURCHASE AS DESCRIBED HEREIN.**

The Bonds will initially bear interest at a Daily Interest Rate and will be available in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof during any Daily Interest Rate Period, Weekly Interest Rate Period or Term Interest Rate Period of less than one year, and in denominations of \$5,000 or any integral multiple thereof during any Term Interest Rate Period of one year or longer. The Bonds of a Series are subject to Conversion to a Weekly Interest Rate Period or Term Interest Rate Period and are subject to mandatory tender for purchase upon any such Conversion, all as more fully described herein. The specific interest rate for each Interest Rate Period is to be determined by the Remarketing Agent, Banc of America Securities LLC. Each Daily Interest Rate and Weekly Interest Rate will be computed on the basis of a 365/366-day year and actual days elapsed during either such Interest Rate Period, payable on the first Business Day of each calendar month, commencing August 1, 2008.

**Principal, interest and Purchase Price of each Series of the Bonds will initially be supported by separate, irrevocable, direct pay letters of credit (each a "Letter of Credit") issued by**

**Bank of America, N.A.**

(the "Bank"), pursuant to the terms of a Letter of Credit and Reimbursement Agreement between the University and the Bank. **The Purchase Price of Bonds tendered or deemed tendered pursuant to the Indenture is payable only from the proceeds of the remarketing of such Bonds and, in instances when such tendered or deemed tendered Bonds are not remarketed in an amount equal to the principal amount thereof, the proceeds of draws on the applicable Letter of Credit or the proceeds of a draw on an Alternate Credit Facility (should an Alternate Credit Facility be substituted as the Credit Facility for the Bonds of a Series). The Letters of Credit will be in effect from the date of issuance of the Bonds through the occurrence of the earliest of certain events described herein, including substitution of an Alternate Credit Facility meeting the requirements described herein.**

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

The 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 by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by the Honorable Edmund G. Brown Jr., the Attorney General of the State of California, for the University by Rutan & Tucker, LLP, Costa Mesa, California, for the Bank by Frandzel Robins Bloom and Csato, L.C., Los Angeles, California, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about July 2, 2008.

**Honorable Bill Lockyer**  
**Treasurer of the State of California**

**Banc of America Securities LLC**

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the California Educational Facilities Authority (the “Authority”), Chapman University (the “University”), Bank of America, N.A. (the “Bank”), or Banc of America Securities LLC (the “Underwriter”) to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth herein under the captions “THE AUTHORITY” and “LITIGATION” (solely as it relates to the Authority) has been obtained from the Authority. All other information set forth herein has been obtained from the University, the Bank and other sources (other than the Authority) which are believed to be current and reliable. The accuracy or completeness of any information other than that contained under the captions “THE AUTHORITY” and “LITIGATION” (solely as it relates to the Authority) is not guaranteed by, and is not to be construed as a representation by, the Authority.

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

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

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

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**\$88,885,000**  
**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**  
**VARIABLE RATE DEMAND REVENUE BONDS**  
**(CHAPMAN UNIVERSITY)**

**Consisting of**

**\$53,515,000**  
**2008 SERIES A**

**\$21,665,000**  
**2008 SERIES B**

**\$13,705,000**  
**2008 SERIES C**

## **INTRODUCTION**

*This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a full review should be made of the entire Official Statement, including the cover page and the Appendices in order to make an informed investment decision. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the "State") or any documents referred to herein do not purport to be complete and such references are qualified in their entirety to the complete provisions thereof.*

### **General**

This Official Statement, including the cover page and Appendices hereto (this "Official Statement"), provides certain information in connection with the offering of (i) \$53,515,000 aggregate principal amount of the California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series A (the "Series A Bonds"), (ii) \$21,665,000 aggregate principal amount of the California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series B (the "Series B Bonds"), and (iii) \$13,705,000 aggregate principal amount of the California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series C (the "Series C Bonds" and, collectively with the Series A Bonds and Series B Bonds, the "Bonds").

The Bonds will be issued pursuant to the provisions of the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education Code of the State, as amended (the "Act"), and the Indenture (defined below). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Definitions" for definitions of certain words and terms used but not otherwise defined herein.

The Bonds will be issued pursuant to and secured by an Indenture, dated as of July 1, 2008 (the "Indenture"), between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to Chapman University (the "University") pursuant to a Loan Agreement, dated as of July 1, 2008 (the "Loan Agreement"), between the Authority and the University.

### **Purposes of Issue**

The Authority will lend the proceeds of the Bonds to the University to (i) refund the outstanding California Educational Facilities Authority Revenue Bonds (Chapman University) Series 1996 (the "Series 1996 Bonds"), (ii) refund the outstanding California Educational Facilities Authority Variable Rate Revenue Bonds (Chapman University) 2005 Series A (the "2005 Series A Bonds"), (iii) refund the outstanding California Educational Facilities Authority Variable Rate Revenue Bonds (Chapman University) 2005 Series B (the "2005 Series B Bonds"), (iv) refinance two taxable loans of the University, and (v) pay certain costs of issuance of the Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

### **Interest on the Bonds**

The Bonds will initially bear interest at a Daily Interest Rate. The specific interest rate for each Interest Rate Period is to be determined by the Remarketing Agent, Banc of America Securities LLC, as provided in the Indenture. The Interest Payment Date for Bonds of a Series bearing interest at a Daily Interest Rate or a Weekly

Interest Rate is the first Business Day of each calendar month. The initial Interest Payment Date for the Bonds of each Series is August 1, 2008. See “INTEREST ON THE BONDS.”

### **Tender of Bonds for Purchase**

The Bonds of each Series are subject to optional and mandatory tender for purchase as described under the caption “TENDER OF BONDS FOR PURCHASE.” The Purchase Price of Bonds of a Series tendered or deemed tendered for purchase pursuant to the Indenture is payable solely from the proceeds of the remarketing of such Bonds and, in instances when such tendered or deemed tendered Bonds are not remarketed in an amount equal to the principal amount thereof, from amounts made available under the Credit Facility then in effect with respect to the Bonds of such Series.

If the Bonds are required to be tendered for purchase pursuant to the Indenture, interest on such Bonds will cease to accrue for the benefit of the former Bondholders on the Purchase Date and such former Bondholders will be entitled only to the Purchase Price of such Bonds, payable only from the sources specified in the Indenture. See “TENDER OF BONDS FOR PURCHASE – Mandatory Tender for Purchase.”

### **Redemption**

The Bonds will be subject to optional redemption prior to maturity. While the Indenture provides for the Trustee to give notice of the redemption of Bonds, the failure of a Bondholder to receive such notice, or the insufficiency of any such notice, will not affect the proceedings for redemption, and if moneys are available on the redemption date to pay the redemption price, interest on the Bonds to be redeemed will cease to accrue from and after the date of redemption. See “REDEMPTION OF BONDS.”

### **Security and Sources of Payment of the Bonds**

The principal, Purchase Price of and interest on the Bonds will be payable solely from the Revenues received by the Authority from the University pursuant to the Loan Agreement, which include the proceeds of draws on the initial Credit Facilities. Payment of the principal, Purchase Price of, and interest on the Bonds of each Series will be supported by separate, irrevocable, direct-pay letters of credit (each, a “Letter of Credit”) to be issued by Bank of America, N.A. (the “Bank”), pursuant to and subject to the terms of a Letter of Credit and Reimbursement Agreement (the “Reimbursement Agreement”), dated as of July 1, 2008, by and between the University and the Bank, or the proceeds of draws on an Alternate Credit Facility for the Bonds of a Series (should an Alternate Credit Facility be substituted as the Credit Facility for the Bonds of such Series), as the case may be, and other amounts available therefor under the Indenture. Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Bondholders all of the Revenues it receives. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” “BANK OF AMERICA, N.A.” and “THE REIMBURSEMENT AGREEMENT” herein.

Under the Loan Agreement, the University will be unconditionally obligated to pay the Base Loan Payments to be made thereunder, which are due in amounts and at the times necessary to pay the principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and interest (to the maturity date or redemption of the Bonds) when due. The University’s payment obligations under the Loan Agreement are general, unsecured obligations of the University.

**The University has no obligation under the Loan Agreement to make any payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase. The Purchase Price of Bonds tendered or deemed tendered for purchase is payable only from the proceeds of the remarketing of such Bonds and, in instances when such tendered or deemed tendered Bonds are not remarketed in an amount equal to the principal amount thereof, from amounts made available under the applicable Credit Facility then in effect with respect to the Bonds of a Series.**

## **Book-Entry Only System**

When delivered, the Bonds will be registered in the name of a nominee of The Depository Trust Company (“DTC”) which will act as securities depository for the Bonds. Purchases of the Bonds and tenders of Bonds for purchase may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants (as defined in APPENDIX C). Beneficial Owners (as defined in APPENDIX C) of the Bonds will not receive physical delivery of certificated securities. Principal of, premium, if any, Purchase Price of and interest on the Bonds will be payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, the right of any Beneficial Owner to exercise its right to tender its interest in any Bonds for purchase and receive payment therefor will be based only upon and subject to the procedures and limitations of the DTC book-entry-only system. See “APPENDIX C – BOOK-ENTRY ONLY SYSTEM.”

## **The University**

The University is a nonprofit, coeducational, privately endowed university offering undergraduate liberal arts, professional and graduate degrees. In addition, since 1958, Chapman has provided adult education courses through its University College division. On May 31, 2008, these adult education operations were reorganized and transferred into a new nonprofit corporation, University College of Chapman University (“University College”) that is controlled by the University. University enrollment for the fall term of the 2007-08 academic year, including University College was 10,224 full time equivalent students. See Appendix A for a description of the University.

## **Financial Condition of the University**

For the fiscal year ended May 31, 2007, the University had total unrestricted operating revenue of approximately \$210,442,000 and unrestricted operating expenses of approximately \$172,016,000. At May 31, 2007, the aggregate of all University net assets was approximately \$454,321,000. In addition, important information on the financial condition of the University is set forth in “APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY” and in the University’s financial statements and notes thereto set forth in Appendix B, all of which should be carefully reviewed.

## **Covenants of the University**

The University has agreed to certain covenants for the protection of the Bondholders, including certain covenants to maintain its accredited status, and not to take any action that would impair the tax-exempt status of interest on the Bonds. These and other covenants of the University are discussed further in “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – The Loan Agreement.”

## **Swap Agreements**

On August 30, 2005, the University executed an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and two related Transactions with Bank of America, N.A. (the “Swap Provider”) in connection with the 2005 Series A Bonds and the 2005 Series B Bonds (the “Swap Agreement”). The two Transactions entered into pursuant to the Swap Agreement have terms equal to the final maturity of the 2005 Series A Bonds and 2005 Series B Bonds, respectively. Pursuant to the terms of the Swap Agreement, the University pays a fixed rate of interest on an initial notional amount equal to the principal amounts of each series of bonds. In return, the Swap Provider pays a variable rate of interest equal to a percentage of LIBOR plus a fixed spread on like notional amounts. The amounts payable by a party under the Swap Agreement are netted against the payments to be received by such party thereunder.

Certain of the University’s payment obligations pursuant to the Swap Agreements were originally insured by MBIA Insurance Corporation (the “2005 Insurer”). In connection with the remarketing of the Bonds, the University and the Swap Provider will enter into two Amended and Restated Transactions (the “Amended

Transactions”), pursuant to which the 2005 Insurer’s obligation to insure certain of the University’s payment obligations under the respective Swap Agreements will be terminated.

The Swap Agreements will not be terminated in connection with the refunding of the 2005 Series A Bonds and the 2005 Series B Bonds. Both the University and the Swap Provider have the right to terminate each Swap Agreement prior to its stated termination date under certain conditions, in which event termination payments may be outstanding. Such termination payments could be substantial. Neither the Trustee nor the Owners of the Bonds will have any rights under either Swap Agreement or against the Swap Provider. See “INVESTMENT CONSIDERATIONS – Interest Rate Swaps and Other Hedge Risk.”

### **Parity Debt**

The Bonds of the University will be issued on a parity basis with the Series 2000 Bonds. See “APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY – FINANCIAL CONDITION OF THE UNIVERSITY – Indebtedness” for a description of the University’s outstanding indebtedness.

### **No Continuing Disclosure**

The University will not, while the Bonds of a Series bear interest at a Daily Interest Rate or a Weekly Interest Rate, undertake any continuing disclosure obligations with respect to such Bonds of a Series. See “NO CONTINUING DISCLOSURE” for a discussion of the obligation the University as to continuing disclosure as contemplated by Rule 15c2-12 (“Rule 15c2-12”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

### **Certain Information Related to this Official Statement**

The descriptions herein of the Indenture, the Loan Agreement, the Letters of Credit, the Reimbursement 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 D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – The Indenture” for a brief summary of the rights and duties of the Authority, the respective rights and remedies of the Trustee, the Bank and the respective Bondholders upon an event of default, provisions relating to amendments of the Indenture and procedures for defeasance of the Bonds and certain other provisions of the Indenture.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the University or the Bank.

## **PLAN OF REFUNDING**

In December 1996, the Authority issued the Series 1996 Bonds pursuant to an indenture (the “1996 Indenture”) dated as of December 1, 1996 between the Authority and First Trust of California National Association, as predecessor in interest to the current trustee, U.S. Bank National Association (the “1996 Trustee”) in the aggregate principal amount of \$40,000,000. In September 2005, the Authority issued the 2005 Series A Bonds pursuant to an indenture (the “2005 Series A Indenture”) dated as of September 1, 2005 between the Authority and Union Bank of California, N.A. (the “2005 Trustee”) in the aggregate principal amount of \$54,700,000. In September 2005, the Authority also issued the 2005 Series B Bonds pursuant to an indenture (the “2005 Series B Indenture”) dated as of September 1, 2005 between the Authority and the 2005 Trustee in the aggregate principal amount of \$22,575,000.

In addition, the University has two taxable loans outstanding in the approximate principal amounts of (i) \$2,204,788, maturing on February 1, 2009, and (ii) \$4,638,093, maturing on March 1, 2012 (collectively, the “Taxable Loans”).

The University intends to use the proceeds of the Series A Bonds and Series B Bonds, respectively, to refund on a current basis the outstanding 2005 Series A Bonds and 2005 Series B Bonds. The University intends to use the proceeds of the Series C Bonds to refund on a current basis the outstanding Series 1996 Bonds and to repay the Taxable Loans. See “ESTIMATED SOURCES AND USES OF PROCEEDS.”

Upon the issuance of the Bonds, (i) a portion of the proceeds of the Series A Bonds will be deposited in an escrow fund (the “2005 Series A Bonds Escrow Fund”) pursuant to an escrow agreement (the “2005 Bonds Escrow Agreement”) dated July 2, 2008, among the Authority, the University, and the 2005 Trustee, as escrow agent, in order to redeem the 2005 Series A Bonds on July 7, 2008, (ii) a portion of the proceeds of the Series B Bonds will be deposited in an escrow fund (the “2005 Series B Bonds Escrow Fund”) pursuant to the 2005 Bonds Escrow Agreement in order to redeem the 2005 Series B Bonds on July 3, 2008, (iii) a portion of the proceeds of the Series C Bonds will be deposited in an escrow fund (the “1996 Bonds Escrow Fund” and, together with the 2005 Series A Escrow Fund and the 2005 Series B Escrow Fund, the “Escrow Funds”) pursuant to an escrow agreement dated July 2, 2008, among the Authority, the University, and U.S. Bank National Association, as escrow agent in order to redeem the Series 1996 Bonds on August 1, 2008; and (iv) a portion of the proceeds of the Series C Bonds will be used to repay the Taxable Loans on July 2, 2008.

The funds deposited in the Escrow Funds will be used to purchase securities (“Government Obligations”) as permitted under the respective indentures for the 2005 Series A Bonds, 2005 Series B Bonds and 1996 Bonds to be held in trust for the benefit of the owners of such bonds. The Government Obligations in the respective Escrow Funds will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts, together with any available cash in the such Escrow Funds, such that sufficient moneys will be available in the Escrow Funds to provide for the payment of the redemption prices of the 2005 Series A Bonds, 2005 Series B Bonds and 1996 Bonds, respectively, and the interest payments on such 2005 Series A Bonds, 2005 Series B Bonds and 1996 Bonds coming due on the respective redemption dates therefor. See “VERIFICATION” herein.

## ESTIMATED SOURCES AND USES OF PROCEEDS

### Estimated Sources of Proceeds

The following table sets forth the estimated sources and uses of the proceeds of the Bonds and other available proceeds.

#### Estimated Sources of Funds:

Par Amount of the Series A Bonds	\$53,515,000
Par Amount of the Series B Bonds	21,665,000
Par Amount of the Series C Bonds	13,705,000
Other Sources <sup>(1)</sup>	<u>2,224,537</u>
Total Sources	\$91,109,537

#### Estimated Uses of Funds:

Transfer to 1996 Bonds Escrow Fund	\$7,628,299
Repayment of Taxable Loans	6,842,880
Transfer to 2005 Series A Bonds Escrow Fund	53,848,447
Transfer to 2005 Series B Bonds Escrow Fund	21,838,515
Costs of Issuance <sup>(2)</sup>	<u>951,394</u>
Total Uses	\$91,109,537

<sup>(1)</sup> Includes release of funds on deposit under the 1996 Indenture, 2005 Series A Indenture and 2005 Series B Indenture.

<sup>(2)</sup> Includes underwriter's discount and fees and expenses of the Authority, the Trustee, Bond Counsel, Underwriter's Counsel, University Counsel, counsel to the Bank, the Remarketing Agent, the rating agency, printing costs and certain payments associated with the Letters of Credit, as well as other fees and expenses incurred in connection with the execution and delivery of the Bonds.

## THE BONDS

### General

The terms of the Bonds of each Series will be divided into consecutive Interest Rate Periods, during each of which the Bonds of a Series will bear interest at Daily Interest Rates, Weekly Interest Rates or Term Interest Rates. The initial Interest Rate Period for the Bonds will be a Daily Interest Rate Period during which each Series of Bonds will bear interest at Daily Interest Rates. The Bonds of a Series will continue in such Interest Rate Period until the Bonds of a Series are Converted to a different Interest Rate Period pursuant to the Indenture. The term "Interest Payment Date" is defined in the Indenture to mean, (i) with respect to Bonds of a Series bearing interest at a Daily Interest Rate or a Weekly Interest Rate, the first Business Day of each calendar month, (ii) with respect to Bonds of a Series bearing interest at a Term Interest Rate for a Term Interest Rate Period of less than one year, the day immediately succeeding the last day of such Term Interest Rate Period and (iii) with respect to any Term Interest Rate Period of one year or longer, each April 1 and October 1 and the day immediately succeeding the last day of such Term Interest Rate Period. The first Interest Payment Date for the Bonds is August 1, 2008.

The Bonds of each Series will be issued in the aggregate principal amounts, will be dated, and will mature as described on the cover page hereof. The principal, Purchase Price of, and interest on, the Bonds of a Series will be payable to Beneficial Owners by DTC Participants through the facilities of DTC, while the Bonds of such Series are in the book-entry only system described in Appendix C. Purchases of Bonds of a Series may be made only in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof during any Daily Interest Rate Period, Weekly Interest Rate Period or Term Interest Rate Period of less than one year, and during a Term Interest

Rate Period of one year or longer, purchases of Bonds of a Series may be made in denominations of \$5,000 or any integral multiple thereof.

The Bonds of each Series will be issued in book-entry only form registered in the name of Cede & Co., a nominee of DTC, as securities depository. No physical delivery of the Bonds will be made to the purchasers. So long as Cede & Co. is the registered owner of the Bonds of a Series, as nominee of DTC, unless otherwise indicated herein, reference to Bondholders of such Series or registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners of Bonds of such Series. See “APPENDIX C – BOOK-ENTRY ONLY SYSTEM” herein.

## **INTEREST ON THE BONDS**

### **General**

Each Bond will bear interest from and including the Issue Date thereof until payment of the principal or redemption price thereof has been made or provided for on the due date thereof in accordance with the provisions of the Indenture, whether at maturity, upon redemption or acceleration or otherwise. Interest on Bonds of a Series with respect to the immediately preceding Interest Period will be paid on each Interest Payment Date, as explained below. Except during a Term Interest Rate Period of one year or longer, interest on the Bonds of a Series will be computed upon the basis of a 365-day or 366 day year, as applicable, for the number of days actually elapsed. During any Term Interest Rate Period of one year or longer, interest on the Bonds of a Series will be computed upon the basis of a 360-day year, consisting of twelve 30-day months.

Payment of the interest on each Bond of a Series will be made to the person appearing on the Bond Register as the registered owner thereof as of the applicable Record Date, such interest to be paid by the Trustee to such Bondholder (i) by check mailed by first class mail on the applicable Interest Payment Date, to such Bondholder's address as it appears on the Bond Register, or (ii) upon written request received by the Trustee at least three Business Days prior to the applicable Record Date of the Holder of all of the Outstanding Bonds of a Series or the Holder of Outstanding Bonds of a Series aggregating not less than \$1,000,000 in principal amount, by wire transfer in immediately available funds at an account maintained in the United States at such wire address as such Bondholder will specify in its written notice (any such written request will remain in effect until rescinded in writing by such Bondholder), or (iii) with respect to Credit Provider Bonds of a Series, as provided in the applicable Credit Agreement; except, in each case, that, if and to the extent that there is a default in the payment of the interest due on such Interest Payment Date, such defaulted interest will be paid to the Bondholder in whose name any such Bonds are registered on the Bond Register at the close of business on a special record date to be fixed by the Trustee. Notwithstanding the foregoing, if any Bond of a Series is authenticated as of a day during the period from the day after the Record Date immediately preceding an Interest Payment Date to such Interest Payment Date, inclusive, such Bond will bear interest from such Interest Payment Date; provided, however, that if there shall be a default in the payment of interest due on such Interest Payment Date, then such Bond will bear interest as provided in the preceding sentence. Both the principal of and premium, if any, on the Bonds will be payable upon surrender thereof at the Principal Office of the Trustee. Notwithstanding the foregoing, Credit Provider Bonds of a Series will bear interest and be payable as set forth in the applicable Credit Agreement.

### **Determination of Daily Interest Rate**

During each Daily Interest Rate Period for a Series of the Bonds, such Series of Bonds shall bear interest at Daily Interest Rates determined pursuant to the Indenture. Except as otherwise provided in the Indenture, the Daily Interest Rate shall be determined by the Remarketing Agent not later than 9:30 a.m. (New York City time) on each Business Day.

The Daily Interest Rate for a Series of Bonds shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to such Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by Bonds of such Series, would enable the Remarketing Agent to sell the Bonds of such Series on such day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Daily Interest Rate is not so determined, the Daily Interest Rate shall remain at the then-existing rate (or if the Bonds are being

Converted to a Daily Interest Rate Period from a Weekly Interest Rate Period or Term Interest Rate Period, the Daily Interest Rate shall be a percent per annum equal to the Daily Rate Index). The Daily Interest Rate for any non-Business Day shall be the rate for the last Business Day on which a Daily Interest Rate was set.

#### **Conversion to Daily Interest Rate Period**

The University, by written direction to the Trustee and the Remarketing Agent, delivered at least 20 days prior to the proposed Conversion Date, accompanied by the written consent of the Credit Provider and an Approving Opinion, may elect to Convert the Interest Rate Period for a Series of the Bonds from a Weekly Interest Rate Period or a Term Interest Rate Period to a Daily Interest Rate Period. Such direction shall specify the Conversion Date to such Daily Interest Rate Period which shall be (a) the Interest Payment Date next succeeding the last day of the then-current Interest Rate Period which is not less than 20 days following the date of receipt by the Trustee of such direction, or (b) any date on which such Series of Bonds may be optionally redeemed pursuant to the Indenture not less than 20 days following the date of receipt by the Trustee of such direction.

#### **Notice of Conversion to Daily Interest Rate Period**

The Trustee shall give notice by first class mail of a Conversion of a Series of Bonds to a Daily Interest Rate Period to the Bondholders, the Credit Provider, the Remarketing Agent and the University not less than 15 days prior to the Conversion Date for such Daily Interest Rate Period. Such notice shall state (1) that the Interest Rate Period on such Series of Bonds will be Converted to a Daily Interest Rate Period, (2) the Conversion Date to such Daily Interest Rate Period, (3) that such Series of Bonds will be purchased on such Conversion Date pursuant the Indenture, (4) the procedures for such purchase as provided in (3) above, (5) that, subsequent to such effective date, the Bondholders or the Beneficial Owners will have the right to demand purchase of the Bonds upon not less than seven days' notice, (6) the procedures for a demand for purchase as provided in (5) above and (7) the ratings which are expected to be assigned to such Series of Bonds upon such Conversion to a Daily Interest Rate Period.

#### **Determination of Weekly Interest Rate**

During each Weekly Interest Rate Period for a Series of the Bonds, such Series of Bonds will bear interest at Weekly Interest Rates determined pursuant to the Indenture. Except as otherwise provided in the Indenture, the Weekly Interest Rate for each Calendar Week will be determined by the Remarketing Agent not later than 5:00 p.m. (New York City time) on the Wednesday immediately preceding such Calendar Week (or by 12:00 noon (New York City time) on the next succeeding Business Day if such Wednesday is not a Business Day); provided, however, that the initial Weekly Interest Rate for the Bonds of a Series will be determined by the Remarketing Agent on or prior to the Issue Date and provided further that if the Bonds of a Series are to be Converted to a Weekly Interest Rate Period from a Daily Interest Rate Period or a Term Interest Rate Period, the Weekly Interest Rate for the initial Calendar Week of such Weekly Interest Rate Period will be determined not later than the Business Day next preceding the effective date of such Weekly Interest Rate Period.

The Weekly Interest Rate for the Bonds of a Series will be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to such Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds of such Series, would enable the Remarketing Agent to sell the Bonds of such Series on such day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Weekly Interest Rate for a Calendar Week is not so determined, the Weekly Interest Rate for such Calendar Week will remain at the then-existing rate (or if the Bonds of such Series are being Converted to a Weekly Interest Rate Period from a Daily Interest Rate Period or a Term Interest Rate Period, the Weekly Interest Rate for such Calendar Week will be a percent per annum equal to the SIFMA Index), and the Weekly Interest Rate for each succeeding Calendar Week will be a percent per annum equal to the SIFMA Index. Upon determination of each Weekly Interest Rate, the Remarketing Agent will provide notice to the Trustee and the Credit Provider of such Weekly Interest Rate.

### **Conversion to Weekly Interest Rate Period**

The University, by written direction to the Trustee and the Remarketing Agent, delivered at least 20 days prior to the proposed Conversion Date, accompanied by the written consent of the Credit Provider and an Approving Opinion, may elect to Convert the Interest Rate Period for the Bonds of a Series from a Term Interest Rate Period or a Daily Interest Rate Period to a Weekly Interest Rate Period. Such direction will specify the Conversion Date to such Weekly Interest Rate Period which will be (a) the Interest Payment Date next succeeding the last day of the then-current Term Interest Rate Period which is not less than 20 days following the date of receipt by the Trustee of such direction, or (b) any date on which the Bonds may be optionally redeemed pursuant to the Indenture not less than 20 days following the date of receipt by the Trustee of such direction.

### **Notice of Conversion to Weekly Interest Rate Period**

Except for an automatic Conversion to a Weekly Interest Rate Period pursuant to the Indenture, as to which no notice will be required, the Trustee will give notice by first class mail of a Conversion of the Bonds to a Weekly Interest Rate Period to the Bondholders, the Credit Provider, the Remarketing Agent and the University not less than 15 days prior to the Conversion Date for such Weekly Interest Rate Period. Such notice will state (1) that the Interest Rate Period on the Bonds will be Converted to a Weekly Interest Rate Period, (2) the Conversion Date to such Weekly Interest Rate Period, (3) that the Bonds will be purchased on such Conversion Date pursuant to the Indenture, (4) the procedures for such purchase as provided in (3) above, (5) that, subsequent to such effective date, the Bondholders or the Beneficial Owners will have the right to demand purchase of the Bonds upon not less than seven days' notice, (6) the procedures for a demand for purchase as provided in (5) above, and (7) the ratings which are expected to be assigned to the Bonds upon such Conversion to a Weekly Interest Rate Period.

### **Determination of Term Interest Rate**

During each Term Interest Rate Period for a Series of the Bonds, such Series of Bonds will bear interest at the applicable Term Interest Rate, which will be determined by the Remarketing Agent not later than 4:00 p.m. (New York City time) on the Business Day preceding the first day of such Term Interest Rate Period. The Term Interest Rate will be the rate determined by the Remarketing Agent (in part, on the basis of examination of obligations comparable to the Bonds of such Series known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds of such Series, would enable the Remarketing Agent to sell such Bonds on such Business Day at a price equal to the principal amount thereof; provided, however, that if for any reason the Term Interest Rate is not so determined for any Term Interest Rate Period, the Interest Rate Period on the Bonds will automatically Convert to a Weekly Interest Rate and the Remarketing Agent will determine the Weekly Interest Rate for the initial Calendar Week on such date. Upon determination of each Term Interest Rate, the Remarketing Agent will provide written notice of such Term Interest Rate to the Trustee.

### **Conversion to Term Interest Rate Period**

The University, by written direction to the Trustee and the Remarketing Agent, delivered at least 20 days prior to the proposed Conversion Date to a Term Interest Rate Period, accompanied by the written consent of the Authority and the Credit Provider, may elect to Convert the Interest Rate Period for a Series of Bonds from a Daily Interest Rate Period or a Weekly Interest Rate Period to a Term Interest Rate Period or from one Term Interest Rate Period to another Term Interest Rate Period, and will determine the duration of any such new Term Interest Rate Period which will be one of the periods specified in the definition "Term Interest Rate Period." Such direction (a) will specify the Conversion Date to such Term Interest Rate Period which will be (1) the Interest Payment Date which is not less than 15 days following the receipt by the Trustee of such direction if the Bonds of such Series are to be Converted from a Daily Interest Rate Period or a Weekly Interest Rate Period to a Term Interest Rate Period; or (2) the Interest Payment Date next succeeding the last day of the then-current Term Interest Rate Period which is not less than 15 days following the date of receipt by the Trustee of such direction if the Bonds of such Series are to be Converted from one Term Interest Rate Period to another, or (3) any date on which such Bonds may be optionally redeemed pursuant to the Indenture not less than 15 days following the date of receipt by the Trustee of such direction; and (b) will specify the last day thereof. Notwithstanding anything else provided in the Indenture, the University will not Convert the Interest Rate Period on the Bonds of a Series to a Term Interest Rate Period unless

(a) the Credit Facility then in effect with respect to such Bonds has been modified, if necessary, to provide interest coverage sufficient to provide for all interest to accrue on such Bonds as of each Interest Payment Date during and immediately succeeding such Term Interest Rate Period plus such additional days at the Term Interest Rate for such Term Interest Rate Period as a Rating Agency may require; provided, however, that no Credit Facility will be required in connection with the Conversion of such Bonds to a Term Interest Rate Period which ends on the day immediately preceding the maturity date of the Bonds if the conditions to the termination of the University's obligation to maintain a Credit Facility with respect to such Bonds set forth in the Loan Agreement have been satisfied; and (b) with respect to a Term Interest Rate Period of longer than nine months, the Trustee and the Authority have received prior to the Conversion Date to such Term Interest Rate Period a continuing disclosure agreement imposing obligations upon the University or any other responsible party to comply with the requirements of Rule 15c2-12 with respect to the Bonds as provided in the Loan Agreement.

#### **Notice of Conversion to Term Interest Rate Period**

The Trustee will give notice by first class mail of each Conversion of a Series of Bonds to a Term Interest Rate Period to the Bondholders and the Credit Provider not less than 15 days prior to the Conversion Date to such Term Interest Rate Period. Such notice will state (1) that the interest rate on Bonds of such Series will be Converted to or continue to be a Term Interest Rate Period, (2) the Conversion Date to, and final date of, such Term Interest Rate Period, (3) that the Bonds of such Series will be purchased on such effective date pursuant to the Indenture, (4) the procedures of such purchase as provided in (3) above, (5) the ratings which are expected to be assigned to such Bonds upon such Conversion to a Term Interest Rate Period and (6) whether a Credit Facility will be in effect with respect to such Bonds upon such Conversion to a Term Interest Rate Period and, if so, identifying such Credit Facility.

#### **Failure of Conditions to Convert**

Notwithstanding anything in the Indenture to the contrary, if the conditions contained in the Indenture to Convert the Bonds of a Series to a Daily Interest Rate Period, to a Weekly Interest Rate Period, to a Term Interest Rate Period or from one Term Interest Rate Period to another Term Interest Rate Period are not satisfied, then the Interest Rate Period that will commence on the mandatory purchase of such Bonds on the Conversion Date specified in the notice of Conversion delivered to Bondholders pursuant to the Indenture will automatically and without further action under the Indenture, be an Interest Rate Period of the same duration as the immediately preceding Interest Rate Period and the Remarketing Agent will determine the interest rate to apply to such Bonds commencing on such Conversion Date on such date.

#### **Limitation on Conversion**

Notwithstanding anything in the Indenture to the contrary, if an Event of Default has occurred and is continuing, the interest rate on the Bonds of a Series will be the rate on such Bonds on the day prior to the occurrence of such Event of Default.

#### **Conclusiveness of Interest Rates**

The determination of the interest rate on the Bonds of a Series by the Remarketing Agent will be conclusive and binding upon the Bondholders, the Authority, the applicable Credit Provider and the Trustee.

### **TENDER OF BONDS FOR PURCHASE**

#### **Book-Entry System for Bonds**

So long as Cede & Co. is the registered owner of the Bonds of a Series, the right of any Beneficial Owner to exercise its right to tender its interest in any Bonds of such Series for purchase and receive payment therefor will be based only upon and subject to the procedures and limitations of the DTC book-entry-only system. References below to Bondholders are to Cede & Co. as nominee of DTC and not the Beneficial Owners. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM."

### **Option to Tender for Purchase**

During any Daily Interest Rate Period for the Bonds of a Series, any Bond of such Series or any permitted portion thereof may be tendered for purchase on any Business Day at the option of the Holder thereof at the applicable Purchase Price, payable from the sources specified in the Indenture in immediately available funds, upon delivery by the Holder of such Bond to the Remarketing Agreement and the Trustee at its Principal Office of an irrevocable notice by written notice (which may be delivered by facsimile transmission or e-mail) by 11:00 a.m. (New York City time) on the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date.

During any Weekly Interest Rate Period for the Bonds of a Series, any Bond of such Series or any permitted portion thereof may be tendered for purchase on any Business Day at the option of the Holder thereof at the applicable Purchase Price, payable from the sources specified in the Indenture in immediately available funds, upon delivery by the Holder of such Bond to the Trustee at its Principal Office of an irrevocable notice by written notice (which may be delivered by facsimile transmission or e-mail) by 5:00 p.m. (New York City time) on any Business Day at least seven days prior to the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date.

If any Bond of a Series is to be purchased in part pursuant to either of the above paragraphs, the amount so purchased and the amount not so purchased, if any, must each be an Authorized Denomination.

Any notice of tender of Bonds delivered to the Trustee will be irrevocable with respect to the purchase for which such notice was delivered and will be binding upon any subsequent Bondholder or Beneficial Owner of the Bonds to which it relates, including any Bond issued in exchange therefor or upon the registration of transfer thereof, and as of the date of such notice, the Holder or Beneficial Owner of the Bonds specified therein will not have any right to optionally tender for purchase such Bonds prior to the date of purchase specified in such notice.

### **Mandatory Tender for Purchase**

The Bonds of a Series will be subject to mandatory tender for purchase at the applicable Purchase Price, payable from the sources specified in the Indenture in immediately available funds, upon the occurrence of any of the events listed below:

- (i) on the effective date of any new Interest Rate Period for a Series of Bonds;
- (ii) on the effective date of an Alternate Credit Facility with respect to a Series of Bonds pursuant to the Loan Agreement;
- (iii) in the event that the Credit Facility then in effect with respect to a Series of Bonds is not renewed, or an Alternate Credit Facility with respect to such Bonds is not delivered to the Trustee, on the first Business Day which is at least five calendar days preceding the expiration date of the Credit Facility then in effect with respect to such Bonds; or
- (iv) on a Business Day which is no later than 10 days following receipt by the Trustee of a notice from the Credit Provider providing the Credit Facility then in effect with respect to a Series of Bonds that an event of default has occurred and is continuing under the applicable Credit Agreement and requesting the Trustee to cause the mandatory tender of such Series of Bonds for purchase.

The Trustee will give Notice by Mail to the Holders of such Bonds subject to mandatory tender for purchase as a result of the occurrence of any event described in subparagraph (i) above and to the Credit Provider, not later than the 30th day prior to the date on which such Bonds are subject to such mandatory tender, which notice will be in the form of the notice required by the Indenture.

If the Trustee has received a copy of a commitment to issue an Alternate Credit Facility for a Series of Bonds, the Trustee will give Notice by Mail to the Holders of such Bonds and to the Credit Provider, not later than

the 15th day prior to the date on which such Bonds are subject to mandatory tender as a result of the occurrence of any event described in subparagraph (ii) above, which notice will state the expected effective date of such Alternate Credit Facility and that such Bonds will be subject to mandatory tender for purchase from proceeds of a draw on the Credit Facility then in effect on the date specified in such notice, in accordance with the Indenture.

The Trustee will give Notice by Mail to the Holders of such Series of Bonds subject to mandatory tender as a result of the occurrence of any event described in subparagraph (iii) above and to the Credit Provider not later than the 15th day prior to the date on which such Bonds are subject to such mandatory tender which notice will state that the applicable Credit Facility then in effect with respect to such Series of Bonds has not been renewed and an Alternate Credit Facility has not been delivered to the Trustee and that such Bonds are subject to mandatory tender for purchase from proceeds of a draw on the Credit Facility then in effect in accordance with the Indenture on the date determined in accordance therewith, which date will be specified in such notice.

The Trustee will give Notice by Mail to the Holders of such Series of Bonds subject to mandatory tender as the result of the occurrence of the event described in subparagraph (iv) above and to the Credit Provider not later than five Business Days following the receipt of the notice from the Credit Provider described in subparagraph (iv) above, which notice will state (i) that the Trustee has received a notice from such Credit Provider that an event of default has occurred and is continuing under the applicable Credit Agreement and requesting the Trustee to cause the mandatory tender of such Series of Bonds and (ii) that such Bonds are subject to mandatory tender for purchase in accordance with the Indenture on the date determined as specified in subparagraph (iv) above, which date shall be specified in such notice.

Upon the giving of notice to Bondholders of the mandatory tender of the Bonds for purchase pursuant to the Indenture, such Bonds will be subject to mandatory tender for purchase notwithstanding that the events described in such notice have not occurred on the Purchase Date specified in such notice, including the failure to change the Interest Rate Period for such Bonds, the failure of an Alternate Credit Facility with respect to the Bonds to go into effect or the renewal of the applicable Credit Facility for the Bonds, or the curing of any event of default or termination under the Credit Agreement then in effect with respect to such Bonds.

### **Remarketing of Tendered Bonds**

**Daily Put Bonds.** Upon receipt by the Remarketing Agent of a notice from a Holder of Bonds to be tendered pursuant to the Indenture (the “Daily Put Bonds”), the Remarketing Agent will thereupon offer for sale at par and use its best efforts to find purchasers for such Daily Put Bonds, other than Credit Provider Bonds, which will be remarketed pursuant to the Indenture, and subject to the limitations described below.

Not later than 11:30 a.m. (New York City time) on any Purchase Date for Daily Put Bonds, the Trustee will give Electronic Notice or written notice to the Remarketing Agent of the accrued amount of the interest payable as of such Purchase Date, and confirming the aggregate principal amount of, the Daily Put Bonds.

Not later than 11:45 a.m. (New York City time) on any Purchase Date for Daily Put Bonds, the Remarketing Agent will give Electronic Notice or written notice to the Borrower and the Trustee of the principal amount of any Daily Put Bonds which have not been remarketed in accordance with the Remarketing Agreement.

If the Remarketing Agent’s notice pursuant to the immediately preceding paragraph indicates that the Remarketing Agent has on hand less remarketing proceeds than are needed to purchase all the Daily Put Bonds to be purchased on any Purchase Date, the Trustee will demand payment under the Credit Facility then in effect with respect to the Daily Put Bonds by 12:30 p.m. (New York City time) on such Purchase Date so as to provide by 2:30 p.m. (New York City time) on such Purchase Date an amount sufficient, together with the remarketing proceeds to be available for such purchase, calculated solely on the basis of the notice given by the Remarketing Agent pursuant to the immediately preceding paragraph, to pay the Purchase Price of the Daily Put Bonds. The Trustee will immediately after such demand for payment give notice by telephone to the Credit Provider and the Borrower of the amount, if any, of such demand.

**Weekly Put Bonds.** Not later than noon (New York City time) on each Business Day succeeding a day on which the Trustee receives a notice from a Holder of Bonds to be tendered pursuant to the Indenture (the “Weekly Put Bonds”), the Trustee will give Electronic Notice or written notice to the Remarketing Agent, specifying the principal amount of Bonds for which it has received such notice, the names of the Holder or Holders thereof and the Purchase Date. The Remarketing Agent will thereupon offer for sale at par and use its best efforts to find purchasers for such Weekly Put Bonds, other than Credit Provider Bonds (which will be remarketed pursuant to the Indenture), subject to the limitations described below.

Not later than noon (New York City time) on the Business Day immediately preceding the Purchase Date described in the immediately preceding paragraph, the Trustee will give Electronic Notice or written notice to the Remarketing Agent of the accrued amount of the interest payable as of such Purchase Date, and confirming the aggregate principal amount of, the Weekly Put Bonds.

Not later than 4:00 p.m. (New York City time) on the Business Day immediately preceding each Purchase Date for Weekly Put Bonds, the Remarketing Agent will give Electronic Notice (promptly confirmed in writing) to the University, the Credit Provider and the Trustee of the amount of remarketing proceeds that the Remarketing Agent has received and the principal amount of Weekly Put Bonds which have not been remarketed in accordance with the Remarketing Agreement.

If the Remarketing Agent’s notice pursuant to the immediately preceding paragraph indicates that the Remarketing Agent has less remarketing proceeds than are needed to purchase all the Weekly Put Bonds to be purchased on any Purchase Date, the Trustee will demand payment under the Credit Facility then in effect with respect to the Weekly Put Bonds of each Series prior to 12:30 p.m. (New York City time) on such Purchase Date so as to provide by 2:30 p.m. (New York City time) on such Purchase Date an amount sufficient, together with the remarketing proceeds to be available for such purchase, calculated solely on the basis of the notice given by the Remarketing Agent pursuant to the immediately preceding paragraph, to pay the Purchase Price of the Weekly Put Bonds. The Trustee will immediately after such demand for payment give Electronic Notice or written notice to the University of the amount, if any, of such demand.

**Mandatory Tender Bonds.** Not later than 8:30 a.m. (New York City time) on each Purchase Date occurring pursuant to the Indenture, the Trustee will give Electronic Notice or written notice to the Remarketing Agent specifying the principal amount of all Outstanding Bonds of a Series which are subject to mandatory tender on such Purchase Date pursuant to the Indenture (the “Mandatory Tender Bonds”) and the names of the registered owner or owners thereof. The Remarketing Agent will thereupon offer for sale at par and use its best efforts to find purchasers for such Mandatory Tender Bonds, other than Credit Provider Bonds (which will be remarketed pursuant to the Indenture), subject to the limitation described below.

Not later than 9:00 a.m. (New York City time) on each Purchase Date described in the immediately preceding paragraph, the Trustee will give Electronic Notice or written notice to the Remarketing Agent of the accrued amount of the interest payable as of the Purchase Date specified in such notice from the Trustee on, and confirming the aggregate principal amount of, the Mandatory Tender Bonds.

Not later than 10:30 a.m. (New York City time) on each Purchase Date with respect to Mandatory Tender Bonds, the Remarketing Agent will give Electronic Notice (promptly confirmed in writing) to the University, the Credit Provider and the Trustee of the amount of remarketing proceeds that the Remarketing Agent has received and the principal amount of Mandatory Tender Bonds which have not been remarketed in accordance with the Remarketing Agreement.

If the Remarketing Agent’s notice pursuant to the immediately preceding paragraph indicates that such Remarketing Agent has less remarketing proceeds than are needed to purchase all the Mandatory Tender Bonds to be purchased on such Purchase Date, the Trustee will demand payment under the applicable Credit Facility then in effect with respect to the Mandatory Tender Bonds prior to 12:30 p.m. (New York City time) on such Purchase Date so as to provide by 2:30 p.m. (New York City time) on such Purchase Date an amount sufficient, together with the remarketing proceeds to be available for such purchase, calculated solely on the basis of the notice given by the Remarketing Agent pursuant to the immediately preceding paragraph, to pay the Purchase Price of the Mandatory

Tender Bonds. The Trustee will immediately after such demand for payment give Electronic Notice or written notice to the University of the amount, if any, of such demand.

**Limitations.** The Remarketing Agent will not remarket any tendered Bonds if there shall have occurred and be continuing an Event of Default of which it has received notice or if the Trustee has received notice from the Credit Provider that an even of default or termination under the applicable Credit has occurred and is continuing. The Remarketing Agent will not remarket any tendered Bonds to the Authority, the University or any affiliate of the University.

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

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

Notwithstanding anything to the contrary in the Indenture or in the Bonds, all obligations of the University under or in connection with any applicable Credit Agreement (including, without limitation, reimbursement obligations of the University to the Credit Provider with respect to the applicable Credit Facility and such Credit Provider's Credit Provider Bonds) will be governed by the terms of such Credit Agreement.

**Deposits into Remarketing Account.** The terms of any remarketing by the Remarketing Agent of tendered Bonds will provide for the payment of the Purchase Price for tendered Bonds by the Remarketing Agent to the Trustee for deposit in the Remarketing Account of the Bond Purchase Fund in immediately available funds at or before 2:00 p.m. (New York City time) on the Purchase Date. The Remarketing Agent will cause to be paid to the Trustee on each Purchase Date for tendered Bonds the amount specified in the notice given by the Remarketing Agent pursuant to the Indenture.

**Deposits into Credit Facility Purchase Account.** The Trustee will deposit in the Credit Facility Purchase Account the proceeds of each draw on a Credit Facility for the Bonds to pay the Purchase Price of the Bonds.

#### **Disbursements from the Bond Purchase Fund**

**Application of Moneys.** Moneys in the Bond Purchase Fund (other than the proceeds of any remarketing of Credit Provider Bonds which will be paid to the Credit Provider on the remarketing date) will be applied at or before 3:00 p.m. (New York City time) to the purchase of Bonds as provided in the Indenture by the Trustee, on each Purchase Date, as follows:

First -- Moneys in the Series A Subaccount in the Remarketing Account will be used by the Trustee on each Purchase Date to purchase tendered Series A Bonds at the Purchase Price, moneys in the Series B Subaccount in the Remarketing Account will be used by the Trustee on each Purchase Date to purchase tendered Series B Bonds at the Purchase Price and moneys in the Series C Subaccount in the Remarketing Account will be used by the Trustee on each Purchase Date to purchase tendered Series C Bonds at the Purchase Price.

Second -- In the event moneys in the Series A Subaccount in the Remarketing Account on any Purchase Date are insufficient to purchase all tendered Series A Bonds, moneys in the Series A Subaccount in the Credit Facility Purchase Account on such Purchase Date will be used by the Trustee at that time to purchase such remaining tendered Series A Bonds at the Purchase Price thereof, in the event moneys in the Series B Subaccount in the Remarketing Account on any Purchase Date are insufficient to purchase all tendered Series B Bonds, moneys in the Series B Subaccount in the Credit Facility Purchase Account on such Purchase Date will be used by the Trustee at that time to purchase such remaining tendered Series B Bonds at the Purchase Price thereof and in the event moneys in the Series C Subaccount in the Remarketing Account on any Purchase Date are insufficient to purchase all tendered Series C Bonds, moneys in the Series C Subaccount in the Credit Facility Purchase Account on such Purchase Date will be used by the Trustee at that time to purchase such remaining tendered Series C Bonds at the Purchase Price thereof.

Notwithstanding anything to the contrary in the Indenture, if the Bonds are Book-Entry Bonds, payment of the Purchase Price for tendered Bonds will be made in accordance with the rules and procedures of DTC.

***Nondeliveries.*** The Trustee will, as to any Bonds which have not been delivered to it as required by the Indenture, (i) notify the Remarketing Agent in writing of such nondelivery and (ii) place a stop transfer against an appropriate amount of Bonds registered in the name of the Holder of such Bonds on the Bond Register. The Trustee will place and maintain such stop transfer commencing with the lowest serial number Bond registered in the name of such Holder until stop transfers have been placed against an appropriate amount of Bonds until the appropriate Bonds are delivered to the Trustee. Upon such delivery, the Trustee will make any necessary adjustments to the Bond Register.

#### **Delivery of Bonds**

So long as the Bonds are Book-Entry Bonds, transfer of ownership of the remarketed Bonds will be effected in accordance with the procedures of DTC and the DTC Participants against delivery of funds for deposit into the Remarketing Account of the Bond Purchase Fund equal to the Purchase Price of such Bonds that have been remarketed. If the Bonds are not Book-Entry Bonds, a principal amount of each Series of Bonds equal to the amount of Bonds of each such Series successfully remarketed by the Remarketing Agent will be delivered by the Trustee to such persons as are designated by the Remarketing Agent. Such Bonds will be held available at the Principal Office of the Trustee and will be picked up by the Remarketing Agent at or after 1:00 p.m. (New York City time) on the Purchase Date against delivery of funds for deposit into the Remarketing Account of the Bond Purchase Fund equal to the Purchase Price of such Bonds that have been remarketed.

Bonds purchased with funds in the Credit Facility Purchase Account of the Bond Purchase Fund will be delivered and held in accordance with the Indenture. Such Bonds will be held available for registration of transfer and delivery by the Trustee in such manner as may be agreed between the Trustee and the Credit Provider.

### **REDEMPTION OF BONDS**

#### **Optional Redemption**

The Bonds of a Series will be subject to redemption, in whole or in part, in Authorized Denominations, prior to their maturity date, from any source of funds constituting Available Amounts, (i) during any Daily Interest Rate Period or Weekly Interest Rate Period for a Series of Bonds, on any Business Day at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date without premium, or (ii) during any Term Interest Rate Period for a Series of Bonds, on any Business Day during the periods specified below, at the redemption prices (expressed as percentages of principal amount of such Bonds (or portions thereof) to be redeemed) hereinafter indicated plus accrued interest to the redemption date:

Lesser of Length of Term  
Interest Rate Period or  
Length of Time to Maturity

Redemption Dates and Prices

Greater than 10 years	At any time on or after the 5th anniversary of the effective date commencing such Term Interest Rate Period at 102% declining ½% annually to 100%
Greater than 6 and less than or equal to 10 years	At any time on or after the 3rd anniversary of the effective date commencing such Term Interest Rate Period at 101 ½% declining ½% annually to 100%
Greater than 4 and less than or equal to 6 years	At any time on or after the 2nd anniversary of the effective date commencing such Term Interest Rate Period at 101% declining ½% annually to 100%
Greater than 3 and less than or equal to 4 years	At any time on or after the 2nd anniversary of the effective date commencing such Term Interest Rate Period at 100 ½% declining ½% annually to 100%
Greater than 2 and less than or equal to 3 years	At any time on or after the 1st anniversary of the effective date commencing such Term Interest Rate Period at 100 ½% declining ½% annually to 100%
Greater than 1 and less than or equal to 2 years	At any time on or after the 1 <sup>st</sup> anniversary of the effective date commencing such Term Interest Rate Period at 100%
Less than or equal to 1 year	On the Interest Payment Date which is six months after the effective date of such Term Interest Rate Period at 100%;

provided, however, that pursuant to the Indenture prior to the mailing of any notice of redemption related to such redemption, the Trustee must have received written notification from the Credit Provider that such Credit Provider has consented to such optional redemption.

Notwithstanding the optional redemption schedule set forth above, on or prior to the effective date of a Term Interest Rate Period ending on the day immediately preceding the maturity date of the Bonds, the Remarketing Agent can provide an alternate optional redemption schedule if it obtains an Approving Opinion with respect thereto.

The University has covenanted in the Reimbursement Agreement to cause the optional redemption of a portion of the Bonds of each Series on or prior to the dates and in the amounts reflected in the Reimbursement Agreement, as such agreement may be amended or replaced from time to time. The Trustee will send notice of any such optional redemption as provided in the Indenture.

### **Selection of Bonds for Redemption**

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a Series, the Trustee will select the Bonds or any given portion thereof to be redeemed, first from the Outstanding Credit Provider Bonds of such Series, if any, or such portion thereof not previously called for redemption, by lot in such manner as it may determine, until all Credit Provider Bonds of such Series, if any, shall have been redeemed, and then from the other Outstanding Bonds of such Series or such portion thereof not previously called for redemption, by lot. The Trustee will promptly notify the Authority and the University in writing of the numbers of the Bonds or portions thereof so selected for redemption.

## **Notice of Redemption**

Any notice of redemption will be mailed by first class mail to Bondholders not less than 20 days nor more than 60 days prior to the date fixed for redemption. Notice of redemption will be given by the Trustee as provided in the Indenture to (i) the registered owners of any Bonds designated for redemption at their addresses appearing on the Bond Register, (ii) to the Credit Provider, if any, (iii) to one or more Information Services, (iv) each NRMSR and the SID, (v) the Remarketing Agent, and (vi) the Authority. Each notice of redemption will state the date of such notice, the date of issue of such Bonds, the redemption date, the redemption price (including any premium), the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the Series of Bonds to be redeemed, and if less than all of such Series are to be redeemed, the principal amount of the such Series of Bonds to be redeemed. Each such notice will also state that on said redemption date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Unless upon the giving of such notice Bonds to be so redeemed will be deemed to have been paid pursuant to the Indenture, such notice will state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for redemption of Available Amounts sufficient to pay the principal of, and premium, if any, and interest on the Bonds to be redeemed.

Failure to mail the notices described in the preceding paragraph to any Holder of Bonds designated for redemption, or any defect in a notice described in the preceding paragraph that is mailed, will not affect the validity of the proceedings for redemption of any other Bonds and shall not extend the period for making elections or in any way change the rights of the Holders of the Bonds to elect to have their Bonds purchased as provided in the Indenture.

## **Partial Redemption of Bonds**

Upon surrender of any Bond redeemed in part only, the Trustee shall exchange the Bond redeemed for a new Bond of like tenor and in an Authorized Denomination without charge to the Holder in the principal amount of the portion of the Bond not redeemed. In the event of any partial redemption of a Bond which is registered in the name of the Nominee, DTC may elect to make a notation on the Bond certificate which reflects the date and amount of the reduction in principal amount of said Bond in lieu of surrendering the Bond certificate to the Trustee for exchange. Under the Indenture, the Authority and the Trustee are fully released and discharged from all liability upon, and to the extent of, payment of the redemption price for any partial redemption and upon the taking of all other actions required under the Indenture in connection with such redemption.

## **Effect of Redemption**

If notice of redemption has been duly given as provided in the Indenture, and Available Amounts for payment of the redemption price are held by the Trustee on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption will cease to accrue from and after the redemption date, said Bonds (or portions thereof) will cease to be entitled to any lien, benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment, but only from funds provided in connection with such redemption, of said redemption price and accrued interest, if only, to the redemption date, without interest accrued on any fund held after the redemption date to pay such redemption price.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General**

The principal, premium, if any, and interest on the Bonds are payable solely from the Revenues received by the Authority from the University pursuant to the Loan Agreement and the other amounts available to the Trustee therefor under the Indenture, including the proceeds of draws on any Credit Facility then in effect with respect to the

Bonds. The Purchase Price of the Bonds tendered or deemed tendered pursuant to the Indenture is payable only from the proceeds of the remarketing of such Bonds and draws on the Credit Facility then in effect with respect to such Series of Bonds. The initial Credit Facility for the Bonds will be the separate, irrevocable, direct-pay letters of credit to be issued by the Bank. See “THE INITIAL CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT – The Initial Credit Facilities” and “BANK OF AMERICA, N.A.” herein.

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

#### **Credit Facilities**

*Alternate Credit Facilities.* The Trustee acknowledges the right of the University at any time to provide one or more Alternate Credit Facilities with respect to the Bonds and, upon satisfaction of the conditions specified in the Loan Agreement, to discontinue providing any Credit Facility with respect to the Bonds. Each Alternate Credit Facility for Bonds of a Series must (i) be any Credit Facility entered into by, or issued by, a commercial bank or other financial institution; (ii) be in an amount sufficient to pay the greater of (a) the principal and the maximum amount of interest payable on the Outstanding Bonds of such Series to be secured by such Alternate Credit Facility on any Interest Payment Date during the current Interest Rate Period and (b) the maximum Purchase Price of the Bonds of such Series that will be applicable during the then current Interest Rate Period; (iii) take effect on or before the date that is the first Business Day that is not less than five (5) calendar days before the date of termination of the Credit Facility then securing the Bonds of such Series; (iv) have a term of at least 364 days (or, if shorter, the period to maturity of the Bonds of such Series); and (v) if the Alternate Credit Facility is not an irrevocable, direct pay letter of credit upon the issuance of which the Bonds of such Series will be rated “A” or better by a Rating Agency, then the Alternate Credit Facility must be approved by the Authority.

If there shall be delivered to the Authority and the Trustee an Alternate Credit Facility with respect to the Bonds of a Series meeting the requirements of the Loan Agreement set forth directly above and such opinions and documents required by the Loan Agreement, then the Trustee shall accept such Alternate Credit Facility and, if so directed by the University, upon the effectiveness of such Alternate Credit Facility and the payment of the Purchase Price of all Bonds of such Series tendered for purchase pursuant to the Indenture in connection with such Alternate Credit Facility (either from the proceeds of the remarketing of such Bonds or from amounts made available under the Credit Facility being replaced by such Alternate Credit Facility), promptly surrender the Credit Facility theretofore in effect with respect to such Series of Bonds in accordance with the respective terms thereof for cancellation; provided the Trustee shall not surrender any Credit Facility until all draws or requests to purchase Bonds of such Series made under such Credit Facility have been honored. In the event that the University elects to provide an Alternate Credit Facility, all Bonds secured by the Credit Facility being replaced shall be subject to mandatory tender for purchase as provided in the Indenture. If at any time all Bonds of a Series shall cease to be Outstanding or the conditions specified in the Loan Agreement permitting the University to discontinue providing a Credit Facility with respect to the Bonds of such Series shall be satisfied, or a Credit Facility shall be terminated pursuant to its terms, the Trustee shall promptly surrender such Credit Facility in accordance with its terms for cancellation. The Trustee shall comply with the procedures set forth in the Credit Facility relating to the termination thereof.

***Demand for Payment under Credit Facility.*** In the event that the applicable Credit Facility is in effect with respect to the Bonds of a Series, notwithstanding any other money that the Trustee may have on deposit, the Trustee shall make a demand for payment under such Credit Facility subject to and in accordance with its terms, in order to receive payment thereunder not later than the time payment is due on the Bonds of such Series on the following dates in the following amounts:

(i) On each Interest Payment Date, in an amount which will be sufficient to pay all interest due and payable on the Outstanding Bonds on such Interest Payment Date;

(ii) On any date fixed for payment (whether by acceleration, maturity or otherwise), defeasance or redemption of the Bonds of such Series in an amount which, together with amounts demanded for payment pursuant to paragraph (i) above, will be sufficient to pay the amount due on such Bonds, including accrued interest and premium, if any (if a demand for payment is permitted for premium under the terms of such Credit Facility); and

(iii) On each Purchase Date, in an amount sufficient to pay the Purchase Price of the Bonds of such Series tendered or deemed tendered pursuant to the Indenture and which have not been remarketed in accordance with the Indenture, or for which sufficient remarketing proceeds have not been received as provided in the Indenture.

#### **Revenues and Base Loan Payments**

The Authority is obligated to pay the principal of, premium, if any, and interest on the Bonds solely from the Revenues received from the University under the Loan Agreement and the other funds available therefor under the Indenture. Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Bondholders all the Revenues. “Revenues” means all payments received by the Authority or the Trustee from the University pursuant to or with respect to the Loan Agreement (except Additional Payments, as defined in the Indenture, and certain other payments described in the Agreement) or from draws on a Credit Facility, including, without limiting the generality of the foregoing, Base Loan Payments (including both timely and delinquent payments), prepayments and all income derived from the investment of any moneys in any fund or account established pursuant to the Indenture (other than amounts received for or on deposit in the Rebate Fund and the Bond Purchase Fund). **There will be no reserve fund with respect to the Bonds.**

Under the Loan Agreement, the obligation of the University to make payments thereunder, including Base Loan Payments, is a general, unsecured obligation of the University. The Base Loan Payments are due in amounts and at the times necessary to pay the principal of, and premium, if any, and interest on the Bonds when due. The University has no obligations under the Loan Agreement to make any payments with respect to the Purchase Price of Bonds, tendered or deemed tendered for purchase pursuant to the Indenture.

See “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” for a summary of certain terms of the Indenture and the Loan Agreement.

#### **BANK OF AMERICA, N.A.**

*The information under this heading has been provided solely by Bank of America, N.A., and is believed to be reliable, but has not been verified independently by the University, the Underwriter, the Authority or the Trustee. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Underwriter, the University, the Authority or the Trustee. No representation is made herein as to the accuracy of such information or as to the absence of materially adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.*

Bank of America, N.A. (the “Bank”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (“BAC”) and is engaged in a general consumer banking,

commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2007, the Bank had consolidated assets of \$1,355 billion, consolidated deposits of \$793 billion and stockholder's equity of \$111 billion based on regulatory accounting principles.

BAC is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding BAC is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, together with any subsequent documents it filed with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Additional information regarding the foregoing is available from the filings made by BAC with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The Letters of Credit have been issued by the Bank. Moody's Investors Service, Inc. ("Moody's") currently rates the Bank's long-term debt as "Aaa" and short-term debt as "P-1." The outlook is stable. Standard & Poor's currently rates the Bank's long-term debt as "AA+" and its short-term debt as "A-1+." The outlook is negative. Fitch Ratings, Inc. ("Fitch") rates long-term debt of the Bank as "AA" and short-term debt as "F1+." The long term rating is currently on Rating Watch Negative. Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18th Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communications

PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTERS OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTERS OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTERS OF CREDIT ARE BINDING OBLIGATIONS OF THE BANK, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF BAC OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of BAC or the Bank since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

## THE INITIAL CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT

### The Initial Credit Facilities

The Initial Credit Facilities will be obligations of the Initial Credit Provider to pay to the Trustee, upon request made with respect to the Bonds of a Series and in accordance with the terms thereof, up to: (i) \$53,515,000 with respect to the Series A Bonds, \$21,665,000 with respect to the Series B Bonds and \$13,705,000 with respect to the Series C Bonds to pay principal of the applicable Bonds when due, whether upon maturity, redemption or acceleration or to pay that portion of the Purchase Price of the applicable Bonds tendered for purchase and not remarketed, equal to the principal amount of such Bonds; plus (ii) \$598,196 with respect to the Series A Bonds, \$242,174 with respect to the Series B Bonds and \$153,196 with respect to the Series C Bonds (an amount equal to 34 days' interest accrued on the applicable Series of Bonds calculated at the rate of 12% per annum (computed on the basis of a 365-day year)) to pay accrued interest on such Bonds when due or to pay the accrued interest portion of the Purchase Price of such Bonds tendered for purchase and not remarketed, as such amounts may be reduced or reinstated pursuant to the terms of the Initial Credit Facilities. All drawings under the Initial Credit Facilities will be paid with the Initial Credit Provider's own funds.

The Initial Credit Facility for a Series of Bonds shall terminate on the date which is the earliest of (i) honor by the Initial Credit Provider of a final draft presented to it by the Trustee under such Initial Credit Facility; (ii) two business days following the first day on which the interest rate with respect to the Bonds of such Series is converted to a Term Interest Rate; (iii) the date on which such Initial Credit Facility is surrendered by the Trustee; (iv) 30 days after receipt by the Trustee of notice from the Initial Credit Provider requesting the Trustee to redeem all of the Bonds Outstanding as a result of the occurrence and continuance of an Event of Default under the Reimbursement Agreement or, if such day is not a business day, on the next succeeding business day; or (v) July 2, 2011.

### The Reimbursement Agreement

Capitalized terms used under this caption but undefined in this Official Statement shall have the meanings ascribed thereto in the Reimbursement Agreement.

*Events of Default.* The occurrence of any of the following events shall be an "Event of Default" under the Reimbursement Agreement:

(a) The University shall fail to pay any amount payable under the Reimbursement Agreement or under any of the Related Documents on the date when due (after giving effect to applicable grace periods); or

(b) Any representation, warranty, certification or statement made by the University in the Reimbursement Agreement or by the University in connection with the Reimbursement Agreement, any of the Related Documents or in any writing furnished by or on behalf of the University shall prove to have been false, misleading or incomplete in any material respect on the date as of which made; or

(c) The University shall fail to perform or observe the covenants in the Reimbursement Agreement; or

(d) The University shall fail to perform or observe any other material term, covenant or agreement contained in the Reimbursement Agreement on its part to be performed or observed and any such failure shall remain unremedied for a period of 30 days after the date upon which written notice of such failure, requiring the same to be remedied, shall have been given to the University by the Bank, or if such failure cannot be cured within 30 days, within a reasonable time after written notice, provided such cure is diligently commenced and pursued to completion, but in no event longer than 120 days; or

(e) The University shall fail to pay any Indebtedness in excess of \$500,000 in the aggregate when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any other default under any agreement or instrument relating to any such Indebtedness, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or

instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of the maturity of any Indebtedness in excess of such amount; or any Indebtedness in excess of \$500,000 in the aggregate shall be declared to be due and payable, or required to be prepaid, prior to the stated maturity thereof and the University does not so pay such Indebtedness in full within 10 Business Days after it is declared to be due and payable; provided that this paragraph shall not apply to any Indebtedness that the University is contesting in good faith and for which the University has set aside reserves in an amount sufficient to pay in full; or

(f) Liquidation or dissolution of the University, or suspension of the business of the University or filing by the University of a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization, arrangement, readjustment of its debts or for any other relief under the Bankruptcy Law, as amended, or under any other insolvency act or law, state or federal, now or hereafter existing, or any other action of the University indicating its consent to, approval of, or acquiescence in any such petition or proceeding; the application by the University for, or the appointment by or with the consent or acquiescence of the University of, a receiver, a trustee or a custodian for the University; the application by the University for, or the consent to or acquiescence of the University in, an assignment for the benefit of creditors; or the admission by the University in writing of its inability to pay its debts as they mature; or

(g) Filing of an involuntary petition against the University in bankruptcy or seeking reorganization, arrangement, readjustment of its debts or for any other relief under the Bankruptcy Code, as amended, or under any other insolvency act or law, state or Federal, now or hereafter existing; or the involuntary appointment of a receiver, a trustee or a custodian of the University or for all or a substantial part of its property; the issuance of a warrant of attachment, execution or similar process against any substantial part of the property of the University and the continuance of any of such events for 90 days undismissed, undischarged or unstayed; or

(h) Any material provision of the Reimbursement Agreement shall at any time for any reason cease to be valid and binding on the University, or shall be declared to be null and void, and the Bank is not able to realize the benefits conferred by such provisions as a result, or the validity or enforceability of any provision of the Reimbursement Agreement shall be contested by the University in writing, or a proceeding shall be commenced by any governmental agency or authority having jurisdiction over the University seeking to establish the invalidity or unenforceability thereof, or the University shall deny in writing that it has any or further liability or obligation under the Reimbursement Agreement; or

(i) Any “event of default” by the University under and as defined in the Loan Agreement, the Indenture or any other Related Document (other than with respect to Interest Rate Protection Agreements, which are addressed in paragraph (l) below) shall have occurred and not been waived or cured within any applicable cure period; or

(j) The Bonds for any reason shall be determined to be invalid or any Related Document shall for any reason cease to be in full force and effect; or

(k) Any Plan Termination Event with respect to a Plan which the Bank determines in good faith might constitute grounds for the termination of any Plan or for the appointment of a trustee to administer any Plan shall have occurred, and, after the expiration of no less than 30 days after written notice thereof shall have been given to the University by the Bank, (i) such Plan Termination Event (if correctable) shall not have been corrected, and (ii) the then present value of such Plan’s vested benefits exceeds the then current value of assets accumulated in such Plan.

(l) The University fails to meet the conditions of, or fails to perform any material obligation under the Bank Collateral Documents to which it is a party or under any Interest Rate Protection Agreement, or under any other agreement the University has with the Bank or any affiliate of the Bank, after taking into consideration any applicable cure periods provided thereunder, and the obligations under such agreement shall be declared due and payable, or required to be paid prior to the stated maturity thereof.

(m) Any final judgments or arbitration awards are entered against the University in an aggregate amount of \$5,000,000 or more in excess of any insurance coverage and the same is not satisfied or stayed within thirty (30) days.

*Rights Upon an Event of Default.* Upon the occurrence of an Event of Default, and at any time thereafter unless and until such Event of Default has been waived by the Bank or cured to the satisfaction of the Bank, the Bank shall be entitled to take any of the following actions without prejudice to the rights of the Bank to enforce its claims against the University except as otherwise specifically provided for in the Reimbursement Agreement:

(a) Acceleration of Obligations. Declare all unreimbursed drawings in respect of the Letters of Credit and any and all other indebtedness or obligations of any and every kind owing by the University to the Bank under the Reimbursement Agreement to be due, whereupon the same shall be immediately due and payable without presentment, demand, protest or other notice of any kind.

(b) Enforcement of Rights. Enforce any and all rights and interests created and existing under the Reimbursement Agreement, under the Bank Collateral Documents, or under any of the other Related Documents and all rights of set-off.

(c) Draw on Letter of Credit. The Bank may, at its option, direct the Trustee to draw on the Letters of Credit in accordance with the provisions of the Indenture and to accelerate the Bonds or any Series of Bonds, or to direct a mandatory tender of the Bonds, or any Series of Bonds, as provided in the Indenture.

*No Remedy Exclusive.* No remedy conferred upon or reserved to the Bank 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 Reimbursement Agreement, under the Loan Agreement, the Indenture or the other Related Documents, or now or hereafter existing at law or in equity or by statute.

## **INVESTMENT CONSIDERATIONS**

The following are investment considerations that should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive and has been prepared within the context of this Official Statement. Inclusion of certain investment considerations below is not intended to signify that there are not other investment considerations or risks attendant to the Bonds that are material to an investment decision with respect to the Bonds that are otherwise described or apparent elsewhere herein.

### **General**

As noted under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein, the Bonds are payable from Loan Payments made by the University. Future economic and other conditions, including the University’s revenue and expenses, the University’s fundraising plans, a shortfall in the amounts expected to be received by the University through fundraising efforts, litigation, investment returns, changes in the demand for the University’s services, demographic changes, legislation, governmental regulations or catastrophic or other events damaging or delaying the Project or existing facilities at the University could adversely affect the University’s ability to pay the Loan Payments. In addition, any developments affecting the nonprofit or tax-exempt status of the University could adversely affect the financial condition and operations of the University. There can be no assurance given that revenues of the University will not decrease or that expenses of the University will not increase. The University’s obligation to make Loan Payments under the Loan Agreement is an absolute and unconditional general obligation of the University, however, such obligation is not secured by any property of the University. 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 University.

### **Expiration of the Initial Credit Facility**

The Initial Credit Facilities expire on July 2, 2011, subject to extension or earlier termination in certain circumstances as described therein. If the Initial Credit Facility is not extended or an Alternate Credit Facility is not obtained by the University, the Bonds will be subject to mandatory redemption. There can be no assurance that the University will be able to obtain an extension of the Initial Credit Facility or an Alternate Credit Facility. The Bank is under no obligation to extend the Initial Credit Facility beyond its scheduled expiration.

### **Bank's Obligations Unsecured**

The ability of the Bank to honor draws upon the Initial Credit Facility is based solely upon the Bank's general credit and is not collateralized or otherwise guaranteed by the United States of America or any agency or instrumentality thereof. No provision has been made for replacement of or substitution for the Initial Credit Facility in the event of any deterioration in the financial condition of the Bank. Neither the Authority, nor the University nor the Bank assumes any liability to any purchaser of the Bonds as a result of any deterioration of the financial condition of the Bank. Upon any insolvency of the Bank, any claim by the Trustee against the Bank would be subject to bank receivership proceedings.

### **General Factors Affecting the Bank**

The Bank is subject to regulation and supervision by various regulatory bodies. New regulations could impose restrictions upon the Bank which would restrict its ability to respond to competitive pressures. Various legislative or regulatory changes could dramatically impact the banking industry as a whole and the Bank specifically. The banking industry is highly competitive in many of the markets in which the Bank operates. Such competition directly impacts the financial performance of the Bank. Any significant increase in such competition could adversely impact the Bank.

Prospective purchasers of the Bonds should evaluate the financial strength of the Bank based upon the information contained and referred to herein under the caption "Bank of America, N.A.", and other information available upon request from the Bank and should not rely upon any governmental supervision by any regulatory entity.

### **The Remarketing Agent is Paid by the University**

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. See "INTEREST ON THE BONDS" and "REMARKETING AGREEMENT." The Remarketing Agent is appointed by the University and is paid by the University for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

### **The Remarketing Agent Routinely Purchases Bonds for its Own Account**

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

### **Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date**

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the

applicable interest rate at par plus accrued interest, if any, on and as of the applicable rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. The Remarketing Agent, in its sole discretion, may offer Bonds on any date, including a rate determination date, at a discount to par to some investors.

### **The Ability to Sell the Bonds other than Through Tender Process May Be Limited**

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

### **Removal or Resignation of Remarketing Agent**

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

### **General Factors Affecting the University**

Both the University's stature in the educational community and its revenues, expenditures, assets and liabilities may be affected by events, developments and conditions relating generally to, among other things, the ability of the University: (i) to provide educational services of the types and quality required to maintain its stature; (ii) to generate sufficient revenues, while controlling expenses, so that these services can be provided at a cost acceptable to the University's students; (iii) to attract faculty, staff and management necessary to provide these services and sufficient students; and (iv) to build and maintain the facilities necessary to provide these services.

In turn, success in these areas depends upon the ability of the University and its management to respond to substantial challenges in a rapidly changing environment including, among others, (i) competition in the provision of educational services particularly through new educational media and distance learning; (ii) developments in the regional, national and international economies, such as the high regional cost of living, the limited availability of affordable housing within reasonable commuting distance and increases in regional energy costs; (iii) volatility in the financial markets, variations in economic growth, changes in monetary policy and taxation, and the adequacy of the University's investment management policies and the performance of its investments in the face of such challenges, all of which may negatively impact funds available from the University's endowment, other investments and its donors to support University operations and capital needs; and (iv) legislation and regulation by governmental authorities, including developments affecting the tax-exempt status of educational institutions like the University, changes in levels of research funding and reimbursement for administrative overhead and infrastructure, regulation of tuition levels, and limitations on the University's expansion and use of facilities. The preservation and growth of the University's endowment are affected not only by the factors noted above but by discretionary increases in the annual payout to operations from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policies and practices made by the Board of Trustees and University management. See "APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY" and "APPENDIX B– AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY" attached hereto.

### **University Indebtedness**

Under the Reimbursement Agreement, the University is permitted to incur additional debt under certain circumstances. Any indebtedness which may be incurred by the University could have a material effect on the

University's operations, which may, among other things, limit the University's ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements and other purposes; require the University to dedicate a significant portion of its cash flow to pay principal and interest on the Bonds, which will reduce the funds available for working capital, capital expenditures and other general administrative and educational purposes; and limit the University's ability to plan for and react to changes in its business and industry thereby making the University more vulnerable to adverse changes in general economic, industry and competitive conditions. Any of these factors could have a material adverse effect on the financial condition of the University and its ability to pay Loan Payments with respect to the Bonds.

### **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 Project, the Facilities or the University. See "APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY – FINANCIAL CONDITION OF THE UNIVERSITY – Risk Management" attached hereto. Litigation could arise from the business activities of 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. See "APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY – FINANCIAL CONDITION OF THE UNIVERSITY – Litigation" attached hereto.

Future increases in insurance premiums and future limitations on the availability of certain types of insurance coverage could have an adverse impact on the University's financial condition and operations and, ultimately, could adversely impact the ability of the University 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 requires earthquake insurance only to the extent commercially available and economically practicable in the University's sole discretion. The University does not currently maintain earthquake insurance coverage.

### **Investment of Funds Risk**

The University invests its money pursuant to investment policies adopted from time to time by its Board of Trustees. See "APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY" and the audited financial statements of the University attached as Appendix B for information regarding the investments of the University. All investments made by the University contain a degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts invested by the University could have a material adverse effect on the availability of funds for the payment of Loan Payments by the University.

### **Interest Rate Swaps and Other Hedge Risk**

Any interest rate swap or other hedge agreement to which the University is a party, including the Swap Agreements, may, at any time, have a negative value to the University. If either a swap or other hedge counterparty or the University terminates such an agreement when the agreement has a negative value to the University, the University would generally be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the University's financial condition. Under certain circumstances, each swap agreement is subject to termination prior to its scheduled termination date and prior to the maturity of the Bonds. See "INTRODUCTION – Swap Agreements" herein.

## **Gifts and Fundraising**

The University receives gifts, grants and donations from private and public sources. For a variety of reasons, the amount of annual gifts and fundraising results are difficult to project with precision. These reasons include the voluntary nature of charitable giving, the effect of the general and local economy on giving, the unpredictability of the effectiveness of the marketing of a fundraising campaign, the varying tax treatments of the deductibility of gifts and many other factors. A failure to attain sufficient levels of gifts and support could have a material adverse effect on the University's ability to maintain its current level of operations and pay debt service on the Bonds.

While the University believes its fundraising goals to be reasonable, it is possible that its goals will not be attained. There can be no guarantee that the University will be able to reach its fundraising goals. A failure to reach such goals could negatively affect the University's fundraising ability generally and the ability of the University to pay Loan Payments with respect to the Bonds.

## **Tax-Exempt Status**

The Code imposes a number of requirements that must be satisfied for interest on nonprofit corporation obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on 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 and the University have covenanted in certain of the documents referred to herein that they will comply with such requirements.

Failure by the University to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of the 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 Bonds.

***Tax-Exempt Status of the University.*** The tax-exempt status of the Bonds presently depends upon the maintenance by the University 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 organizations, it could do so in the future. Loss of tax-exempt status by the University could result, among other consequences, in the University being in default of certain of its covenants regarding the Bonds. Loss of tax-exempt status of the University also would have material adverse consequences on the financial condition of the University and would cause interest on the 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"). The University has not 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 as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

**State Income Tax Exemption.** The loss by the University of its State income tax exemption could be adverse and material to the University and to the value of the Bonds.

**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 University believes that the Facilities and, once completed, the Project 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 University.

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

The remedies available to the Trustee or the Bondholders upon an Event of Default under the Indenture or Loan Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by or against the University or by or against any of its affiliates. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, 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.

## **THE AUTHORITY**

### **General**

The California Educational Facilities Authority is a public instrumentality of the State created pursuant to the provisions of the Act. The Authority is authorized to issue the Bonds under the Act, to make the loan contemplated by the Loan Agreement and to secure the Bonds by the pledge of the Revenues received by the Authority pursuant to the Loan Agreement and certain other sources of payment as provided in the Indenture, including amounts held in the funds or accounts established pursuant to the Indenture (excluding the Rebate Fund and the Bond Purchase Fund).

### **Organization and Membership of the Authority**

The membership of the Authority consists of the Treasurer, the Controller and the Director of Finance of the State and two members appointed by the Governor of the State. Of the two appointed members, one must be affiliated with a public institution of higher education as a governing board member or in an administrative capacity and the other must be affiliated with a private institution of higher education as a governing board member or in an administrative capacity.

The members of the Authority serve without compensation but are entitled to reimbursement of actual and necessary expenses incurred in the performance of their duties.

The present members and officers of the Authority and their occupations are as follows:

*Bill Lockyer*, Chairman, Treasurer of the State of California

*John Chiang*, Member, Controller of the State of California

*Michael C. Genest* , Member, Director of Finance of the State of California

*Sylvia Scott-Hayes*, Member, Trustee, Los Angeles Community College District Board

*Michael L. Jackson*, Member, Vice President, Student Affairs, University of Southern California.

Barbara Liebert is the Executive Director of the Authority and is responsible to the Authority for the management of its affairs. The Attorney General of the State of California is acting as counsel to the Authority. Public Financial Management, Inc., San Francisco, California, serves as financial advisor and pricing advisor to the Authority.

### **Outstanding Indebtedness of the Authority**

The Act does not limit the amount of indebtedness the Authority may have outstanding from time to time. As of March 31, 2008, the Authority had outstanding \$3,591,438,596 aggregate principal amount of bonds and notes (excluding certain bonds and notes which have been defeased) issued on behalf of various California independent colleges and universities.

### **LEGALITY FOR INVESTMENT IN CALIFORNIA**

Obligations issued by the Authority under the Act are, under California law, securities in which all banks, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries and all other persons whatsoever, who now are or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest any funds, including capital belonging to them or within their control; and such obligations are securities which may properly and legally be deposited with and received by any state or municipal officer or agency of the State for any purpose for which the deposit of bonds or notes or other obligations of the State is now or may hereafter be authorized by law.

### **VERIFICATION**

Upon the delivery of the Bonds, Causey Demgen & Moore, Inc. (the "Verification Agent"), will deliver a report reviewing the mathematical accuracy of certain computations contained in the schedules provided to them relating to the adequacy of the maturing principal amount of the Government Obligations held in the respective escrow funds established with respect to the 2005 Series A Bonds, 2005 Series B Bonds and 1996 Bonds, interest earned thereon and certain moneys on deposit in said funds for the payment of the redemption prices of such 2005 Series A Bonds, 2005 Series B Bonds and 1996 Bonds on the respective redemption dates therefor and interest on such 2005 Series A Bonds, 2005 Series B Bonds and 1996 Bonds to but excluding the respective redemption dates therefor. The report of the Verification Agent will include a statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of any event occurring, or data or information coming to their attention, subsequent to the date of their report.

### **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP ("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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating

corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

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 Bonds. The Authority and the University have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 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 Bonds may adversely affect the value of, or the tax status of interest on, the 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 Rutan & Tucker, LLP, Counsel to the University, regarding the current qualification of the University as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the University concerning the Borrower’s “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to the University has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the University can give or has given any opinion or assurance about the future activities of the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service (the “IRS”). Failure of the University to be organized and operated in accordance with the IRS’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 Bonds in a manner that is substantially related to the University’s charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the 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 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 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 Bonds. Prospective purchasers of the 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 Bonds for

federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority 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 and the University have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the University or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, 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 or the University legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 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 Bonds, and may cause the Authority, the University or the Beneficial Owners to incur significant expense.

### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. The proposed form of Bond Counsel's legal opinion is contained in Appendix E hereto. Approval of other legal matters will be passed upon for the Authority by the Honorable Edmund G. Brown Jr., the Attorney General of the State of California (the "Authority Counsel"), for the University by Rutan & Tucker, LLP, Costa Mesa, California, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, and for the Bank by Frandzel Robins Bloom and Csato, L.C., Los Angeles, California. Neither Authority Counsel nor Bond Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

### **LITIGATION**

#### **The Authority**

There is no litigation pending (with service of process having been accomplished) against the Authority concerning the validity of the Bonds.

#### **The University**

There is no litigation of any nature now pending or threatened against the University, which seeks to restrain or enjoin the issuance or the sale of the Bonds or which in any way contests or affects the validity of the Bonds and proceedings of the University taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bond proceeds or the existence or powers of the University relating to the Bonds.

See "APPENDIX A – INFORMATION CONCERNING THE UNIVERSITY – FINANCIAL CONDITION OF THE UNIVERSITY – Litigation" attached hereto for a description of ongoing litigation involving the University.

### **UNDERWRITING**

The Treasurer, with the approval of the Authority and the University, will enter into a purchase contract with Banc of America Securities LLC, as Underwriter, pursuant to which the Underwriter will agree, subject to certain conditions, to purchase the Bonds from the Authority at an underwriter's discount of \$244,433.75 from the initial public offering prices of the Bonds set forth on the cover page of this Official Statement. The Underwriter is obligated under the purchase contract to purchase all of the Bonds if any of the Bonds are purchased. The Bonds

may be offered and sold by the Underwriter to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof, and such public offering prices may be changed, from time to time, by the Underwriter.

### **REMARKETING AGREEMENT**

The University will enter into a Remarketing Agreement with Banc of America Securities LLC pursuant to which Banc of America Securities LLC will act as Remarketing Agent for the Bonds. Pursuant to the Remarketing Agreement, the Remarketing Agent will agree to perform its duties and obligations under the Indenture and the Remarketing Agreement and to use its best efforts to remarket the Bonds tendered or deemed tendered for purchase pursuant to the Indenture. The obligations of the Remarketing Agent to remarket the Bonds are subject to the terms and conditions of the Remarketing Agreement.

### **NO CONTINUING DISCLOSURE**

The University has undertaken all responsibilities for any continuing disclosure to Bondholders as described below.

The University will not, while the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, undertake any continuing disclosure obligations with respect to the Bonds. The University will covenant and agree in the Loan Agreement, upon Conversion to a Term Interest Rate greater than nine months, to provide continuing disclosure in accordance with the requirements promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented. The Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended or any disclosure by the University.

While bearing interest at a Weekly Interest Rate, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12, pursuant to the exemptions provided in paragraph (d)(1) of Rule 15c2-12. So long as the Bonds and the remarketing thereof satisfy the exemptions provided in paragraph (d)(1) of Rule 15c2-12, no future information or disclosure will be provided by the Authority, the University or the Bank.

### **RATINGS**

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "Aaa/VMIG1" to the Bonds, based on assurance that payment of principal and Purchase Price of, and interest on, the Bonds will be payable from the proceeds of draws on the Letters of Credit. In addition, Moody's has assigned an underlying rating of "A2" to the Bonds, without regard to the Letters of Credit. Any explanation of the significance of such ratings may only be obtained from Moody's.

There is no assurance that the ratings mentioned above will be assigned or remain in effect with respect to the Bonds for any given period of time or that a rating might not be lowered or withdrawn entirely, if in the judgment of the rating agency originally establishing the rating, circumstances so warrant. Neither the Authority nor the University nor the Underwriter nor the Bank has undertaken any responsibility to bring to the attention of the Bondholders any proposed change in, or withdrawal or non-assignment of a rating or to oppose any such proposed revision, non-assignment or withdrawal. Any such downward change in or withdrawal or non-assignment of a rating might have an adverse effect on the market price or marketability of the Bonds.

### **FINANCIAL ADVISOR**

Bond Logistix LLC has served as financial advisor to the University in connection with the Bonds. Bond Logistix LLC is an independent advisory firm and not engaged in the business of underwriting or distributing municipal securities or other public securities.

## **FINANCIAL STATEMENTS**

The financial statements of the University as of May 31, 2007 and for the year then ended, included in Appendix B of this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report dated September 20, 2007. KPMG LLP has not reviewed the finances of the University subsequent to May 31, 2007.

## **MISCELLANEOUS**

All quotations from and summaries and explanations of the Act, the Indenture, the Loan Agreement and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies in reasonable quantity of the Indenture and the Loan Agreement may be obtained upon request directed to the Underwriter or the University.

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

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The execution and delivery of this Official Statement by the Executive Director of the Authority have been duly authorized by the Authority. The Authority has not provided any of the information in this Official Statement except for the information under the caption “THE AUTHORITY” and the information under the caption “LITIGATION – The Authority”, and makes no representation or warranty, express or implied, as to the accuracy or completeness of any other information of this Official Statement.

**CALIFORNIA EDUCATIONAL FACILITIES  
AUTHORITY**

By: \_\_\_\_\_ /s/ Barbara Liebert  
Barbara Liebert  
Executive Director

The execution and delivery of this Official Statement by the Executive Vice President and Chief Operating Officer of the University have been duly authorized by the University.

**CHAPMAN UNIVERSITY**

By: \_\_\_\_\_ /s/ Harold W. Hewitt, Jr.  
Harold W. Hewitt, Jr.  
Executive Vice President and Chief Operating Officer

## APPENDIX A

### INFORMATION CONCERNING THE UNIVERSITY

*The information presented in this Appendix A has been provided by the University and has not been independently verified or reviewed by the Authority.*

#### Overview of the University

Chapman University (“Chapman” or the “University”) is a nonprofit coeducational institution of higher learning which was originally founded as Hesperian College in 1861. The college merged with California Christian College in 1934 and was renamed in that year in recognition of C.C. Chapman, a pioneering Orange County church leader, real estate investor and rancher. In 1991 the college officially changed its name to Chapman University to recognize its breadth of programs and variety of degrees. The University has, since its inception, maintained a relationship with the Christian Church (Disciples of Christ), although it is nondenominational and independent of church control.

Since 1958, Chapman has provided adult education courses through its University College division. On May 31, 2008, these operations were reorganized and transferred into a new nonprofit corporation that is controlled by Chapman. The new corporation, named “University College of Chapman University,” now provides these courses in 26 Academic Centers located in California and Washington.

Located in the city of Orange, in the heart of Orange County in Southern California, Chapman’s 75-acre main campus includes a number of buildings which date back to the early 1900s, most of which have been completely renovated yet retain their historic charm. The Argyros Forum, a 97,000-square-foot building completed in 1992, houses dining facilities, the bookstore, classrooms and many student services. Other facilities on campus include the Leatherby Libraries, a 100,000-square-foot library facility opened in fall 2004, which contains more than 285,000 volumes and features a study commons and coffee bar, a 60-station computer lab, 16 group study rooms, 6 multi-media preview rooms and more than 700 seats; Oliphant Hall, a 24,000-square-foot music facility, which opened in fall 2004 and houses a modern infrastructure with 14 teaching studios/practice rooms, a lecture hall, a music therapy lab, and an orchestra hall; Marion Knott Studios, housing the Lawrence and Kristina Dodge College of Film and Media Arts, which includes advanced film and television recording studios and a digital editing complex; Hashinger Hall, which houses undergraduate laboratories, classrooms, the computer center and numerous science labs; and Moulton Hall, which includes a stage and theater facility, art studios, student galleries and the Guggenheim Art Gallery. Also located on campus are the newly renovated Berteau Hall, which houses an acoustically sophisticated recital hall; and Harold Hutton Sports Center, a multi-purpose sports facility with a 3,400 seat gymnasium.

Today, Chapman University is the largest private university in Orange County. It is organized into three schools and five colleges, including: the School of Law, the Argyros School of Business and Economics, the Dodge College of Film and Media Arts, the School of Education, the College of Performing Arts, Wilkinson College of Humanities and Social Sciences, the College of Science, and University College (formerly College of Lifelong Learning, and which is now operated through an affiliated corporation, University College of Chapman University).

The total spring semester 2008 headcount enrollment of 5,713 at the main campus, consisting of 3,974 undergraduates and 1,739 graduate students (including the School of Law), equates to full-time equivalent (“FTE”) enrollment of 5,385. The average full-time traditional undergraduate student pays approximately \$46,000 per year for tuition, fees, room and board, and over 77% of undergraduate students receive some type of financial aid.

Chapman currently has 359 full-time faculty members dedicated primarily to teaching, enabling it to provide personalized, often one-on-one attention to its students. Approximately 91% of these faculty members hold doctorates or terminal degrees in their respective fields. To emphasize individual attention from the faculty, the University does not use teaching assistants. The current undergraduate student/faculty ratio is approximately 15 to 1.

U.S. News and World Report ranks Chapman as a top tier western region master's university, and *Peterson's Competitive Colleges* says Chapman "routinely attracts and admits an above-average share of the nation's highest achieving students." The Templeton Foundation has recognized Chapman as one of only 100 colleges and universities nationally as a Character Building Institution, resulting from our students' commitment to community service and stewardship activities.

### **Board of Trustees**

Chapman University is governed by a Board of Trustees (the "Board"), composed of 45 elected members, one-third of whom are elected annually for three-year terms, and 20 ex-officio members. The ex-officio members are the President of the University, the Trustees Emeritus, the president and immediate past president of the Alumni Board, the president of Town and Gown, the chairman of the Board of Governors, the Senior Minister of the Orange First Christian Church and the Regional Ministers of each of three western Regions of the Christian Church (Disciples of Christ). The Board normally meets five times each year.

The Board of Trustees annually elects a chairman, an executive vice chairman, and two vice chairmen for terms of one year. In addition to an Executive Committee which acts for the board between meetings, the Board has thirteen standing committees. Donald E. Sodaro is the chairman of the Board of Trustees. Doy B. Henley is the executive vice-chairman and Donald P. Kennedy and Paul Folino are each vice-chairmen of the Board. The current elected members of the Board of Trustees and their primary affiliations are as follows:

<b>Name &amp; Title</b>		<b>Name &amp; Title</b>	
Wylie A. Aitken	President & Founding Partner Aitken, Aitken & Cohn	Richard Berteau+	President Whitecross, L.P.
Zelma M. Allred	CEO Pool Water Products	Marta Bhathal*	President and COO Raj Manufacturing, Inc.
George L. Argyros	Chairman & CEO Arnel & Affiliates	Raj S. Bhathal	CEO Raj Manufacturing, Inc.
Dennis D. Assael		H. Ben Bohren, Jr.*	Gen'l Regional Minister/Pres Christian Church of Northern California
Nancy L. Baldwin	Owner JPB Development	Lynn A. Booth+	
Phillip H. Case	CEO Rondell Homes	Roger C. Hobbs	President R.C. Hobbs Company
Scott Chapman	President Project Hosts, Inc.	Sarah Caton Hogan	
		William K. Hood	Retired

**Name & Title**

Arlene R. Craig President  
The Betty L. Hutton Title Holding Company

J. Ben Crowell+ Retired  
Business Executive

Jerome W. Cwiernia Chairman & CEO  
Poly-Tak Protection Systems, Inc.

Donald E. Dewey\* Co-regional Minister  
Pacific Southwest Region of the  
Disciples of Christ Christian Church

Robert D. Diaz\* Hodel Briggs Winter, LLP

Kristina Dodge Vice President  
American Sterling Productions, Ltd.

James L. Doti\* President  
Chapman University

Leslie N. Duryea+

Robert A. Elliott+ Chairman  
Elliott Investment Company

Paul F. Folino Executive Chairman  
Emulex Corporation

Donna Gladson\*

Rebecca A. Hall\* President and CEO  
Idea Hall

Michael K. Hayde Chief Executive Officer  
Western National Group

David C. Henley President  
Henley Publishing Corporation

Doy B. Henley CEO  
Henley Properties

**Name & Title**

Business Executive

David A. Janes, Sr. CEO  
Janes Capital Partners

Mark Chapin Johnson President, CEO & Director  
Mark Chapin Johnson Foundation

Donald P. Kennedy Chairman of the Board  
First American Corporation

Marion Knott+ President  
Marion Knott Foundation

Joann Leatherby President  
Leatherby Family Offices

Thomas J. Liggett+ Retired President  
Christian Theological Seminary

Jack B. Lindquist+ President/CEO  
Lindquist Group, Inc.

Hadi Makarechian Chairman  
Capital Pacific Holdings, Inc.

Charles D. Martin Chairman and CEO  
Mont Pelerin Capital LLC

James V. Mazzo President and CEO  
Advanced Medical Optics

Randall R. McCardle

Paul Musco Chairman of the Board  
Gemini Industries, Inc.

Gloria H. Peterson+

Cecilia Presley General Partner  
Motion Picture Associates

**Name & Title**

Harry S. Rinker                      Chairman of the Board  
Rinker Company

Barry Rodgers+                      The Rodgers Foundation

James B. Roszak                      Retired  
Business Executive

Ed Royce                              Representative  
40<sup>th</sup> Congressional District

Loretta Sanchez                      Representative  
47<sup>th</sup> District, U.S. Congress

M. Sandy Sandhu                      Trustee  
Sandhu Charitable Remainder Unitrust

Richard R. Schmid+                      Partner  
Sundstrom & Schmid Engineering

J. Ronald Sechrist                      President and CEO  
Sechrist Industries, Inc.

Allen Sessoms                              President  
Delaware State University

Ron M. Simon                      RSI Holding Corporation

**Name & Title**

Stanley D. Smith\*                      Senior Pastor  
First Christian Church, Orange

Donald E. Sodaro                              Chairman  
Hanford Hotels, Inc.

Ronald E. Soderling                              Senior Partner  
RESCO Development Incorporated

R. David Threshie, Jr.                              Chairman Emeritus  
Freedom Communications, Inc.

Daniel D. Villanueva                              Managing Partner  
RC Fontis Partners

Karen R. Wilkinson                              Academic Head  
Dept. of Liberal Studies  
Kettering University

Denny Williams\*                              Regional Minister  
Arizona Region  
Christian Church of Arizona

David W. Wilson                              President and CEO  
Wilson Automotive Group

+ Emeritus Trustee  
\* Ex-Officio

**Management**

The President of the University is appointed by the Board and is responsible for the management of the University. The President appoints each of the several vice presidents of the University.

The following table sets forth the names of the principal executive officers of the University, the position held by each and the respective year of appointment. Following the table is a statement concerning the background of each executive officer.

<u>Name &amp; Position</u>	<u>Appointment</u>
JAMES L. DOTI President	1991
DANIELE STRUPPA Chancellor, Orange Campus	2006
GARY BRAHM Chancellor, University College	1994

HAROLD W. HEWITT, Jr.  
Executive Vice President & Chief Operating Officer

2007

SHERYL BOURGEOIS  
Executive Vice President for University Advancement

2000

JAMES L. DOTI earned his B.S. degree in economics from the University of Illinois, Chicago, and his A.M. and Ph.D. degrees from the University of Chicago. He has been president of Chapman University since 1991 and holds the Donald Bren Distinguished Chair in Business and Economics. Dr. Doti's articles have appeared in academic journals as well as periodicals such as *The Wall Street Journal* and *The Chronicle of Higher Education*. He is the co-author of two econometrics texts and co-editor of a collection of readings in free enterprise that received the Templeton Honor Award for Scholarly Excellence. Dr. Doti is a member of Governor Arnold Schwarzenegger's Council of Economic Advisors. He also serves on the board of the National Association of Independent Colleges and Universities and recently completed a six-year term as chairman of the Association for Independent California Colleges and Universities. He is a recipient of the Horatio Alger Award and the Ellis Island Medal of Honor.

DANIELE STRUPPA holds a Ph.D. in mathematics from the University of Maryland (1981) and has served in numerous academic and administrative capacities before joining Chapman University as its Provost in 2006, and now as its Chancellor. Dr. Struppa's previous positions include Chair of the Department of Mathematics and Dean of the College of Arts and Sciences at George Mason University. Dr. Struppa is the author of more than 110 publications in mathematics, including two full-length books and several edited volumes. Dr. Struppa has served on the boards of numerous non-profit organizations, such as the George Mason University Foundation, the Fall for the Book Festival, the Virginia Foundation for the Humanities, the Center for Media and Public Affairs, and the Center for the Arts and Policy.

GARY BRAHM received a B.S. (1980) in biology from California State University, Northridge and an M.B.A. (1983) from the University of Southern California. Before joining the University in 1994, Mr. Brahm was the Vice President of Finance and Chief Financial Officer at National University from 1989 to 1994. He has also served as Vice President, Chief Financial Officer and Director of Anadite, Inc., and Vice President and Chief Financial Officer of, and was a principal in, LAM Industries. Mr. Brahm is currently Chancellor of University College of Chapman University, a network of 26 satellite campuses, overseeing all aspects of the college. Directorships include the Jewish Community Foundation of Orange County where he is President of the Board. Mr. Brahm also serves as an integral member of numerous Western Association of Schools and Colleges ("WASC") visiting teams and was recently appointed to a three-year term of the Interim Review Committee of WASC.

HAROLD W. HEWITT, Jr. joined Chapman University as Executive Vice President and Chief Operating Officer in 2007. Mr. Hewitt has served independent higher education as a financial administrator for 20 years, including as the Assistant to the Treasurer of the Claremont University Center (1986-88), and then as Chief Financial Officer at Whittier College (1989-96), and Occidental College (1996-06). His past professional association service includes: Representative of the Western Association of College and University Business Officers ("WACUBO") to the National Association of College and University Business Officers ("NACUBO") Small Institutions Council, the NACUBO Tuition Discounting Survey Advisory Board, Program Chair for NACUBO's program "The Business of Enrollment Management"; and membership on WACUBO's Professional Development Committee. He serves currently as a member of the Substantive Change Committee of the Western Association of Schools and Colleges. He earned an MBA from the Peter F. Drucker and Masatoshi Ito Graduate School of Management at The Claremont Graduate University.

SHERYL BOURGEOIS received a B.A. (1989) in English from University of California, Los Angeles and is currently pursuing a Ph.D. in Education at Claremont Graduate University. She joined

Chapman University in 1998 as the Director of Special Events, and after promotions to University Director of Corporate Relations and Special Events and, later, Assistant Vice President and Vice President, she received her appointment as Executive Vice President for University Advancement in 2007. Prior to joining Chapman University, her career began as the Regional Coordinator at the Southern California Muscular Dystrophy Association. Other positions included Director of Development at City of Hope Medical Center and Associate Director of Development at the University of California, Irvine. Ms. Bourgeois holds numerous credentials and certificates in various areas of institutional development and has served as a presenter, speaker and trainer at many local and regional trade events. She is currently a member of the Association of Fund Raising Executives and the Council for Advancement and Support of Education.

### **Academic Programs**

Chapman University offers a broad spectrum of undergraduate, graduate, credential, and certificate programs, as well as continuing education programs. In the 2006-07 academic year, the University awarded degrees to a total of 3,204 students, of whom 1,729 received undergraduate degrees and 1,475 received graduate degrees (including law degrees). See “Student Applications, Enrollment and Degrees - Enrollment” herein.

***George L. Argyros School of Business and Economics.*** Chapman’s AACSB-accredited Argyros School of Business and Economics offers an MBA and Executive MBA along with undergraduate degrees in business administration, accounting, and economics. The Argyros School of Business and Economics is one of only 555 institutions worldwide to be accredited by the Association to Advance Collegiate Schools of Business (“AACSB”).

Students are challenged in academic programs that stress economics and the functional areas of business reinforced by analytical and behavioral skills within a pragmatic framework. Entrepreneurship and ethics as well as written and oral communication skills are integrated throughout the curriculum, along with elements of international business. Programs stress career development and a positive learning environment along with leadership, creativity and critical thinking. The School provides numerous opportunities for experiential learning through internships, study abroad, and travel courses to such locations as China, Hong Kong, Vietnam, Czech Republic, Washington D.C. and New York City. The School is currently planning to open (pending external approval) its first international MBA Program on the campus of Anglo-American University in Prague in fall 2008.

The A. Gary Anderson Center for Economic Research, the Ralph W. Leatherby Center for Entrepreneurship and Business Ethics, the Walter Schmid Center for International Business, and the Hobbs Institute for Real Estate, Law and Environmental Studies operate in close partnership with firms and organizations in the region to create collaborative opportunities for students and faculty. The A. Gary Anderson Center for Economic Research presents the annual Economic Forecast Conference, which draws 2,000 prominent businesspeople to hear nationally recognized economists Dr. James Doti and Dr. Esmael Adibi present the Center’s innovative regional forecast. These research results have been quoted in *The Wall Street Journal*, *Business Week*, *Newsweek*, *The New York Times*, *Time Magazine*, *Christian Science Monitor* and *U.S.A. Today*.

***Lawrence and Kristina Dodge College of Film & Media Arts.*** The nationally recognized Dodge College of Film and Media Arts offers undergraduate and graduate degrees leading to careers in film and television, broadcast journalism, and public relations and advertising. In addition, graduate students may enroll in the Juris Doctor/Master of Arts in Film and Television Producing with the School of Law.

Dodge College is comprised of the Sodaro-Pankey School of Media Arts, the Conservatory of Motion Pictures, and the Institute for the Study of Media and the Public Interest. The Sodaro-Pankey School of Media Arts offers bachelor of art degrees in film production, screenwriting, film studies, television and broadcast journalism, digital arts, and public relations and advertising. The Conservatory of Motion Pictures offers graduate-level degrees, including the master of arts in film studies and the master of fine arts in film production, film and television producing, production design and screenwriting. Each program provides Chapman students with a specialized course of study to prepare them for production-oriented careers in the film and television arts, including directing, cinematography, editing, production design and sound design, utilizing both traditional and cutting-edge digital technology to simulate real-life filmmaking experiences.

The Institute for the Study of Media and the Public Interest was created to establish avenues for dialogue between the University faculty and students and researchers, scholars, artists, and business and community leaders on media-related topics that will lead to improvements in the quality of life in all global communities.

Students in Dodge College start filming in their first class under the guidance of award-winning faculty, enjoy 24-hour access to the latest digital equipment, and interact personally with well-known writers, directors, producers and editors who screen their work on campus as part of the college's focus on introducing students to "the business of the business." Students work in the 76,000-square-foot Marion Knott Studios, a professional-level facility that includes sound stages and stages for cinematography, broadcast journalism and television, foley, Dolby surround mixing, green screen, a 500-seat digital cinema with 35mm projection, and all-digital post-production graphics and digital post-production labs.

During the spring semester, the Filmmaker-in-Residence Program brings renowned filmmakers to campus to interact with students. Filmmakers-in-Residence have included directors Arthur Hiller (*Love Story*, *Hospital*), Mark Rydell (*On Golden Pond*, *Cinderella Liberty*), Daniel Petrie Sr. (*A Raisin in the Sun*, *Fort Apache: The Bronx*), John Badham (*Saturday Night Fever*, *War Games*), Peter Medak (*Romeo is Bleeding*, *The Ruling Class*), Carl Franklin (*Devil in a Blue Dress*, *Out of Time*), William Friedkin (*The Exorcist*, *The French Connection*), Harold Becker (*The Onion Field*, *Sea of Love*), writer/editor Bob Jones (*Being There*, *Shampoo*), and Oscar-winning writer and director David Ward (*The Sting*, *Major League*).

Outreach programs include *First Cut*, the annual screening of student work in Hollywood, and the publication of *Killer Scripts*, a summary of top scripts submitted to industry agents and production companies to showcase student work. Internships are available at the major studios, production companies, television stations, and PR and advertising agencies. Dodge College is currently planning to open (pending external approval) its first international BFA Program in Creative Producing on the campus of Ngee Ann Polytechnic in Singapore in fall 2008.

Internationally, Chapman is one of 13 colleges and universities elected to membership in the Centre International de Liaison des Ecoles de Cinéma et de Télévision, the preeminent international body of film schools.

**School of Education.** The School of Education is approved by the California Commission on Teacher Credentialing to offer credentials in single subject and multiple subjects, learning handicapped, severely handicapped, pupil personnel services with specializations in counseling and school psychology, and administrative services. The School of Education offers bachelor's degrees in liberal studies and athletic training education. The athletic training education program is accredited by the Commission on Accreditation of Athletic Training Education.

At the graduate level, both public school credential programs and graduate degrees are offered, including master's degrees in education, special education, teaching (elementary and secondary education), counseling, and educational psychology. The School of Education's school psychology program is accredited by the National Association of School Psychologists. The School of Education opened the university's first Ph.D. Program in Education in fall 2007.

The School of Education also provides comprehensive services to the University and community through the Kathleen Muth International Reading and Learning Center. Programs are service-oriented, consciously aiming to prepare students to work with the children and youth of varied cultural backgrounds, economic levels, and value orientations that are found in contemporary California.

**School of Law.** Established in 1995 and accredited by the American Bar Association ("ABA") in 2002, the Chapman University School of Law is located in Kennedy Hall on Chapman's Orange campus. The School of Law's location on the main campus of the University provides numerous opportunities for interdisciplinary learning experiences. In addition to team-taught and cross-listed courses, law students enjoy all the facilities of the main campus, including sports facilities, extensive student services, and access to the main library and other research resources.

The School of Law has 40 full-time faculty members, many with teaching experience at other ABA-accredited law schools; a law library with more than 280,000 volumes and volume equivalents; and a comprehensive curriculum that offers sound training in the core courses and a useful array of electives.

In addition to traditional interdisciplinary courses, law students may enroll in the Juris Doctor/Master of Business Administration (JD/MBA), a dual degree program offered in conjunction with the George L. Argyros School of Business and Economics, and a JD/MFA in Film and Television Producing with the Lawrence and Kristina Dodge College of Film & Media Arts. At the graduate level, legal practitioners may earn the LL.M. degree in Taxation and a new LL.M. degree in Prosecutorial Science, the first of its kind in the nation. The School of Law also offers a variety of legal clinics designed to help students hone their legal skills and prepare for legal careers while providing needed services to the community.

An expansion in faculty and programs in recent years has elevated Chapman to one of the nation's premier law schools in Entertainment Law and a major player in International, Criminal, and Constitutional Law. With faculty members who have clerked for six United States Supreme Court Justices and an influx of several million dollars, Chapman has enhanced its leadership in Tax and Business Law, Clinical Programs, Advocacy and Dispute Resolution, and Environmental, Land Use, and Real Estate Law. Chapman University is also the only law school in California with a Nobel laureate on its faculty.

The Chapman University School of Law has moved into the 3rd tier of law schools in the latest *U.S. News & World Report* rankings, a noteworthy achievement for a law school that has been in existence for just 13 years. The School of Law now ranks in the 1st or 2nd tier of law schools in many categories. The School ranks #1 in the country in *Princeton Review's* "Quality of Life," #5 in the country in "Professors Rock (Legally Speaking)," and #7 in the country for "Best Classroom Experience." The School of Law is also a member of the Association of American Law Schools.

***College of Performing Arts.*** The College of Performing Arts was established in 2007 to offer degree programs in four departments of the performing and fine arts: Art, Music, Dance and Theatre.

Students in the Department of Art, with its programs in art, art history, studio art, and graphic design, develop creative, analytical and technical skills necessary for a successful career in the arts. The Guggenheim Gallery provides students opportunities to showcase their work in juried exhibitions and hosts regular exhibitions of works by noted professional artists.

Students in the Departments of Dance and Theatre develop performance and technical skills in a liberal arts context. Performances in regional and national festivals have earned the department national recognition. Students majoring in theatre develop technical skills and performance talent through four main-stage productions annually and a variety of student-directed productions. Both faculty and student productions have earned regional and national awards.

The Conservatory of Music, accredited by the National Association of Schools of Music, is an internationally known program that draws instrumental and choral performance students from around the country. The Conservatory of Music offers the bachelor of arts in music and pre-professional programs leading to the bachelor of music in composition, music education, music therapy, and performance (conducting, instrumental, keyboard collaborative arts, and vocal).

The Conservatory offers music education with an emphasis on traditional academic disciplines combined with the development of personal performance skills within Chapman's liberal arts framework. Oliphant Hall, a 24,000-square-foot addition to the Conservatory of Music complex that opened in fall 2004, incorporates the latest technology in music education, linking all instructional, performance, and recording areas, as well as faculty offices and studios. This enables the Conservatory of Music to record classes, rehearsals and concerts with a flexibility and technical clarity not available in other area schools.

Chapman's orchestral and choral performance groups have toured the nation and the world. The University Choir is in regular performances with the Los Angeles Philharmonic and the Hollywood Bowl Orchestras.

***Wilkinson College of Humanities and Social Sciences.*** Wilkinson College of Letters and Sciences was the first college at Chapman University, and its programs follow the longest established tradition in higher education, the liberal arts and sciences. Beginning in the 2008-09 academic year, Wilkinson College of Letters and Sciences will be separated into Wilkinson College of Humanities and Social Sciences ("Wilkinson College") and a new College of Science.

Wilkinson College faculty teach the majority of courses in Chapman's general education program and in undergraduate degree programs in English, history, languages, communication studies, political science, peace studies, philosophy, religious studies, and sociology. The Department of English offers master's degrees in English and creative writing and the Department of Communication Studies will house a new master's degree in health communication. An interdisciplinary master's degree in international studies will also be offered in the Wilkinson College of Humanities and Social Sciences.

Wilkinson College welcomes students and the public to its many lecture series addressing topical social and political issues, and to the Rodgers Center for Holocaust Education, the Sala and Aron Samuelli Holocaust Memorial Library and the Albert Schweitzer Institute. Wilkinson College students also participate in the Model UN program, study abroad, and internship experiences—in Washington, D.C. and locally—in disciplines including English and journalism, history, political science, peace studies and sociology, among others. Award-winning forensics teams sponsored by the Department of Communication Studies offer students the means to compete in regional and national tournaments in such

areas as speech, debate, mock trial, and readers' theatre. In addition, students may learn media realities through Chapman Radio, also sponsored by the department.

Wilkinson College is home to the Henley Social Sciences Research Laboratory, which provides students with the opportunity to master the methods of survey research and conduct inquiries on social issues of concern to government agencies, non-profits, political campaigns, community and private organizations, and the media. Wilkinson College students apply their developing academic knowledge to real-world experiences through community service, in such diverse settings as the Second Harvest Food Bank, community park cleanup, mediation services, psychological counseling centers, shelters, group homes, crisis centers, and public and private schools.

***College of Science.*** The new College of Science houses a new Department of Physics, Computational Science and Engineering that will open in fall 2008, as well as established departments of biological sciences, chemistry, mathematics and computer science, physical therapy, and psychology. The College offers undergraduate degrees in biological sciences, chemistry, biochemistry, mathematics, computer science, computer information systems, psychology, and health sciences. The Department of Physical Therapy offers a doctoral degree in physical therapy that is accredited by the Commission on Accreditation in Physical Therapy Education. The Department of Psychology offers a master's degree in psychology (marriage and family therapy) that has received candidacy accreditation from the Commission on Accreditation for Marriage and Family Therapy. The Food Science program offers a master's degree in food science.

The new Department of Physics, Computational Science and Engineering features a world-renowned physics and computational science team led by Dr. Yakir Aharonov and Dr. Menas Kafatos. Dr. Aharonov is co-discoverer of the Aharonov-Bohm Effect, one of the cornerstones of modern physics. Dr. Kafatos has an extensive administrative international reputation, research record and interdisciplinary experience in astrophysics, earth system science, hazards and global change, and computational science.

The physics and computational science team is expected to be involved in research projects spanning such fields as climate change and hazards, quantum mechanics, computational neuroscience, information science, supercomputing, earth observing, quantum coherence, environmental science and cosmology. They will also identify and offer support to new fields evolving in mathematics and the social, biological, computational, economic and physical sciences. The team's focus is on computational science in general, and their arrival will immediately promote Chapman to national prominence in the areas of applications to earth observations and earth system science, and quantum computing.

The physics and computational science team will establish a new Center of Excellence with two research units that focus on Quantum Studies and Earth Observing. A new undergraduate degree in physics, with concentrations in computational science, climate and hazards, and engineering, will be created, with prospects of putting in place graduate programs within four years.

***Economic Science Institute.*** Dr. Vernon L. Smith, 2002 Nobel Laureate in economics and internationally recognized as "the father of experimental economics," leads a five-person team of nationally recognized educators and researchers in economic science in establishing the University's Economic Science Institute (the "Institute"). The Institute is a multidisciplinary unit that straddles the Argyros School of Business and Economics, the School of Law, Wilkinson College of Humanities and Social Sciences, and the College of Science. Two members of the team hold joint appointments in the School of Law and Argyros School of Business and Economics, and the other members hold appointments in the Argyros School of Business and Economics.

Dr. Smith was awarded the 2002 Nobel Prize in Economic Sciences for having established laboratory experiments as a tool in empirical economic analysis, especially in the study of alternative market mechanisms.

**University College.** Chapman provides adult education programs through its affiliated corporation, University College of Chapman University. These programs began in 1958, with the establishment of an off-campus Academic Center at El Toro Marine Corps Air Station in Orange County, California. Other military installations soon requested that Chapman offer educational programs for military personnel, and Chapman expanded its Academic Center program. Currently, the majority of Academic Centers are operated at civilian locations throughout California and Washington, but they remain a presence on many bases for all branches of the armed forces. There are currently 26 Academic Centers providing a range of both graduate and undergraduate degree programs. Although initially operated directly by Chapman University, in May 2008 these operations were reorganized and transferred to a newly formed nonprofit corporation, named “University College of Chapman University.” The governing board of University College of Chapman University is appointed by the Board of Trustees of Chapman University, and the majority of the governing board of University College are members of the Board of Trustees of Chapman University. Furthermore, all excess funds from the operation of University College’s Academic Centers are required to be paid to Chapman University.

The mission of the University College is to create and deliver the innovative academic programming necessary to serve the higher educational needs of students who require alternatives to traditional campus-based programs. Innovation in curriculum and methods is driven by strong learner orientation, an assessment of community needs and the academic objective of developing lifelong learning skills.

Because of the University’s long tradition of educating military personnel, University College maintains a close liaison with the Armed Forces Contract Degree Program, the Community College of the Air Force, the Defense Activity for Nontraditional Education Support and the Navy Campus Contract Degree Programs. University College has been designated as a Servicemen’s Opportunity College, which designation allows University College to operate its program directly on military bases.

Students at the University College’s Academic Centers typically seek a baccalaureate or master’s degree in a compressed timeline, are returning to obtain a graduate degree for career enhancement, or are adult learners with specific timelines and educational goals. Courses are designed for terms that usually meet for nine or ten weeks on a year-round basis. Classes are offered in the late afternoons or evenings or, on occasion, on weekends.

Each center maintains a full-time professional staff that provides personal attention throughout the student’s degree program. Both qualified full-time and adjunct faculty provide quality instruction in all majors and programs. The Orange Campus coordinates services in the admissions, registration, financial aid, business, and learning resources to each Academic Center. As each Academic Center is an integral part of the University, academic standards are consistent with the Orange Campus.

The University regularly reviews the Academic Centers in order to determine whether the geographic scope of the program should be modified. The result of such reviews is that from time to time the University consolidates or expands facilities in an effort to meet changing needs.

### **Foreign Study and Exchange Programs**

Many students at Chapman take advantage of the University’s study abroad program. Through this program, students may earn credits toward a Chapman degree while attending universities and

colleges in more than forty different countries, including Africa, Asia, Australia/New Zealand, Europe and Latin America. The program is flexibly designed in order to permit students to study abroad for a semester, during the summer, between semesters or for an entire year.

### **Student Housing**

The University believes that residential life plays an important role in a student's development, and therefore it seeks to augment its traditional curriculum with a variety of educational and developmental programs through its Department of Housing and Residence Life. Consistent with this emphasis on residential education, all first year students are strongly encouraged to reside on campus and are guaranteed housing if they apply by the application deadline. Continuing sophomores, especially those from out of the area, are given top priority for available space in the residence halls. Out-of-the-area juniors and seniors are given top priority in the assignment process in the University Apartments. The University is currently constructing a new residence facility to add an additional 300 beds to campus housing in fall 2009 and is in the planning process to add another 700 beds in the next four to five years.

Each semester the University provides through the residence halls numerous educational, orientation and development activities. These have included presentations by leadership development programs, community service projects, faculty guest speakers, alcohol and drug awareness programs, social justice and cross-cultural awareness seminars, communication skills workshops and presentations on other subjects of interest.

The University currently offers students a variety of living accommodations, including residence halls, apartment buildings and small houses adjacent to the campus. Chapman's residence halls and apartments are staffed by professional Resident Directors, all of whom have previously completed a master's degree, and undergraduate "Resident Advisors" who assist in organizing the residential education activities. In academic year 2007-08, Chapman's residential facilities were comprised of 1,228 residence hall spaces (although 1,464 students were accommodated by requiring triple occupancy in many rooms), 210 beds in apartments and 55 separate houses where students with families, graduate students, faculty and staff reside; all housing units were fully occupied. Room and board fees paid by students constitute a material portion of the University's total revenues. See "Tuition/Room and Board Charges."

### **Student Applications, Enrollment and Degrees**

**Applications.** The University attracts students from around the country and world. Of the freshmen at the Orange campus during the 2007-08 school year, 28% are from the Orange County vicinity, 23% are from the Southern California region (exclusive of Orange County), 14% are from Northern California and the remaining 35% come from out of state and from foreign countries. The freshman class for fall 2007 represented more than 500 high schools.

The following table shows the University's application and new enrollment information for the fall semester for the current and each of the four most recent academic years for the traditional undergraduate program on the Orange campus.

FRESHMEN AND TRANSFERS				
<u>Fall Semester</u>	<u>Applications</u>	<u>Admissions</u>	<u>New Enrollments</u>	<u>Freshman Avg. SAT</u>
2003	3,831	2,409	1,123	1187
2004	4,463	2,638	1,191	1194
2005	4,798	2,574	1,154	1207
2006	5,230	2,769	1,259	1213/1820
2007	5,841	2,939	1,250	1219/1830

GRADUATES				LAW SCHOOL		
<u>Fall Semester</u>	<u>Applications</u>	<u>Admissions</u>	<u>New Enrollments</u>	<u>Applications</u>	<u>Admissions</u>	<u>New Enrollments</u>
2003	1,124	681	378	1,689	454	167
2004	1,014	649	396	2,333	595	181
2005	906	613	395	2,301	695	194
2006	1,038	592	365	2,385	783	197
2007	1,241	640	385	2,386	900	212

## Enrollment

The following tables set forth, for the current and four most recent academic years, the University's fall FTE enrollment.

### FALL TERM FTE ENROLLMENT

<u>Fall Semester</u>	ORANGE CAMPUS				UNIVERSITY COLLEGE			<u>Entire University</u>
	<u>Undergrad</u>	<u>Graduate</u>	<u>Law</u>	<u>Total</u>	<u>Undergrad</u>	<u>Graduate</u>	<u>Total</u>	
2003	3,344	958	434	4,736	1,905	2,853	4,758	9,494
2004	3,627	1,009	494	5,130	1,901	2,669	4,570	9,699
2005	3,769	1,031	569	5,370	1,956	2,601	4,556	9,926
2006	3,987	1,029	552	5,568	1,636	2,639	4,275	9,843
2007	4,095	1,050	568	5,713	2,867	1,645	4,512	10,224

The following table sets forth the total FTE enrollment at the Orange Campus for traditional programs in the fall semester 2007 and projected enrollment for the fall semester 2008, both by school and by undergraduate and graduate status.

	Total Enrollment – Orange Campus			
	Fall 2007		Fall 2008	
	<u>Undergraduate</u>	<u>Graduate</u>	<u>Undergraduate</u>	<u>Graduate</u>
School of Business and Economics	857	160	905	170
School of Film and Television	892	234	900	240
School of Performing Arts	609	0	620	0
School of Education	194	395	180	380
School of Law	0	568	0	531
Undecided	248	0	272	0
Wilkinson College of Letters and Sciences	1,331	260	1,350	275

Note: Students with two majors are included in both schools.

## Degrees Conferred

Recent freshman retention data shows that at the end of six years approximately 67% of the University's first-year students have received their degrees or are still enrolled. The following table sets

forth the number of undergraduate and graduate degrees awarded by the University for each of the academic years 2002-03 through 2006-07.

Academic Year	ORANGE CAMPUS			UNIVERSITY COLLEGE		TOTAL			
	<u>Undergrad</u>	<u>Graduate</u>	<u>Law</u>	<u>Undergrad</u>	<u>Graduate</u>	<u>Undergrad</u>	<u>Graduate</u>	<u>Law</u>	<u>Total</u>
2002-03	649	285	91	830	912	1,479	1,197	91	2,767
2003-04	665	301	98	789	800	1,452	1,001	98	2,651
2004-05	743	359	133	797	782	1,540	1,141	133	2,848
2005-06	764	372	192	848	875	1,612	1,247	192	3,051
2006-07	898	426	179	831	870	1,729	1,296	179	3,204

## Accreditation

The University is accredited by and is a member of the Western Association of Schools and Colleges, Accrediting Commission for Senior Colleges and Universities, the primary accrediting body for institutions of higher education in the western United States. Its teacher training and credential programs are approved by the California Commission on Teacher Credentialing of the California State Department of Education. The University's physical therapy program is accredited by the Commission on Accreditation in Physical Therapy Education. The school psychology program is accredited by the National Association of School Psychologists. The athletic training education program is accredited by the Commission on Accreditation of Athletic Training Education. The business programs of the George L. Argyros School of Business and Economics are accredited by the Association to Advance Collegiate Schools of Business. The juris doctorate program of the School of Law is accredited by the American Bar Association. The School of Law has also received accreditation from the Association of American Law Schools. The School of Music is accredited by the National Association of Schools of Music. The marriage and family therapy program has received candidacy accreditation from the Commission on Accreditation for Marriage and Family Therapy. The University is also a member of the Independent Colleges of Southern California, the College Entrance Examination Board, the Western College Association, the Association of Independent California Colleges and Universities, the American Council on Education, the American Association of Colleges for Teacher Education, and the Division of Higher Education of the Christian Church (Disciples of Christ).

## Athletics, Activities and Recreation

Learning at Chapman takes place in many arenas, both inside and outside the classroom. Students are encouraged to take responsibility for their extracurricular education and are offered clubs and organizations to help make this possible. These include religious, political, academic and special-interest groups, as well as fraternities and sororities.

Chapman's athletic teams, nicknamed the Panthers, are members of the National Collegiate Athletic Association (NCAA) Division III. Chapman is eligible to compete as a Division III Independent for all national championships. Intercollegiate men's teams compete in football, golf, cross country, baseball, basketball, soccer, tennis, crew, water polo and various club sports such as men's swimming, men's crew, men's track and field, sailing and lacrosse. Chapman's women's intercollegiate teams compete in tennis, crew, cross country, track and field, swimming, basketball, softball, volleyball and soccer. The University's intramural program offers organized team sports in softball, basketball and volleyball, as well as activities in tennis, jogging, weight lifting, surfing and bicycling.

Chapman University is currently completing construction on the new \$25 million Erin J. Lastinger Athletics Complex, which will provide a state-of-the-art new home not only for the Donald P. Kennedy Intercollegiate Athletics Program but also for leisure athletic pursuits and student, faculty and staff fitness. This new complex includes a double-sided stadium: on one side, 1,800-seat Ernie Chapman

Stadium will look out over Holly and David Wilson Field, where Panther football, soccer and lacrosse games will be played; while on the other side, the 500-seat Frank E. and Mary Ann O'Bryan Aquatics Stadium will oversee the Zee Allred Aquatics Center and a new Olympic-sized pool. The new Nancy and James Baldwin Family Athletics Pavilion will house coaches' offices, classrooms and weight and training facilities.

The Movement and Exercise Science Department offers a number of additional activities, including archery, badminton, racquetball, aerobics, weight training, and swimming. Sports facilities include the Hutton Sports Center, which has indoor facilities for basketball, weight training and gymnastics. Adjacent to the Hutton Sports Center are the tennis courts, the football field and the stadium.

## Competition

The following table lists the major independent universities in the State of California that the management of the University has identified as competitors to the University. Shown in the following table are the approximate annual tuition over the past five academic years and Fall 2007 undergraduate enrollment for these institutions and for the University.

<u>Institution</u>	<u>2003-04 Tuition</u>	<u>2004-05 Tuition</u>	<u>2005-06 Tuition</u>	<u>2006-07 Tuition</u>	<u>2007-08 Tuition</u>	<u>Fall 2007 Enrollment<sup>(1)</sup></u>
Pepperdine University	\$27,430	\$28,630	\$30,770	\$32,620	\$34,580	3,116
Santa Clara University	25,365	27,135	28,899	30,900	33,000	5,204
University of San Diego	23,410	24,860	26,350	30,480	32,300	4,824
Chapman University	23,950	25,500	28,050	29,900	31,700	4,064
Loyola Marymount University	23,504	25,266	27,162	29,198	31,168	5,576
University of San Francisco	23,220	24,800	26,680	28,420	30,840	5,263
University of the Pacific	23,180	24,320	25,658	26,920	28,480	3,401

<sup>(1)</sup> Total Undergraduate FTE enrollment using Integrated Postsecondary Education Data System methodology.

## FINANCIAL CONDITION OF THE UNIVERSITY

### Financial Statements

The financial statements of the University are presented in Appendix B. The statements provide information for the years ended May 31, 2006 and May 31, 2007. **All of the financial information provided below reflects the results of operations of both Chapman and the University College, on a combined basis.**

The University is dependent on student tuition and fees to finance its current operations. Due to steady growth in enrollment at the Orange Campus and the Academic Centers and increased rates in student tuition, tuition, fees and revenues of the University have increased approximately 25% since 2004. Instructional costs have increased approximately 22% over the same four-year period.

The University has adopted the provisions of Statements of Financial Accounting Standards ("SFAS") No. 116, Accounting for Contributions Received and Contributions Made, and No. 117, Financial Statements of Not-for-Profit Organizations. SFAS No. 116 generally requires that contributions received, including unconditional promises to give, be recognized as increases in net assets in the period received at their fair values. SFAS No. 117 requires that the University segregate its activities and net assets into three classes as follows: unrestricted, temporarily restricted, and permanently restricted. In

addition, it requires the presentation of a statement of cash flows. The University's financial statements for the years ended May 31, 2004 and later reflect the adoption of SFAS 116 and SFAS 117.

The University's Unrestricted Operating Activities for the years ended May 31, 2004 through 2007 are set forth in the table on the following page.

**Chapman University**  
**Unrestricted Operating Activities**  
**For the Years Ended May 31, 2004 through 2007**  
**(In Thousands of Dollars)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Revenues, gains and other support</b>				
Tuition and fees	\$154,238	\$173,182	\$190,154	\$210,726
Less: University-funded scholarships	<u>(35,458)</u>	<u>(38,960)</u>	<u>(42,637)</u>	<u>(50,342)</u>
Net tuition and fees	118,780	134,222	147,517	160,384
Endowment returns designated for operations:	3,668	2,128	2,481	4,501
Other investment income	190	1,048	2,293	3,272
Private gifts, grants and bequests	5,581	6,219	6,280	9,526
Auxiliary enterprises	12,235	15,055	16,226	19,880
Other sources	<u>6,792</u>	<u>5,951</u>	<u>6,870</u>	<u>8,201</u>
	147,246	164,623	181,667	205,764
Net assets released from restrictions and transfers	<u>1,678</u>	<u>1,664</u>	<u>628</u>	<u>4,678</u>
Total Revenues, Gains and Other Support	148,924	166,287	182,295	210,442
<b>Expenses</b>				
Education and general				
Instruction	67,015	71,732	73,527	81,749
Academic support	17,534	20,251	22,142	24,175
Student services	16,429	16,917	18,728	21,191
General institutional support	<u>27,091</u>	<u>27,699</u>	<u>28,277</u>	<u>32,196</u>
Total educational and general expenses	128,069	136,599	142,674	159,311
Auxiliary enterprises	<u>7,131</u>	<u>8,858</u>	<u>10,302</u>	<u>12,705</u>
Total expenses and losses	135,200	145,457	152,976	172,016
Increase (decrease) from operating activity	\$13,724	\$20,830	\$29,319	\$38,426

## Plant Funds

The following table sets forth Chapman's Plant Funds assets, at book value, for each of the last five fiscal years. The University has recorded \$80,409,000 in accumulated depreciation as of May 31, 2007.

<b>Invested in Plant Funds Assets At Cost Before Depreciation (In Thousands of Dollars)</b>					
<b><u>Year Ended May 31,</u></b>	<b><u>Land, Buildings and Improvements</u></b>	<b><u>Equipment and Furniture</u></b>	<b><u>Construction in Progress</u></b>	<b><u>Other Assets</u></b>	<b><u>Total</u></b>
2003	119,637	45,525	14,041	(3,608)	175,595
2004	127,009	49,479	43,767	(5,598)	214,657
2005	177,587	59,004	12,018	(8,014)	240,595
2006	178,840	63,886	56,205	24,616	323,547
2007	227,526	82,811	15,762	15,020	341,119

## Indebtedness

The University's total bonds and other notes payable at May 31, 2007 and 2006 amounted to \$110,251,000 and \$112,578,000, respectively. Details are set forth in Note 5 to the May 31, 2007 Financial Statements in Appendix B.

The following table sets forth the University's annual bonded debt service requirements, on a pro forma basis, after giving effect to the issuance of the Bonds and the redemption of the University's 2005 Series A Bonds, 2005 Series B Bonds, and Series 1996 Bonds. See "PLAN OF REFUNDING" in the Official Statement to which this Appendix is attached.

### Chapman University Bonded Debt Service Requirements (In Thousands of Dollars)

<u>Ending</u>	<u>Series 2000 Bonds<sup>(1)</sup></u>		<u>The Bonds<sup>(2)</sup></u>		<u>Total Debt Service</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
5/31/2008	\$400	\$555	--	--	\$400	\$555
5/31/2009	400	539	\$2,490	\$2,281	2,890	2,820
5/31/2010	400	526	2,510	2,694	2,910	3,220
5/31/2011	400	512	2,610	2,597	3,010	3,109
5/31/2012	500	498	2,705	2,518	3,205	3,016
5/31/2013	500	478	2,795	2,426	3,295	2,904
5/31/2014	500	462	2,895	2,341	3,395	2,803
5/31/2015	500	444	3,000	2,248	3,500	2,692
5/31/2016	600	426	3,095	2,160	3,695	2,586
5/31/2017	600	403	3,220	2,043	3,820	2,446
5/31/2018	600	383	3,310	1,948	3,910	2,331
5/31/2019	600	362	3,440	1,841	4,040	2,203
5/31/2020	700	341	3,550	1,734	4,250	2,075
5/31/2021	700	315	3,675	1,620	4,375	1,935
5/31/2022	700	291	3,840	1,494	4,540	1,785
5/31/2023	700	266	3,940	1,371	4,640	1,637
5/31/2024	800	241	4,095	1,250	4,895	1,491
5/31/2025	800	212	4,230	1,113	5,030	1,325
5/31/2026	800	184	4,380	979	5,180	1,163
5/31/2027	900	155	4,540	842	5,440	997
5/31/2028	900	124	2,095	737	2,995	861
5/31/2029	900	90	2,170	670	3,070	760
5/31/2030	1,000	56	2,245	602	3,245	658
5/31/2031	1,000	21	2,320	529	3,320	550
5/31/2032	--	--	2,395	457	2,395	457
5/31/2033	--	--	2,495	374	2,495	374
5/31/2034	--	--	2,575	296	2,575	296
5/31/2035	--	--	2,675	213	2,675	213
5/31/2036	--	--	2,750	127	2,750	127
5/31/2037	--	--	2,845	38	2,845	38
<b>Total</b>	<b><u>\$15,900</u></b>	<b><u>\$7,884</u></b>	<b><u>\$88,885</u></b>	<b><u>\$39,544</u></b>	<b><u>\$104,785</u></b>	<b><u>\$47,428</u></b>

<sup>(1)</sup> Assumes the Series 2000 Bonds bear interest at 3.500%.

<sup>(2)</sup> Includes 2008 Series A, 2008 Series B, and 2008 Series C Bonds and assumes such Series bear interest at 3.167%, 3.126% and 3.180%, respectively.

## Lines of Credit

Chapman University currently has no lines of credit. As of May 31, 2007, there were no outstanding balances on any lines of credit.

## Endowment Funds

The following table shows the fund balances, at fair market value, of the University's Endowment Funds at May 31, for each of the last five fiscal years.

### CHAPMAN UNIVERSITY ENDOWMENT AND SIMILAR FUNDS (In Thousands of Dollars)

<u>At May 31</u>	<u>Endowment</u>	<u>Quasi-Endowment</u>	<u>Total</u>
2003	\$69,057	\$73,552	\$142,609
2004	80,051	87,675	167,726
2005	87,730	87,286	175,016
2006	104,143	106,507	210,650
2007	126,248	139,859	266,107

## Tuition/Room and Board Charges

The annual tuition and room and board charges for the current year and four most recent academic years are set forth below:

### ANNUAL TUITION, FEES, AND ROOM AND BOARD CHARGES

	UNDERGRADUATE		GRADUATE		LAW SCHOOL		UNIVERSITY COLLEGE
Academic Year	Tuition and Fees	Room & Board <sup>(1)</sup>	Physical Therapy	All Other Programs <sup>(2)</sup>	3-Year Program	4-Year Program <sup>(3)</sup>	Tuition <sup>(4)</sup>
2003-04	\$24,590	\$9,038	\$22,710	\$9,730	\$25,350	\$18,216	\$7,294
2004-05	26,168	9,521	23,390	10,125	27,886	20,010	7,699
2005-06	28,738	9,966	24,324	10,474	29,800	21,390	8,464
2006-07	30,598	10,387	25,296	10,890	32,780	23,575	9,225
2007-08	32,412	10,828	26,055	11,910	34,250	26,864	9,774

<sup>(1)</sup> Room and board is based on double-occupancy average for all halls.

<sup>(2)</sup> Amounts shown for all other graduate programs are based upon the applicable average credit hour rates multiplied times 18, excluding the Executive MBA program Directed Teaching program.

<sup>(3)</sup> Four-year law program is based upon 23 units per academic year.

<sup>(4)</sup> University College average tuition is based upon average undergraduate credit hour rates multiplied times 30 units per year and graduate rates multiplied times 22.5 units per year.

## Financial Aid Programs

Chapman is firmly committed to a program of financial assistance designed to help students who could not otherwise afford to attend. Currently, 77% of Chapman's Orange campus undergraduate students receive some form of financial aid. Fifty-nine percent of all University students (undergraduates and graduates from all campuses) receive financial assistance. Through a combination of federal, state and institutional funds, the University attempts to meet the demonstrated financial need of every qualified student. Merit scholarships and loan programs are also available to students. Federal and State funding is outside the control of the University and is subject to both programmatic changes and annual appropriations. There can be no assurance that such programs will continue to be available to University students in the amounts shown. The following table summarizes the financial aid provided to Chapman students for the academic years shown.

**Chapman University  
Financial Aid  
(In Thousands of Dollars)**

Academic Year	Federal Grants	State Grants	Chapman Grants	Endowed or Gift Grants	Perkins/CU Student Loans	Work Study	Total
2002-03	\$4,253	\$5,320	\$22,125	\$1,855	\$794	\$930	\$35,277
2003-04	4,203	5,399	24,179	1,570	1,313	1,264	44,228
2004-05	4,421	5,426	38,960	1,068	1,565	1,188	52,628
2005-06	4,420	5,712	42,637	795	1,701	1,054	56,319
2006-07	4,568	6,123	50,342	1,067	1,474	1,036	64,610

**Faculty and Staff**

The University's total full-time faculty presently numbers 359. Approximately 91% of Chapman's faculty have obtained doctorates or the terminal degree in their field, and about 37% are tenured. In addition, Chapman has approximately 247 part-time faculty and employs roughly 569 staff and administrative members on the Orange Campus. The current student/faculty ratio is approximately 15 to 1. Neither the University's faculty nor staff is represented under any collective bargaining agreement.

The following table compares full-time instructional faculty by rank and tenure for the current and each of the last four academic years.

**Full-Time Instructional Faculty by Rank and Tenure**

<u>Fall Term</u>	<u>Full Prof.</u>	<u>Assoc. Prof.</u>	<u>Asst. Prof.</u>	<u>Instr.</u>	<u>Senior Lect.</u>	<u>Lect.</u>	<u>Visiting</u>	<u>Total</u>	<u>Percentage Tenured</u>
2003	59	85	113	23	0	0	0	280	35%
2004	63	91	119	15	0	0	0	288	35%
2005	73	95	129	15	0	0	2	314	39%
2006	83	88	140	16	0	0	3	330	39%
2007	90	86	154	20	0	0	9	359	37%

The following table presents numerical data on the total and tenured faculty of the University by division for academic years 2003-07.

**Full-Time Instructional Faculty  
Orange Campus, Law School, University College**

<u>Division</u>	<u>FACULTY</u>					<u>TENURED</u>				
	<u>F 03</u>	<u>F 04</u>	<u>F 05</u>	<u>F 06</u>	<u>F 07</u>	<u>F 03</u>	<u>F 04</u>	<u>F 05</u>	<u>F 06</u>	<u>F 07</u>
Main Campus	206	217	230	243	265	85	88	104	111	114
University										
College	50	45	50	51	50	0	0	0	0	0
Law	24	26	34	36	44	12	13	17	19	19
Total	280	288	314	330	359	97	101	121	130	133

## **Litigation**

The University is engaged in litigation with a former employee who was a program manager and adjunct faculty member at the University College's satellite campus in Monterey, California. This former employee has filed a lawsuit (the "Claims Act Case") against the University in the United States District Court under the Federal and California False Claim Acts, alleging that the University misrepresented its eligibility to participate in federal financial assistance programs. This lawsuit seeks fines and a portion of any recovery on behalf of the United States or State of California government resulting from the alleged violation of regulations pertaining to the federal financial assistance programs and state licensure requirements. In August 2007, the University filed a motion for summary judgment with respect to this matter, on the basis, among others, that the ex-employee failed to provide sufficient evidence with respect to several critical elements of her claim. This motion was granted in October 2007. The ex-employee has filed an appeal of this summary judgment, and that appeal is now pending.

The University is also subject to a number of other legal proceedings. Although the University expects that neither the Claims Act Case nor these other legal proceedings will have a material impact on the University or on University College, an adverse determination in the Claims Act Case could have a material adverse effect on the University's financial position.

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**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY**

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**CHAPMAN UNIVERSITY**

Financial Statements

May 31, 2007

(With Independent Auditors' Report Thereon)

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KPMG LLP  
Suite 700  
600 Anton Boulevard  
Costa Mesa, CA 92626-7651

## Independent Auditors' Report

The Board of Trustees  
Chapman University:

We have audited the accompanying statement of financial position of Chapman University (the University) as of May 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2006 financial statements, and in our report dated August 18, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 Chapman University as of May 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2007 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**KPMG LLP**

September 20, 2007

**CHAPMAN UNIVERSITY**  
Statement of Financial Position  
May 31, 2007  
(with comparative totals as of May 31, 2006)

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Current assets:		
Cash and cash equivalents	\$ 27,833,000	21,989,000
Investments (note 2)	6,251,000	12,981,000
Accounts receivable, less allowance for doubtful accounts of \$966,000 and \$1,068,000 in 2007 and 2006, respectively	15,274,000	11,050,000
Current portion of contributions receivable, net (note 3)	6,999,000	9,878,000
Current portion of notes receivable	814,000	784,000
Other current assets	2,828,000	2,834,000
Total current assets	<u>59,999,000</u>	<u>59,516,000</u>
Other assets:		
Notes receivable, less current portion and allowance for doubtful notes of \$530,000 and \$677,000 in 2007 and 2006, respectively	6,683,000	6,329,000
Contributions receivable, less current portion, net (note 3)	54,493,000	48,097,000
Other real property	18,036,000	18,036,000
Long-term investments (note 2)	217,445,000	174,686,000
Plant assets, net (note 4)	256,786,000	234,256,000
Other long-term assets	5,652,000	6,715,000
Total other assets	<u>559,095,000</u>	<u>488,119,000</u>
Total assets	<u>\$ 619,094,000</u>	<u>547,635,000</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,419,000	27,673,000
Current portion of annuities payable	543,000	600,000
Deferred revenues and student deposits	16,307,000	13,262,000
Current portion of bonds and notes payable (note 5)	3,652,000	2,333,000
Other current liabilities	499,000	690,000
Total current liabilities	<u>47,420,000</u>	<u>44,558,000</u>
Long-term liabilities:		
Annuities payable, less current portion	3,518,000	4,147,000
Assets held in custody for others	249,000	80,000
Refundable loan programs	2,285,000	2,249,000
Bonds and notes payable, less current portion (note 5)	106,599,000	110,245,000
Other long-term liabilities	4,702,000	3,893,000
Total long-term liabilities	<u>117,353,000</u>	<u>120,614,000</u>
Total liabilities	<u>164,773,000</u>	<u>165,172,000</u>
Net assets (note 6):		
Unrestricted	301,506,000	239,716,000
Temporarily restricted	55,774,000	56,374,000
Permanently restricted	97,041,000	86,373,000
Total net assets	<u>454,321,000</u>	<u>382,463,000</u>
Total liabilities and net assets	<u>\$ 619,094,000</u>	<u>547,635,000</u>

See accompanying notes to financial statements.

**CHAPMAN UNIVERSITY**  
Statement of Activities  
Year ended May 31, 2007  
(with summarized totals for the year ended May 31, 2006)

	<b>2007</b>			<b>2006</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Revenues, gains, and other support:				
Tuition and fees	\$ 210,726,000	—	—	210,726,000
Less University-funded scholarships	(50,342,000)	—	—	(50,342,000)
Net tuition and fees	160,384,000	—	—	160,384,000
Endowment returns designated for operations	4,501,000	133,000	1,000	4,635,000
Other investment income	3,272,000	8,000	—	3,280,000
Private gifts, grants, and bequests	9,526,000	12,949,000	9,220,000	31,695,000
Auxiliary enterprises	19,880,000	—	—	19,880,000
Other sources	8,201,000	48,000	38,000	8,287,000
	45,380,000	13,138,000	9,259,000	67,777,000
Net assets released from donor restrictions and transfers	4,678,000	(5,715,000)	1,037,000	—
Total revenues, gains, and other support	210,442,000	7,423,000	10,296,000	228,161,000
Expenses:				
Educational and general:				
Instruction	81,749,000	—	—	81,749,000
Academic support	24,175,000	—	—	24,175,000
Student services	21,191,000	—	—	21,191,000
General institutional support	32,196,000	—	—	32,196,000
Total educational and general expenses	159,311,000	—	—	159,311,000
Auxiliary enterprises	12,705,000	—	—	12,705,000
Total expenses	172,016,000	—	—	172,016,000
Increase from operating activities	38,426,000	7,423,000	10,296,000	56,145,000
Nonoperating activities:				
Endowment returns, net of designation for operations	14,919,000	747,000	15,000	15,681,000
Change in value of split-interest agreements	—	989,000	357,000	1,346,000
Loss on sale or disposition of property and other, net	(246,000)	—	—	(246,000)
Unrealized gain (loss) on interest rate hedging related to bonds	(1,068,000)	—	—	(1,068,000)
Building gifts released from restriction	9,759,000	(9,759,000)	—	—
Increase (decrease) from nonoperating activities	23,364,000	(8,023,000)	372,000	15,713,000
Change in net assets	61,790,000	(600,000)	10,668,000	71,858,000
Net assets, beginning of year	239,716,000	56,374,000	86,373,000	382,463,000
Net assets, end of year	\$ 301,506,000	55,774,000	97,041,000	454,321,000

See accompanying notes to financial statements.

# CHAPMAN UNIVERSITY

## Statement of Cash Flows

Year ended May 31, 2007

(with comparative financial information for the year ended May 31, 2006)

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 71,858,000	63,123,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of property, life insurance policies, and investments	(6,372,000)	(6,661,000)
Contributions restricted for long-term investment	(6,256,000)	(4,535,000)
Interest and dividends restricted for long-term investment	(2,000)	(45,000)
Net realized and unrealized gains on investments	(16,672,000)	(8,771,000)
Unrealized (gain) loss on interest rate hedging related to bonds	1,068,000	(4,195,000)
Net realized loss on disposal of plant assets	246,000	392,000
Depreciation	9,959,000	8,544,000
Actuarial gain on annuity obligations	(1,346,000)	(900,000)
Amortization of discounts on bonds payable	36,000	577,000
Increase in accounts receivable	(4,224,000)	(1,952,000)
(Increase) decrease in other assets	1,000	(998,000)
Increase in contributions receivable	(3,517,000)	(4,156,000)
Decrease in accounts payable, accrued liabilities, and various liabilities	2,578,000	7,491,000
Increase in annuities payable	660,000	1,076,000
Net cash provided by operating activities	48,017,000	48,990,000
Cash flows from investing activities:		
Proceeds from sales of investments	141,990,000	177,011,000
Purchases of investments	(155,205,000)	(217,505,000)
Proceeds from sales of property	—	548,000
Purchases of plant assets	(32,505,000)	(53,136,000)
Disbursements of loans to students	(1,461,000)	(1,682,000)
Repayments of loans from students	1,077,000	1,074,000
Net cash used in investing activities	(46,104,000)	(93,690,000)
Cash flows from financing activities:		
Proceeds from issuance of bonds and notes payable	—	77,275,000
Proceeds from contributions restricted for long-term investments	6,256,000	4,535,000
Interest and dividends restricted for long-term reinvestment	2,000	45,000
Payments of notes and bonds payable	(2,363,000)	(25,169,000)
Increase in refundable government loan funds	36,000	138,000
Net cash provided by financing activities	3,931,000	56,824,000
Net increase in cash and cash equivalents	5,844,000	12,124,000
Cash and cash equivalents, beginning of year	21,989,000	9,865,000
Cash and cash equivalents, end of year	\$ 27,833,000	21,989,000
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized of \$162,000 and \$275,000 as of May 31, 2007 and 2006, respectively	\$ 4,120,000	3,610,000
Supplemental schedule of noncash investing and financing activities:		
Gift of property	\$ 231,000	1,032,000
Gift of life insurance policies	51,000	59,000
Gifts of investments	6,090,000	5,570,000

See accompanying notes to financial statements.

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

### (1) Summary of Significant Accounting Policies and Other Matters

#### (a) *Organization*

Chapman University (the University) is a not-for-profit organization located primarily in Orange County, California, which provides professional education services.

#### (b) *Basis of Accounting*

The accompanying financial statements are presented using the accrual basis of accounting.

#### (c) *Donor-imposed Restrictions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted support. Donor-restricted contributions whose restrictions are met within the fiscal year are reported as unrestricted support. Permanently restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the University.

#### (d) *Promises to Give*

Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates commensurate with the risk involved applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

#### (e) *Cash and Cash Equivalents*

The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### (f) *Plant Assets*

Plant assets are stated at cost or estimated fair value at date of donation, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings and improvements (15 to 50 years) and equipment (3 to 7 years).

Contributed plant assets are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support and depreciated over the assets' estimated useful lives.

## CHAPMAN UNIVERSITY

### Notes to Financial Statements

May 31, 2007

**(g) *Impairment of Long-lived Assets and Long-lived Assets to Be Disposed Of***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2007 and 2006, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

**(h) *Inventories***

Inventories are stated at the lower of first-in, first-out cost or market. Inventories of approximately \$296,000 and \$252,000 are included in other current assets in the accompanying statement of financial position as of May 31, 2007 and 2006, respectively.

**(i) *Investments and Other Real Property***

Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value with gains and losses included in the statement of activities. Fair value is determined based on quoted market prices. The University's alternative investments are comprised of limited partnerships and hedge funds, which invest in both publicly traded and private securities. Investments in publicly traded securities are reported at fair value based on the quoted market prices provided by a third-party investment custodian. Investments in private securities are reported at fair value, adjusted for liquidity events or significant changes in performance. Other real property includes donated property held for sale, which is carried at fair value at date of donation, and property held for future development, which is carried at acquisition cost.

The University's investment policy for endowment investments allows for the spending of 4.5% of the average prior three years' fair value of endowment investment assets. In accordance with this policy, the board of trustees has authorized \$4,635,000 and \$2,605,000 to be used for operations during the years ended May 31, 2007 and 2006, respectively.

**(j) *Income Taxes***

The University is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the University is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

**(k) Use of Estimates**

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

**(l) Fair Value of Financial Instruments**

The carrying value of the University's financial instruments, not otherwise disclosed herein, are comparable to the fair value due to the short-term nature of these financial instruments. Additionally, bonds and notes payable also approximate fair value.

**(m) Fundraising Expenses**

The accompanying statement of activities includes fundraising expenses of \$7,582,000 and \$6,624,000 for the years ended May 31, 2007 and 2006, respectively, as a component of general institutional support.

**(n) Comparative Data**

The financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements as of and for the year ended May 31, 2006, from which the summarized information was derived.

**(o) Reclassifications**

Certain reclassifications have been made to the 2006 amounts to conform to the 2007 presentation.

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

### (2) Investments

Investments at May 31, 2007 and 2006 consist of the following:

	2007	2006
Money market funds for designated purposes	\$ 6,608,000	7,147,000
Certificates of deposit	1,304,000	1,251,000
Equities	89,553,000	71,316,000
Equity mutual funds	340,000	198,000
Corporate bonds	10,274,000	229,000
U.S. Treasury notes	2,042,000	49,000
Alternative investments	26,740,000	17,807,000
U.S. Treasury bonds – debt reserves	2,295,000	1,563,000
Guaranteed investment contracts – construction reserves	28,988,000	36,399,000
Life insurance cash surrender value	748,000	753,000
Fixed income investments	46,631,000	43,473,000
Unitrust investments:		
Money market funds	637,000	493,000
Equities	5,269,000	4,849,000
Fixed income	2,267,000	2,140,000
Total investments	\$ 223,696,000	187,667,000

### (3) Contributions Receivable

Contributions receivable include pledges that have been discounted at rates ranging from 5.14% to 8.50%. The following is a summary of the University's contributions receivable at May 31, 2007 and 2006:

	2007	2006
Within one year	\$ 8,378,000	11,742,000
One to five years	21,918,000	21,367,000
More than five years	71,852,000	65,122,000
	102,148,000	98,231,000
Less present value component	(36,409,000)	(35,860,000)
Less allowance for uncollectible receivables	(4,247,000)	(4,396,000)
Total contributions receivable	\$ 61,492,000	57,975,000

**CHAPMAN UNIVERSITY**

## Notes to Financial Statements

May 31, 2007

**(4) Plant Assets**

Plant assets at May 31, 2007 and 2006 consist of the following:

<b>2007</b>			
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Land	\$ 27,986,000	—	27,986,000
Buildings and improvements	210,636,000	(37,652,000)	172,984,000
Equipment	82,811,000	(42,757,000)	40,054,000
Construction in progress	15,762,000	—	15,762,000
	<u>\$ 337,195,000</u>	<u>(80,409,000)</u>	<u>256,786,000</u>
<b>2006</b>			
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Land	\$ 25,511,000	—	25,511,000
Buildings and improvements	162,378,000	(33,971,000)	128,407,000
Equipment	63,886,000	(39,753,000)	24,133,000
Construction in progress	56,205,000	—	56,205,000
	<u>\$ 307,980,000</u>	<u>(73,724,000)</u>	<u>234,256,000</u>

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

### (5) Long-term Debt Obligations

#### (a) Bonds and Notes Payable

Bonds and notes payable at May 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Secured by general revenues:		
4.90% to 5.38% Series 1996 California Educational Facilities Authority Revenue Bonds Series A; interest payable semiannually, ranging from \$60,000 to \$819,000, principal payments due annually, ranging from \$225,000 to \$600,000 with the final payment due October 1, 2026 (\$40,000,000 face amount of the bonds less unamortized discount of \$346,000 and \$363,000 in 2007 and 2006, respectively). Term bonds totaling \$1,615,000 and \$4,805,000 are due in 2016 and 2026, respectively.	\$ 7,314,000	8,127,000
Variable interest rate, Series 2000 California Educational Facilities Authority Revenue Bonds; due December 1, 2030, interest payable monthly, scheduled optional redemption December 1, 2001 to December 1, 2030 with yearly payments starting at \$400,000 to \$1,000,000 (less unamortized discount of \$90,000 and \$94,000 in 2007 and 2006, respectively).	15,810,000	16,206,000
Variable interest rate, 2005 Series A California Educational Facilities Authority Revenue Bonds; due October 2036, interest payable monthly, mandatory principal payment due annually ranging from \$1,075,000 to \$2,850,000 with the final payment due October 1, 2036 (\$54,700,000 face amount of the bonds less unamortized discount of \$258,000 and \$267,000 in 2007 and 2006, respectively).	54,442,000	54,433,000
Variable interest rate, 2005 Series B California Educational Facilities Authority Revenue Bonds; due October 2026, interest payable monthly, mandatory principal payment due annually ranging from \$800,000 to \$1,525,000 with the final payment due October 1, 2026 (\$22,575,000 face amount of the bonds less unamortized discount of \$103,000 and \$109,000 in 2007 and 2006, respectively).	22,472,000	22,466,000

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

	<u>2007</u>	<u>2006</u>
Secured by certain plant assets:		
5.15% Series 1999 California Educational Facilities Authority Revenue Note; principal and interest payments of \$433,000 are due semiannually with a yearly contingency payment of \$130,000, the remaining balance of \$1,431,000 is due on March 19, 2009. The University has the option in 2009 to extend the payments an additional year.	\$ 2,684,000	3,507,000
Note payable to bank, bearing interest at LIBOR plus 1.75% (7.07% at May 31, 2007); payable in monthly installments of \$12,000, balance payable at maturity on February 1, 2009, secured by deed of trust on the Orange County property.	2,345,000	2,485,000
Note payable to a bank, bearing a variable interest rate at 1.85% plus bank-adjusted treasuries rate (7.21% at May 31, 2007); payable in monthly installments, amortized over 25 years, balance payable at maturity on March 1, 2012, secured by deed of trust on the Orange County property.	4,743,000	4,849,000
Mortgage payable to individuals; interest at 7.00%, monthly installments of \$8,070, matures December 2012, secured by deed of trust on 158-166 N. Cypress, Orange.	441,000	505,000
Total secured bonds and notes payable	110,251,000	112,578,000
Less current maturities	(3,652,000)	(2,333,000)
Total long-term bonds and notes payable	\$ <u>106,599,000</u>	<u>110,245,000</u>

Bonds and notes payable at May 31, 2007 are due as follows:

Year ending May 31:

2008	\$ 3,652,000
2009	6,741,000
2010	2,818,000
2011	2,924,000
2012	7,219,000
Thereafter	86,897,000
	\$ <u>110,251,000</u>

## CHAPMAN UNIVERSITY

### Notes to Financial Statements

May 31, 2007

Pursuant to the terms of the California Educational Facilities Authority 1996, 2000, and 2005 bond indentures, investments include \$2,295,000 and \$1,563,000, which were held by independent trustees at May 31, 2007 and 2006, respectively. Additionally, investments include the fair value of the remaining construction funds from the issuance of the 2005A bond indenture of \$28,987,000 and \$36,399,000, which was held by independent trustees at May 31, 2007 and 2006, respectively.

Total interest expense was \$4,282,000 and \$3,428,000 for the years ended May 31, 2007 and 2006, respectively.

**(b) *Interest Rate Swap Agreements***

In September 2005, the University entered into interest rate swap agreements for the full term of the 2005 bonds, effectively fixing the interest rates at 3.132% and 3.091% on the 2005 Series A and 2005 Series B bonds, respectively. There was no cash exchanged at the time of acquisition due to the relationship between the variable rates and the swap rate at the time.

Changes in the fair value of the interest rate swap agreements are reported as unrealized gains and losses on interest rate hedging related to bonds in the nonoperating activities section of the statement of activities. The valuation of these agreements resulted in a net unrealized loss of \$1,068,000 and a net unrealized gain of \$4,195,000 during the years ended May 31, 2007 and 2006, respectively. The offsetting asset related to these agreements totaled \$3,127,000 and \$4,195,000, and is included in other long-term assets on the accompanying statement of financial position at May 31, 2007 and 2006, respectively.

The University does not purchase derivative instruments for any purpose other than cash flow hedging purposes. It is the University's policy not to speculate for investment purposes using derivative instruments.

**(c) *Revolving Loan***

In February 2004, the University entered into a revolving loan agreement with a bank. Borrowings under the revolving loan were limited to \$6,000,000 and carried interest at prime minus 1%. Interest was payable monthly. The revolving loan expired on February 1, 2007. The revolving loan was to be used, as needed, for general working capital purposes of the University. There were no borrowings on the revolving loan during the years ended May 31, 2007 and 2006.

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

### (6) Net Assets

Net assets at May 31, 2007 and 2006 are further classified by management as follows:

	Operations	Plant	Endowment	Designated annuity/loan	Combined totals	
					2007	2006
Unrestricted net assets:						
Operating	\$ 14,544,000	—	—	—	14,544,000	12,588,000
Designated for scholarships	—	—	—	1,298,000	1,298,000	37,000
Designated for special programs	—	—	—	10,409,000	10,409,000	9,996,000
Institutional loan programs	—	—	—	24,000	24,000	75,000
Funds functioning as endowment	—	—	93,581,000	—	93,581,000	61,540,000
Endowment earnings for spending	—	—	5,904,000	—	5,904,000	4,348,000
Accumulated endowment earnings/gains	—	—	27,285,000	—	27,285,000	17,802,000
Net investment in plant	—	148,461,000	—	—	148,461,000	133,330,000
Total unrestricted net assets	14,544,000	148,461,000	126,770,000	11,731,000	301,506,000	239,716,000
Temporarily restricted net assets:						
Educational and general programs	—	—	—	1,365,000	1,365,000	2,730,000
Annuity and life income funds	—	—	—	4,145,000	4,145,000	3,285,000
Capital campaign funds functioning as endowment	—	—	46,278,000	—	46,278,000	44,967,000
Designated for plant activities	—	1,915,000	—	—	1,915,000	3,721,000
Endowment earnings for spending	—	—	446,000	—	446,000	459,000
Accumulated endowment earnings/gains	—	—	1,625,000	—	1,625,000	1,212,000
Total temporarily restricted net assets	—	1,915,000	48,349,000	5,510,000	55,774,000	56,374,000
Permanently restricted net assets:						
Endowment funds	—	—	90,151,000	—	90,151,000	79,080,000
Permanent loan funds	—	—	—	6,053,000	6,053,000	6,051,000
Annuity and life income funds	—	—	837,000	—	837,000	1,242,000
Total permanently restricted net assets	—	—	90,988,000	6,053,000	97,041,000	86,373,000
Total net assets, May 31, 2007	\$ 14,544,000	150,376,000	266,107,000	23,294,000	454,321,000	
Total net assets, May 31, 2006	\$ 12,588,000	137,051,000	210,650,000	22,174,000		382,463,000

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

### (7) Commitments and Contingencies

#### (a) Lease Commitments

Minimum future rental payments under noncancelable operating lease agreements as of May 31, 2007 are summarized as follows:

Payable in:	
2008	\$ 4,624,000
2009	3,868,000
2010	2,825,000
2011	2,711,000
2012	2,630,000
Thereafter	8,622,000
	<u>\$ 25,280,000</u>

Total rent expense was \$4,833,000 and \$4,169,000 for the years ended May 31, 2007 and 2006, respectively.

#### (b) Contingencies

The University is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its educational activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the University's financial position.

### (8) Retirement Plan

The University has a defined-contribution retirement plan. Employees working at least 20 hours a week are eligible to participate in the plan after 90 days of employment. The University contributes 3% of each employee's eligible annual salary, as defined by the plan. Eligible employees may contribute up to 6% of their eligible salary and the University matches their contributions. The University's total contribution to the plan was \$4,784,000 and \$4,334,000 for the years ended May 31, 2007 and 2006, respectively.

# CHAPMAN UNIVERSITY

## Notes to Financial Statements

May 31, 2007

The University recognizes postretirement medical benefits to 38 former employees under a discontinued retirement plan. The University elected to recognize the estimated postretirement obligation of \$2,222,000 on a straight-line basis over 15 years. The University's policy is to contribute amounts sufficient to meet the annual obligation under the retirement plan. Cash paid under the plan was \$294,000 and \$280,000 for the years ended May 31, 2007 and 2006, respectively.

	<u>2007</u>	<u>2006</u>
Accumulated postretirement benefit obligation as of May 31	\$ 1,525,000	1,705,000
Unrecognized net transition obligation	<u>(445,000)</u>	<u>(593,000)</u>
Postretirement benefit obligation included in other current liabilities and other long-term liabilities in the accompanying statement of financial position	<u>\$ 1,080,000</u>	<u>1,112,000</u>
	<u>2007</u>	<u>2006</u>
Net periodic postretirement benefit cost for the year consisted of the following components:		
Interest cost on accumulated postretirement benefit obligation	\$ 113,000	126,000
Amortization of transition obligation	<u>148,000</u>	<u>148,000</u>
Net periodic postretirement benefit expense	<u>\$ 261,000</u>	<u>274,000</u>

The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation is 6%. A one percentage point increase in the assumed healthcare cost trend rate for each year would increase the accumulated postretirement benefit obligation as of May 31, 2007 by approximately 8%. The assumed discount rate used in determining the accumulated postretirement benefit obligation is 8%.

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## **APPENDIX C**

### **BOOK-ENTRY ONLY SYSTEM**

THE INFORMATION HEREIN CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY, THE UNIVERSITY, THE TRUSTEE AND UNDERWRITER BELIEVE TO BE RELIABLE, BUT THE AUTHORITY, THE UNIVERSITY, THE TRUSTEE AND THE UNDERWRITER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. THE BENEFICIAL OWNERS SHOULD CONFIRM THE FOLLOWING INFORMATION WITH DTC OR THE DTC PARTICIPANTS (AS DEFINED HEREIN).

The Depository Trust Company ("DTC"), New York, NY, 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 each maturity the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

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

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

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

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

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

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

The foregoing information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

**BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF UNDER THE TERMS OF THE INDENTURE, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS. THE AUTHORITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM**

THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS.

**The Authority, the Underwriter and the University cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, redemption price, Purchase Price and interest with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices, notices of mandatory tender or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority the Underwriter and the University are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.**

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

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## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS**

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

### **DEFINITIONS**

“ABA” means the American Bar Association or its successor.

“Accountant’s Certificate” means a 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 California Educational Facilities Authority Act, constituting Chapter 2 (commencing with Section 94100) of Part 59 of Division 10 of Title 3 of the Education 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 of assets 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 Payments” means the payments to be made by the Borrower to the Authority or the Trustee pursuant to the Agreement.

“Agreement” means the Loan Agreement, of even date with the Indenture, between the Authority and the Borrower and relating to the loan of the proceeds of the Bonds, as originally executed or as it may from time to time be supplemented or amended.

“Alternate Credit Facility” means any letter of credit, guarantee, insurance policy or other credit support arrangement, or any combination thereof, provided by the Borrower with respect to the Bonds of a Series pursuant to the Agreement and the Indenture.

“Alternate Daily Index” means an index which is a composite of bid-side yields of obligations (a) which (i) provide for a daily adjustment of the interest rate and (ii) must be purchased on demand of the owner thereof on the same day on which notice is given and (b) the interest on which is Tax-Exempt.

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

“Approving Opinion” means an Opinion of Bond Counsel to the effect that an action being taken (a) is authorized by the applicable provisions of the Indenture, and (b) will not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds.

“Authority” means the California Educational Facilities Authority, a public instrumentality of the State, or its successors and assigns.

“Authorized Authority Representative” means the Chairman of the Authority, its Executive Director or any other person who at the time and from time to time is specifically authorized by resolution of the Authority furnished to the Trustee, the Borrower and the Credit Provider, as a person authorized to act on behalf of the Authority.

“Authorized Borrower Representative” or “Authorized Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Authority, the Credit Provider 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 Denomination” means (a) with respect to Bonds during any Daily Interest Rate Period, Weekly Interest Rate Period or Term Interest Rate Period of less than one year, \$100,000 or any multiple of \$5,000 in excess thereof; and (b) with respect to the Bonds during any Term Interest Rate Period of one year or more, \$5,000 or any integral multiple in excess thereof.

“Available Amounts” means (a) during any period in which Outstanding Bonds of a Series are secured by a Credit Facility, (i) funds received by the Trustee pursuant to such Credit Facility; (ii) moneys which have been continuously on deposit with the Trustee (A) held in any separate and segregated fund, account or subaccount established under the Indenture in which no other moneys which are not Available Amounts are held, and (B) which have so been on deposit with the Trustee for at least 123 consecutive days from their receipt by the Trustee and not commingled with any moneys so held for less than said period and during and prior to which period, and as of the date of the application thereof to the payment of Bonds, no Act of Bankruptcy of the Borrower or the Authority has occurred; (iii) proceeds from the issuance and sale or remarketing of bonds, notes or other evidences of indebtedness of the Authority received by the Trustee directly and contemporaneously with the issuance and sale or remarketing of such bonds, notes or other evidences of indebtedness if there is delivered to the Trustee at the time such moneys are deposited with the Trustee an opinion of counsel acceptable to Moody’s (which may assume that no Holder of Bonds is an “insider” within the meaning of the Bankruptcy Code) from a firm experienced in bankruptcy matters to the effect that the use of such moneys to pay amounts due on the Bonds would not be recoverable from the Bondholders pursuant to Section 550 of the Bankruptcy Code as avoidable preferential payments under Section 547 of the Bankruptcy Code in the event of the occurrence of an Act of Bankruptcy of the Borrower or the Authority; (iv) any other moneys if there is delivered to the Trustee at the time such moneys are deposited with the Trustee an opinion of counsel acceptable to Moody’s as described in (iii) above; or (v) proceeds of the investment of funds qualifying as Available Amounts under the foregoing clauses; and (b) during any period in which Outstanding Bonds are not secured by a Credit Facility, any moneys deposited with the Trustee.

“Bank” means Bank of America, N.A. and its successors or assigns.

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

“Base Loan Payment” means any amount that the Borrower is required to pay to the Trustee pursuant to the Agreement.

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

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

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

“Bond Payment Date” means each Interest Payment Date and any other date on which the principal of Outstanding Bonds of a Series is due and payable (whether by reason of maturity, mandatory redemption, optional redemption, acceleration or otherwise).

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

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

“Bonds” means the Series A Bonds, the Series B Bonds and the Series C Bonds.

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

“Borrower” means (i) Chapman University, a California nonprofit public benefit corporation, and its successors and assigns, and (ii) any surviving, resulting or transferee corporation as provided in the Agreement.

“Borrower Documents” means the Agreement, the Credit Agreement, the Remarketing Agreement, any interest rate swap agreement or related or similar agreement, entered into with respect to the Bonds of a Series, and the Tax Agreement.

“Business Day” means any day other than a Saturday, Sunday, legal holiday or a day on which banking institutions in California and New York are authorized or required to be closed or a day on which the New York Stock Exchange is closed.

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

“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, or any other Authorized Authority Representative, 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.

“Conversion” or “Convert” means the adjustment of the rate borne by the Bonds from a Weekly Interest Rate to a Term Interest Rate, from a Term Interest Rate to a Weekly Interest Rate or from a Term Interest Rate for one Term Interest Rate Period to a Term Interest Rate for another Term Interest Rate Period.

“Conversion Date” means the date on which the Interest Rate Period for the Bonds is changed, or the date of a change of the Interest Rate Period for the Bonds specified in a notice given pursuant to the Indenture.

“Conversion Notice” means the notice required by the Indenture of the Conversion of the Bonds.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Borrower and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees 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 Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

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

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

“Credit Facility” means, as of any time and with respect to a Series of the Bonds, the Initial Credit Facility or any Alternate Credit Facility, as applicable, then supporting the Bonds of such Series.

“Credit Facility Account” means the Credit Facility Account established in the Bond Fund pursuant to the Indenture.

“Credit Facility Purchase Account” means the Credit Facility Purchase Account established in the Bond Purchase Fund pursuant to the Indenture.

“Credit Provider” means, with respect to the Initial Credit Facility, the Bank and with respect to any Alternate Credit Facility, the bank or other financial institution issuing the Alternate Credit Facility or otherwise obligated under the Alternate Credit Facility to provide amounts to pay the principal and/or Purchase Price of, and/or interest on, the Bonds or a Series of the Bonds.

“Credit Provider Bond” means any Bond of a Series acquired with moneys in the Credit Facility Purchase Account until such Bond is remarketed and the Credit Facility has been fully reinstated as provided in the Indenture or until such Bond is no longer considered a Credit Provider Bond in accordance with the Credit Agreement.

“Daily Interest Rate” means the interest rate on the Bonds of a Series established from time to time pursuant to the Indenture.

“Daily Interest Rate Period” means each period during which the Bonds of a Series bear interest at Daily Interest Rates in accordance with the Indenture.

“Daily Put Bonds” shall have the meaning set forth in the Indenture.

“Daily Rate Index” means, on any Business Day, the Tax-Exempt Daily Interest Rate (“TEDIR”) established by the Remarketing Agent at its principal office as of the opening of business on such Business Day as a base rate of interest which is indicative of current bid side yields of securities the interest on which is Tax-Exempt and which are repriced and can be tendered for payment on any Business Day; provided, that if TEDIR shall not be established as aforesaid, the Daily Rate Index for any Business Day shall be an Alternate Daily Index selected by the Remarketing Agent with the consent of the Credit Provider or, if no such Alternate Daily Index shall have been so selected, shall be the sum of (A) the product of (i) the interest rate for thirty day taxable commercial paper (prime paper placed through dealers) announced for such day by the Federal Reserve Bank of New York, converted to a coupon equivalent rate, multiplied by (ii) 1 minus the maximum federal income tax rate payable by individuals at the time on interest income, plus (B) 2.00% or, if interest on the Bonds is an item of tax preference in determining alternative minimum taxable income (as evidenced by an Opinion of Bond Counsel), 2.25%.

“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 through telecopy, telegraph, telex, facsimile transmission, internet, e-mail or other electronic means of communication, capable of making a written record.

“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 of the Borrower located at the Borrower’s campus in Orange, California and operated by the Borrower as educational facilities, as the same may be improved and expanded from time to time.

“Fiscal Year” means the period beginning on June 1 of each year and ending on the next succeeding May 31, or any other 12-month, or 52-week, period hereafter selected and designated as the official fiscal year period of the Borrower by the Borrower.

“Fitch” means Fitch Ratings, its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody’s) designated by the Authority, with the approval of the Borrower, by notice to the Credit Provider, the Trustee and the Remarketing Agent.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination.

“Government Obligations” means bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations the full and timely payment of which is guaranteed by, the United States of America.

“Holder” or “Bondholder” means the registered owner of any Bond.

“Indenture” means the Indenture between the Authority and the Trustee, dated as of July 1, 2008, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

“Initial Credit Facility” means the irrevocable, direct-pay letters of credit issued by the Bank concurrently with the initial issuance of each Series of the Bonds.

“Interest Payment Date” means (i) with respect to each Credit Provider Bond, each date for the payment of interest thereon set forth in the Credit Agreement; (ii) with respect to each Bond bearing interest at a Daily Interest Rate, the first Business Day of each calendar month, (iii) with respect to each Bond bearing interest at a Weekly Interest Rate, the first Business Day of each calendar month, (iv) with respect to each Bond bearing interest at a Term Interest Rate for a Term Interest Rate Period of less than one year, the day immediately succeeding the last day of such Term Interest Rate Period, and (v) with respect to any Term Interest Rate Period of one year or longer, each Semi-Annual Interest Payment Date during such Term Interest Rate Period and the day immediately succeeding the last day of such Term Interest Rate Period.

“Interest Period” means the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, except that the first Interest Period shall be the period from and including the date of the first authentication and delivery of the Bonds to and including the day immediately preceding the first Interest Payment Date relating to the Bonds.

“Interest Rate Period” means any Daily Interest Rate Period, Weekly Interest Rate Period or Term Interest Rate Period.

“Investment Securities” means any of the following if and to the extent that the following are at the time legal investments under the laws of the State of California for moneys held under the Indenture and then proposed to be invested therein and shall be the sole investments in which amounts on deposit in any fund or account created under the Indenture shall be invested:

(a) Cash deposits (insured at all times by the Federal Deposit Insurance Borrower or otherwise collateralized with obligations described in paragraphs (b), (c) or (d)).

(b) Direct obligations (including obligations issued or held in book entry form on the books of the Department of Treasury) of the United States of America.

(c) Obligations of any federal agency or federally sponsored entity which obligations are guaranteed by the full faith and credit of the United States of America, including but not limited to the following:

(i) Export-Import Bank

(ii) Rural Economic Community Development Administration (formerly the Farmers Home Administration)

- (iii) Federal Financing Bank
- (iv) General Services Administration
- (v) U.S. Maritime Administration
- (vi) U.S. Department of Housing and Urban Development
- (vii) Small Business Administration
- (viii) Government National Mortgage Association
- (ix) Federal Housing Administration
- (x) Farm Credit System Financial Assistance Corporation
- (xi) The guaranteed interest on obligations issued by the Resolution Trust Corporation.

(d) Direct obligations of any of any federal agency or federally sponsored entity which are not fully guaranteed by the full faith and credit of the United States of America, including but not limited to the following:

- (i) Federal National Mortgage Association
- (ii) Federal Home Loan Mortgage Corporation
- (iii) Federal Home Loan Bank System
- (iv) The principal component of obligations issued by the Resolution Trust Corporation
- (v) Student Loan Marketing Corporation.

(e) Commercial paper which is rated at the time of purchase in the highest short-term rating category (without regard to qualifier, "A-1" by S&P, "P-1" by Moody's and "F-1" by Fitch) of at least one nationally recognized rating agency and which matures not more than 270 days after the date of purchase.

(f) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which either (i) have a rating on their short-term certificates of deposit on the date of purchase in one of the two highest short-term rating categories (without regard to qualifier) of at least two nationally recognized rating agencies, (ii) are insured at all times by the Federal Deposit Insurance Corporation, or (iii) are collateralized with direct obligations of the United States of America at 102% valued daily. All such certificates must mature no more than 365 days after the date of purchase.

(g) Investments in (i) money market funds subject to SEC Rule 2a-7 and rated in the highest short-term rating category for money market funds (without regard to qualifier) of at least one nationally recognized rating agency including funds for which the Trustee and its affiliates provide investment advisory or other management services, and (ii) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the deposit shall not exceed 5% of the aggregate pool balance at any

time and such pool is rated in one of the two highest short-term rating categories (without regard to qualifier, “A-1” by S&P, “P-1” by Moody’s and “F-1” by Fitch) of at least two nationally recognized rating agencies.

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

(i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest long-term rating category (without regard to qualifier) of at least two nationally recognized rating agencies; or

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting of cash or securities as described in paragraphs (b) or (c) 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 redemption date or dates specified pursuant to such irrevocable instructions, as appropriate, and

(B) which escrow is sufficient, as verified by an Accountant’s Certificate, 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 thereof or the redemption date or dates specified pursuant to such irrevocable instructions, as appropriate.

(i) General obligations of states with a short-term rating in one of the two highest rating categories (without regard to qualifiers) and a long-term rating in one of the two highest rating categories (without regard to qualifiers) of at least two nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

(j) Repurchase agreements with any commercial bank, which has a long-term, unsecured rating of “A” or better by S&P and A2 or better by Moody’s, provided that (i) the term of such repurchase agreement is not greater than thirty years, (ii) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (iii) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 102% for those securities defined in paragraphs (b) and (c) above and 104% for those securities defined in paragraph (d) above of the amount of cash transferred by the Trustee to the commercial bank under the repurchase agreement plus interest, (iv) failure to maintain the requisite collateral levels will permit the Trustee to liquidate the collateral immediately, (v) the repurchase securities are free and clear of any third-party lien or claim; and (vi) in the case of PSA Master Repurchase Agreements, there shall have been delivered to the Trustee, the Authority and the Borrower an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of the funds to be invested.

(k) investment agreements, including guaranteed investment contracts (“GICs”), forward purchase agreements and reserve fund put agreements; and

(l) any other investments approved in writing by the Authority and the Credit Provider.

“Issue Date” means, with the date on which the Bonds are first delivered to the purchasers thereof.

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

“Maximum Interest Rate” means with respect to the Bonds of each Series (a) while a Credit Facility is in effect with respect to the Bonds of such Series, the rate of interest specified in such Credit Facility which is used to determine the amount available under such Credit Facility for payment of interest due and payable to Holders of the Bonds of such Series, but in no event greater than 12% per annum, and (b) at all other times, 12% per annum; provided, however, “Maximum Interest Rate” with respect to Credit Provider Bonds means the maximum rate of interest allowed by law.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Fitch) designated by the Authority, with the approval of the Borrower, by notice to the Credit Provider, the Trustee and the Remarketing Agent.

“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” means Cede & Co., as nominee of DTC, the initial Securities Depository for the Bonds, and any successor nominee of DTC and, if another Securities Depository replaces DTC as Securities Depository under the Indenture, any nominee of such substitute Securities Depository.

“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.

“Opinion of Bond Counsel” means an Opinion of Counsel which is a Bond Counsel.

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

“Outstanding,” when used as of any particular time with reference to the Bonds (subject to the provisions of the Indenture relating to the evidence of rights of Bondholders), means all 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 terms of the Indenture;
- (c) Bonds with respect to which the liability of the Authority has been discharged to the extent provided in, and pursuant to the requirements of the provisions of the Indenture; and
- (d) Bonds deemed purchased pursuant to the Indenture.

“Participant” means each DTC Participant and if there is a Securities Depository for the Bonds other than DTC, each broker-dealer, bank and other financial institution from time to time for which such substitute Securities Depository holds Bonds as securities depository.

“Permitted Encumbrances” means and includes: (1) undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith by the Borrower; (2) the lien of taxes and assessments which are not delinquent, or, if delinquent, are being contested in good faith; (3) minor defects and irregularities in the title to the Facilities; (4) easements, exceptions or reservations for the purpose of pipelines, telephone lines, power lines, roads, streets, alleys, drainage and sewerage purposes, laterals, ditches, and other like purposes, or for the joint or common use of real property, facilities and equipment; (5) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities; (6) any obligations or duties affecting any portion of the Facilities to any municipality or governmental or other public authority with respect to any right, power, franchise, grant, license or permit; (7) present or future valid zoning laws and ordinances; (8) liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness; (9) the rights of the Trustee under the Indenture, the 2000 Obligations and the Borrower’s Obligations under the Credit Agreement; (10) security interests existing on any property prior to the time of its acquisition by the Borrower through purchase, merger, consolidation or otherwise, whether or not assumed by the Borrower, or placed upon property being acquired by the Borrower to secure a portion of the purchase price thereof, or lessors, interests in leases required to be capitalized in accordance with GAAP, if the principal amounts secured by any such interests shall not exceed the lesser of the costs or fair market value of the property so secured as determined in good faith by the Borrower; (11) statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by the Borrower; (12) the lease or license of the use of a part of the Facilities for use in performing professional or other services necessary for the proper and economical operation of the Facilities in accordance with customary business practices in the industry; and (13) pledges or deposits in connection with workers’ compensation, unemployment insurance and other social security legislation.

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

“Principal Office” (i) of the Trustee means the principal corporate trust office of the Trustee designated in writing to the Authority, the Credit Provider and the Borrower, which initially shall be located in Los Angeles, California at the address set forth in the Indenture; (ii) of the Remarketing Agent means its office designated in writing to the Authority, the Trustee, the Credit Provider and the Borrower; (iii) of the Bank means the office set forth in the Indenture; and (iv) of any Credit Provider other than the Bank means its office located at such address as such Credit Provider shall designate in writing to the Authority, the Trustee and the Borrower.

“Project” has the meaning set forth in Exhibit A to the Loan Agreement.

“Purchase Date” means, with respect to any Bonds, each date on which such Bond is required to be purchased pursuant to the Indenture.

“Purchase Price” means an amount equal to 100% of the principal amount of any Bond (or the portion thereof) tendered or deemed tendered to the Trustee for purchase pursuant to the Indenture, plus accrued and unpaid interest thereon to but not including the date of purchase; provided, however, if the

Purchase Date occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

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

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

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

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

“Record Date” means (i) with respect to each Interest Payment Date described in clause (i) of the definition of “Interest Payment Date,” such Interest Payment Date; (ii) with respect to each Interest Payment Date described in clause (ii), clause (iii) or clause (iv) of the definition of “Interest Payment Date,” the Business Day immediately preceding the applicable Interest Payment Date; and (iii) with respect to each Interest Payment Date described in clause (v) of the definition of “Interest Payment Date,” whether or not a Business Day, the fifteenth day of the month prior to the applicable Interest Payment Date.

“Remarketing Agent” means the initial Remarketing Agent for the Bonds designated in the Indenture or any successor thereto appointed pursuant to the Indenture.

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

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

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

“Revenues” means all payments received by the Authority or the Trustee pursuant or with respect to the Agreement (except Additional Payments, any amounts paid by the Borrower pursuant to the Agreement and amounts received for or on deposit in the Bond Purchase Fund and the Rebate Fund) or from draws on a Credit Facility, including, without limiting the generality of the foregoing, Base Loan Payments (including both timely and delinquent payments), prepayments and all income derived from the investment of any moneys in any fund or account established pursuant to the Indenture, but not including amounts, including investment income, received for or on deposit in the Rebate Fund and the Bond Purchase Fund.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may from time to time be amended and supplemented.

“S&P” means Standard & Poor’s Ratings Services, its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch or Moody’s) designated by the Authority, with the approval of the Borrower, by notice to the Credit Provider, the Trustee and the Remarketing Agent.

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

“Series” means the Series A Bonds, the Series B Bonds or the Series C Bonds, as the context requires.

“Series A Bonds” means the California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series A, authorized and issued pursuant to the Indenture and any bonds issued in exchange or replacement thereof in accordance with the Indenture.

“Series B Bonds” means the California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series B, authorized and issued pursuant to the Indenture and any bonds issued in exchange or replacement thereof in accordance with the Indenture.

“Series C Bonds” means the California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series C, authorized and issued pursuant to the Indenture and any bonds issued in exchange or replacement thereof in accordance with the Indenture.

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

“SIFMA” means the Security Industry and Financial Markets Association, its successors and assigns.

“SIFMA Index” means the “SIFMA Municipal Swap Index” (such index previously known as the “BMA Municipal Swap Index”) announced by Municipal Market Data from time to time and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by the SIFMA. The SIFMA Index shall be based upon current yields of high-quality weekly adjustable variable rate demand bonds which are subject to tender upon seven days notice, the interest on which is Tax-Exempt and not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax.

“State” means the State of California.

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

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

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

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

“Term Interest Rate” means a non-variable interest rate on the Bonds of a Series established for a Term Interest Rate Period in accordance with the Indenture.

“Term Interest Rate Period” means each period determined by the Borrower pursuant to the Indenture during which the Bonds of a Series bear interest at a Term Interest Rate; provided that each such period shall be for a term of approximately one month, approximately three months, approximately six months, approximately nine months, approximately one year or any multiple of approximately six months above one year in each case ending on a day preceding a Business Day; provided, however, that notwithstanding the foregoing any Term Interest Rate Period which ends on the day immediately preceding the maturity date of the Bonds may include a period of time from the Interest Payment Date immediately preceding the maturity date of the Bonds to the day immediately preceding the maturity date of the Bonds even if the time remaining to such day is not one of the periods specified above; and provided further that notwithstanding the foregoing any Term Interest Rate Period may end on the day immediately preceding the maturity date of the Bonds whether or not such maturity date is a Business Day.

“Trustee” means Union Bank of California, N.A., 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.

“2000 Obligations” means the Borrower’s obligations under certain Letter of Credit and Reimbursement Agreement, dated as of August 1, 2000, between the Allied Irish Banks, p.l.c., acting through its New York Branch, and the Borrower, as the same may be amended and supplemented.

“Weekly Interest Rate” means an interest rate on the Bonds of a Series established for a Calendar Week pursuant to the Indenture.

“Weekly Interest Rate Period” means each period during which the Bonds of a Series bear interest at Weekly Interest Rates.

“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.

“Weekly Put Bonds” shall have the meaning given such term in the Indenture.

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

## THE INDENTURE

### The Bonds

**Book-Entry System.** (a) The Bonds of each Series shall initially be issued in the form of one separate single certificated fully registered bond for the aggregate principal amount of the Bonds of such Series, registered in the name of Cede & Co., as nominee of DTC, the initial Securities Depository for the Bonds. Except as provided in paragraph (e) below, all of the Outstanding Bonds shall be so registered on the Bond Register, and the provisions of paragraph (f) below shall apply thereto.

(b) The Authority, the Borrower, the Remarketing Agent, the Credit Provider and the Trustee shall have no responsibility or obligation to any DTC Participant or to any Beneficial Owner, except as otherwise expressly provided in the Indenture. Without limiting the immediately preceding sentence, the Authority, the Borrower, the Remarketing Agent, the Credit Provider and the Trustee shall have no responsibility or obligation with respect to (1) the accuracy of the records of DTC or any other Securities Depository for the Bonds, any Nominee or any Participant with respect to any ownership interest in the Bonds, (2) the delivery to any Participant or any other person, other than a Bondholder as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption (except that the Trustee shall have the obligation to deliver notices of optional and mandatory tender to the Remarketing Agent as provided in the Indenture) or (3) the payment to any Participant or any other Person, other than a Bondholder as shown on the Bond Register, of any amount with respect to principal or Purchase Price of, premium, if any, or interest on the Bonds. The Trustee shall pay all principal and Purchase Price of, premium, if any, and interest on the Bonds only to or upon the order of the respective Bondholders, as shown on the Bond Register, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal and Purchase Price of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. The Authority, the Borrower, the Remarketing Agent, the Credit Provider and the Trustee may treat and consider the Person in whose name each Bond is registered on the Bond Register as the Holder and absolute owner of such Bond for the purpose of payment of principal and Purchase Price of, and premium and interest on, such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever; provided, however, notwithstanding the foregoing provisions, the Trustee shall accept any notice of optional tender pursuant to the Indenture from any Beneficial Owner of any Book-Entry Bond, but shall make payment of the Purchase Price thereof only to the registered owner of such Bond as shown on the Bond Register in the manner provided in the Representation Letter.

(c) No person other than a Bondholder, as shown on the Bond Register, shall receive a certificated Bond evidencing the obligation of the Authority to make payments of principal or Purchase Price of, or premium, if any, or interest on, the Bonds pursuant to the Indenture.

(d) The Authority and the Trustee shall, if not previously on file, execute and deliver to DTC and each substitute Securities Depository a letter of representation in customary form with respect to the Bonds (the "Representation Letter"), but such Representation Letter shall not in any way limit the provisions of the Indenture or in any other way impose upon the Authority or the Trustee any obligation whatsoever with respect to Persons having interests in the Bonds other than the Bondholders, as shown on the Bond Register. The Trustee shall take all action necessary for all representations of such party in the Representation Letter with respect to the Trustee to be complied with at all times.

(e) The Authority, with the consent of the Borrower, may, and upon request of the Borrower shall, terminate the services of the Securities Depository then acting as securities depository for

the Bonds. The Securities Depository then acting as securities depository for the Bonds may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice and all known information on the Participants and the Beneficial Owners having an interest in the Bonds to the Authority, the Borrower, the Credit Provider and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute securities depository is appointed by the Authority (with the consent, or at the request, of the Borrower) to undertake the functions of Securities Depository under the Indenture, the Authority, at the expense of the Borrower, is obligated to deliver Bond certificates to or upon the order of the Beneficial Owners of such Bonds, as described in the Indenture, and such Bonds shall no longer be restricted to being registered on the Bond Register in the name of the Securities Depository or its Nominee, but may be registered in whatever name or names Bondholders transferring or exchanging such Bonds shall designate, in accordance with the provisions of the Indenture. If a substitute Securities Depository is appointed for the Bonds in accordance with this paragraph, the Bonds shall be registered in the Bond Register in the name of such substitute Securities Depository or its Nominee.

(f) So long as any Bond is registered in the name of a Securities Depository or its Nominee, all payments with respect to principal and Purchase Price of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter. Bondholders shall have no lien or security interest in any rebate or refund paid by a Securities Depository to the Trustee which arises from the payment by the Trustee of principal or Purchase Price of, premium, if any, or interest on the Bonds in immediately available funds to such Securities Depository or its Nominee.

**Transfer and Exchange of Bonds.** Registration of any Bond may, in accordance with the terms of the Indenture, be transferred, upon the Bond Register 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 prepare and execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same tenor in Authorized Denominations. The Trustee shall require the payment by the Bondholder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer, and there shall be no other charge to any Bondholders for any such transfer. Except with respect to Bonds purchased pursuant to the Indenture, no registration of transfer of Bonds upon the Bond Register 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.

Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of the same tenor and in Authorized Denominations. Whenever any Bond shall be surrendered for exchange, the Authority shall prepare and execute and the Trustee shall authenticate and deliver new Bonds of the same tenor and of the requested Authorized Denominations. The Trustee shall require the payment by the Bondholder 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 Bondholders for any such exchange. Except with respect to Bonds purchased pursuant to the Indenture, 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 Office sufficient books for the registration and the registration of transfer of the Bonds constituting the Bond Register, which

shall at all times, during regular business hours, be open to inspection by the Authority, the Credit Provider, if any, and the Borrower; 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 said Bond Register, of 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 Holder of said Bond, shall prepare and execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Authorized Denomination 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 Borrower. 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 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 Holder of such lost, destroyed or stolen Bond, the Authority, at the expense of the Holder, shall prepare and execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Authorized Denomination 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 caption and payment of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued under the provisions of the Indenture summarized by this caption 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.

## **Funds and Accounts**

**Costs of Issuance Fund.** The Trustee shall establish the Costs of Issuance Fund (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds, upon a requisition filed with the Trustee in the form attached to the Indenture, signed by an Authorized Borrower Representative. All payments from the Costs of Issuance Fund shall be reflected in the Trustee’s regular accounting statements. Any amounts remaining in the Costs of Issuance Fund six months following the Issue Date of the Bonds shall be transferred to the Bond Fund and applied as provided in the Indenture. Upon such transfer the Costs of Issuance Fund shall be closed.

**Bond Purchase Fund.** There shall be created and established with the Trustee a trust fund designated the “California Educational Facilities Authority 2008 Variable Rate Demand Revenue Bonds (Chapman University) Bond Purchase Fund” (the “Bond Purchase Fund”). There shall also be created and established separate accounts in the Bond Purchase Fund designated the “Remarketing Account,” consisting of the Series A Subaccount, the Series B Subaccount and the Series C Subaccount and the “Credit Facility Purchase Account,” consisting of the Series A Subaccount, the Series B Subaccount and the Series C Subaccount.

(a) **Remarketing Account.** All moneys received by the Trustee on behalf of purchasers of Series A Bonds pursuant to the Indenture shall be (i) deposited in the Series A Subaccount in the Remarketing Account within the Bond Purchase Fund, (ii) held in trust in accordance with the provisions of the Indenture and (iii) paid out in accordance with the Indenture. All moneys received by the Trustee on behalf of purchasers of Series B Bonds pursuant to the Indenture shall be (i) deposited in

the Series B Subaccount in the Remarketing Account within the Bond Purchase Fund, (ii) held in trust in accordance with the provisions of the Indenture and (iii) paid out in accordance with the Indenture. All moneys received by the Trustee on behalf of purchasers of Series C Bonds pursuant to the Indenture shall be (i) deposited in the Series C Subaccount in the Remarketing Account within the Bond Purchase Fund, (ii) held in trust in accordance with the provisions of the Indenture and (iii) paid out in accordance with the Indenture.

(b) Credit Facility Purchase Account. All moneys received by the Trustee as payments under a Credit Facility for the purchase of Series A Bonds shall be (i) deposited in the Series A Subaccount of the Credit Facility Purchase Account within the Bond Purchase Fund, (ii) held in trust in accordance with the provisions of the Indenture and (iii) paid out in accordance with the Indenture. All moneys received by the Trustee as payments under a Credit Facility for the purchase of Series B Bonds shall be (i) deposited in the Series B Subaccount of the Credit Facility Purchase Account within the Bond Purchase Fund, (ii) held in trust in accordance with the provisions of the Indenture and (iii) paid out in accordance with the Indenture. All moneys received by the Trustee as payments under a Credit Facility for the purchase of Series C Bonds shall be (i) deposited in the Series C Subaccount of the Credit Facility Purchase Account within the Bond Purchase Fund, (ii) held in trust in accordance with the provisions of the Indenture and (iii) paid out in accordance with the Indenture.

The funds held by the Trustee in the Bond Purchase Fund shall not be considered Revenues as that term is defined in the Indenture and shall not constitute part of the trust estate that is subject to the lien of the Indenture. The moneys in the Series A Subaccount of the Remarketing Account and the Series A Subaccount of the Credit Facility Purchase Account shall be used solely to pay the Purchase Price of Series A Bonds as provided in the Indenture (or to reimburse the Credit Provider, if any, for payments made under the Credit Facility for such purpose) and may not be used for any other purposes. All amounts held in the Series A Subaccount of the Remarketing Account and the Series A Subaccount of the Credit Facility Purchase Account therein shall be held in trust by the Trustee for the benefit of the Bondholders or Beneficial Owners of tendered Series A Bonds (provided that any amounts held in the Series A Subaccount of the Remarketing Account which are derived from the remarketing of Credit Provider Bonds shall be held in trust for the benefit of the Credit Provider). No other moneys shall be deposited in the Series A Subaccount of the Credit Facility Purchase Account. The moneys in the Series B Subaccount of the Remarketing Account and the Series B Subaccount of the Credit Facility Purchase Account shall be used solely to pay the Purchase Price of Series B Bonds as provided in the Indenture (or to reimburse the Credit Provider, if any, for payments made under the Credit Facility for such purpose) and may not be used for any other purposes. All amounts held in the Series B Subaccount of the Remarketing Account and the Series B Subaccount of the Credit Facility Purchase Account therein shall be held in trust by the Trustee for the benefit of the Bondholders or Beneficial Owners of tendered Series B Bonds (provided that any amounts held in the Series B Subaccount of the Remarketing Account which are derived from the remarketing of Credit Provider Bonds shall be held in trust for the benefit of the Credit Provider). No other moneys shall be deposited in the Series B Subaccount of the Credit Facility Purchase Account. The moneys in the Series C Subaccount of the Remarketing Account and the Series C Subaccount of the Credit Facility Purchase Account shall be used solely to pay the Purchase Price of Series C Bonds as provided in the Indenture (or to reimburse the Credit Provider, if any, for payments made under the Credit Facility for such purpose) and may not be used for any other purposes. All amounts held in the Series C Subaccount of the Remarketing Account and the Series C Subaccount of the Credit Facility Purchase Account therein shall be held in trust by the Trustee for the benefit of the Bondholders or Beneficial Owners of tendered Series C Bonds (provided that any amounts held in the Series C Subaccount of the Remarketing Account which are derived from the remarketing of Credit Provider Bonds shall be held in trust for the benefit of the Credit Provider). No other moneys shall be deposited in the Series C Subaccount of the Credit Facility Purchase Account.

**Bond Fund.** Upon the receipt thereof, the Trustee shall deposit all Revenues in the “California Educational Facilities Authority 2008 Variable Rate Demand Revenue Bonds (Chapman University) Bond Fund” (the “Bond 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 in the Bond Fund shall be used solely for (i) the payment of the principal of and premium, if any, and interest on all the Bonds as the same shall become due, *pari passu*, whether at maturity or upon redemption or acceleration, or (ii) to reimburse the Credit Provider for any obligations due and payable to such Credit Provider.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all Base Loan Payments received by the Trustee from the Borrower any income received from the investment of moneys on deposit in the Bond Fund and any other Revenues; provided, however, that any prepayment of Base Loan Payments received under the Agreement from or for the account of the Borrower shall be deposited in a special account in the Bond Fund established by the Trustee for the purposes of receipt and application of such prepayment, or in such other fund or account held by the Trustee for such purpose in accordance with the Indenture.

In making payments of principal of, premium, if any, and interest on the Bonds, the Trustee shall use any Revenues received by the Trustee.

The Trustee shall establish in the Bond Fund a special account designated as the “Credit Facility Account” consisting of a Series A Subaccount, a Series B Subaccount and a Series C Subaccount. The Trustee shall deposit in the Series A Subaccount in the Credit Facility Account in the Bond Fund from time to time, upon receipt thereof, all amounts received from demands under the Credit Facility relating to the Series A Bonds (other than such amounts to be applied to the Purchase Price of Series A Bonds tendered or deemed tendered for purchase under the Indenture which shall be deposited in the Series A Subaccount in the Credit Facility Purchase Account pursuant to the Indenture) and shall apply such amounts to the payment when due of the principal of and interest on the Series A Bonds with respect to which such demand was made before using any other funds available in the Bond Fund for such purpose. No other moneys shall be deposited in the Series A Subaccount in the Credit Facility Account in the Bond Fund. The Trustee shall deposit in the Series B Subaccount in the Credit Facility Account in the Bond Fund from time to time, upon receipt thereof, all amounts received from demands under the Credit Facility relating to the Series B Bonds (other than such amounts to be applied to the Purchase Price of Series B Bonds tendered or deemed tendered for purchase under the Indenture which shall be deposited in the Series B Subaccount in the Credit Facility Purchase Account pursuant to the Indenture) and shall apply such amounts to the payment when due of the principal of and interest on the Series B Bonds with respect to which such demand was made before using any other funds available in the Bond Fund for such purpose. No other moneys shall be deposited in the Series B Subaccount in the Credit Facility Account in the Bond Fund. The Trustee shall deposit in the Series C Subaccount in the Credit Facility Account in the Bond Fund from time to time, upon receipt thereof, all amounts received from demands under the Credit Facility relating to the Series C Bonds (other than such amounts to be applied to the Purchase Price of Series C Bonds tendered or deemed tendered for purchase under the Indenture which shall be deposited in the Series C Subaccount in the Credit Facility Purchase Account pursuant to the Indenture) and shall apply such amounts to the payment when due of the principal of and interest on the Series C Bonds with respect to which such demand was made before using any other funds available in the Bond Fund for such purpose. No other moneys shall be deposited in the Series C Subaccount in the Credit Facility Account in the Bond Fund.

Except to the extent such moneys are required to be held for the payment of principal of, redemption premium, if any, or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the Indenture, so long as no Event of Default exists under the Indenture, on the fifth

day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Borrower, shall return to the Borrower (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or shall deposit such funds in the Rebate Fund if so instructed by the Borrower; provided, however, that no payment shall be made to the Borrower and such amounts shall be paid to the Credit Provider if and to the extent the Borrower has any obligations to such Credit Provider which are then due and payable, as certified by such Credit Provider to the Trustee.

**Investment of Moneys.** Subject to the provisions of the Indenture relating to arbitrage covenants and the Rebate Fund, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Indenture (other than the Bond Purchase Fund and the Credit Facility Account) 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) at least two days prior to the investment date, by the Trustee, if and to the extent then permitted by law, in Investment Securities. In the absence of such written direction, the Trustee is directed to invest available moneys in Investment Securities described in paragraph (g) of the definition thereof. Moneys in any fund or account (other than the Bond Purchase Fund and the Credit Facility Account) shall be invested in Investment Securities with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Investment Securities payable at the option of the Holder) not later than the date on which such moneys will be required by the Trustee. For investment purposes only, the Trustee may commingle the funds and accounts established under the Indenture (other than the Bond Purchase Fund, the Credit Facility Account, the Rebate Fund and any fund or account established pursuant to the Indenture) but shall account for each separately. Any Investment Securities that are registrable securities shall be registered in the name of the Trustee.

Notwithstanding the foregoing provisions of the provisions of the Indenture summarized under this caption, (i) any moneys held in the Bond Purchase Fund and any moneys constituting payments under any Credit Facility shall be held uninvested unless such moneys are invested in accordance with the Indenture to effect the defeasance of a Series of Bonds and (ii) any moneys constituting Available Amounts (excluding any moneys constituting payments under any Credit Facility) shall be invested in Investment Securities that are in a money market mutual fund rated “Aaa” by Moody’s and that mature on or before the date on which such moneys are to be applied to the payment of such Series of Bonds.

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

The Authority (and the Borrower by its execution of the Agreement) 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 to the Authority and the Borrower 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 under the Indenture. The Trustee is authorized, in making or disposing of any investment permitted by this caption, to deal with itself (in its individual capacity) or with any one

or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as principal for its own account.

## **Pledge of Revenues**

### **Pledge of Revenues.**

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and all amounts, including the proceeds of the sale of the Bonds (but excluding any Additional Payments paid by the Borrower pursuant or with respect to the Agreement) held in any fund or account established pursuant to the Indenture other than the Rebate Fund and the Bond Purchase Fund are irrevocably pledged to the punctual payment of the principal of, premium, if any, and interest on the Bonds. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all amounts in the Series A Subaccount in the Remarketing Account and the Series A Subaccount in the Credit Facility Purchase Account are irrevocably pledged to the punctual payment of the Purchase Price of Series A Bonds tendered or deemed tendered for purchase pursuant to the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all amounts in the Series B Subaccount in the Remarketing Account and the Series B Subaccount in the Credit Facility Purchase Account are irrevocably pledged to the punctual payment of the Purchase Price of Series B Bonds tendered or deemed tendered for purchase pursuant to the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all amounts in the Series C Subaccount in the Remarketing Account and the Series C Subaccount in the Credit Facility Purchase Account are irrevocably pledged to the punctual payment of the Purchase Price of Series C Bonds tendered or deemed tendered for purchase pursuant to the Indenture. Said pledge shall constitute a first and exclusive lien on the Revenues and the amounts in such funds and accounts for the payment of the Bonds. All Revenues and other amounts pledged under the Indenture shall be held in trust for the benefit of the Holders from time to time of the Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

The Authority transfers in trust, grants a security interest in, assigns and sets over to the Trustee, for the benefit of the Holders from time to time of the Bonds all of the Revenues and the other amounts pledged in the paragraph above and all right, title and interest and privileges it has in and under the Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security therefor; and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and shall forthwith be paid by the Authority to the Trustee, except (i) the Authority's express rights to receive any notices or copies of documents under the Indenture or the Agreement, (ii) the Authority's right to receive and enforce its rights with respect to payments of fees, expenses and indemnification and certain other purposes under the Agreement, (iii) the Authority's express rights to give approvals or consents pursuant to the Agreement, and (iv) the Authority's right to access and inspection pursuant to the Agreement. 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, any Credit Facility and any other security agreement with respect to

the Project or the Bonds, 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 Revenues.

The proceeds of any drawing on a Credit Facility provided with respect to a Series of Bonds is (to the extent the Authority has any interest therein) irrevocably pledged to the punctual payment of the principal and Purchase Price of, and interest on, such Bonds, and proceeds of any drawing on such Credit Facility shall not be used for any other purpose. Said pledge shall constitute a first and exclusive lien in favor of the Trustee for the benefit of the Holders of the Bonds of the Authority's interest, if any, in the proceeds of any drawing on such Credit Facility and any payments thereunder for the payment of the principal and Purchase Price of, and interest on, the Bonds of such Series in accordance with the terms thereof. The proceeds of any drawing on a Credit Facility, if any, and any payments thereunder shall be held in trust for the benefit of the Holders from time to time of the Bonds of such Series, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

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

### **Covenants of the Authority**

**Payment of Principal and Interest.** The Authority shall punctually pay, but only out of Revenues, including the proceeds of any demand under the Credit Facility, the other amounts pledged therefor under the Indenture and the proceeds of the remarketing of Bonds of a Series, in each case as provided in the Indenture, the principal and Purchase Price of and the interest (and premium, if any) on every Bond of such Series issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds of such Series 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, such Bonds, if any, shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Authority and the Borrower. The Trustee shall destroy such cancelled Bonds.

**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 Revenues.** 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 Revenues and the assignment to the Trustee of rights under the Agreement, or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee and the Credit Provider. 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 Revenues in any manner other than in accordance with the provisions of the Indenture, and shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture.

**Other Liens.** So long as any Bonds are Outstanding, the Authority shall not create or suffer to be created any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues, including the proceeds of demands under any Credit Facility, the other amounts pledged under the Indenture and the proceeds of the remarketing of Bonds, other than the lien of the Indenture.

**Arbitrage Covenants; Rebate Fund.**

(a) The Authority covenants with all persons who hold or at any time held Bonds of a Series that the Authority will not directly or indirectly use the proceeds of any of the Bonds of such Series or permit the use of the proceeds of any of the Bonds of such Series or take or omit to take any other action which will cause any of the Bonds to be “arbitrage bonds” or to be 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 Tax Agreement applicable to the Authority. Such covenants are incorporated in the Indenture by reference as though fully set forth in the Indenture.

(b) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the “California Educational Facilities Authority 2008 Variable Rate Demand Revenue Bonds (Chapman University) Rebate Fund” (herein called the “Rebate Fund”). Within the Rebate Fund, the Trustee shall also maintain such accounts as shall be directed by the Borrower as necessary in order for the Authority and the Borrower to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States Government, and neither the Borrower, the Authority nor the Bondholders shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the provisions of the Indenture described under this caption, by the provisions of the Agreement relating to tax covenants and by the Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the written directions of the Borrower, including supplying all necessary information requested by the Borrower and the Authority in the manner set forth in the Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Borrower.

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

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

(e) Notwithstanding any provisions of the Indenture described under this caption and any provisions of the Agreement relating to tax covenants, if the Borrower shall provide to the Authority and the Trustee an Opinion of Bond Counsel that any specified action required under the provisions of the Indenture described under this caption or any aforementioned provisions is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Borrower, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this caption and the covenants under the Indenture shall be deemed to be modified to that extent.

**Further Assurances.** Whenever and so often as requested so to do by the Trustee or the Credit Provider, 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, the Credit Provider and the Bondholders 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.

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

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

## **Events of Default; Remedies**

**Events of Default; Acceleration; Waiver of Default.** Each of the following events shall constitute an “Event of Default” under the Indenture:

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

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

(c) The occurrence of an “Event of Default” under the Agreement;

(d) 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 Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; or

(e) The Trustee receives notice from the Credit Provider that an event of default under the Credit Agreement has occurred and is continuing and requiring that the principal of and interest on the Bonds of a Series be declared immediately due and payable.

No default specified in (d) above shall constitute an Event of Default unless the Authority and the Borrower 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 or the Borrower within the applicable period and diligently pursued until the default is corrected. With regard to any alleged default concerning which notice is given to the Authority and the Borrower under the provisions the Indenture summarized by this caption, the Authority grants the Borrower full authority for the account of the Authority to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Authority with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts and with power of substitution. Notwithstanding such grant, the Borrower shall not have any obligation to cure any default of the Authority.

Upon (i) the occurrence of an Event of Default under (e) above the Trustee shall immediately or (ii) the occurrence and continuation of any Event of Default specified above other than in (e), the Trustee may with the consent of the Credit Provider, and shall, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding and the consent of the Credit Provider, or upon the written direction of the Credit Provider shall, by notice in writing delivered to the Borrower and the Credit Provider, 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. Interest on the Bonds shall cease to accrue from and after the date of declaration of any such acceleration. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under paragraph (c) or (d) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration under this caption 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 such 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; and provided, that if there has been an Event of Default after a draw upon the Credit Facility and such Credit Facility has been fully reinstated and the Credit Provider has rescinded the notice it provided to the Trustee pursuant to the Indenture, then, and in every such case, the Holders of at least a majority in aggregate principal amount of such Bonds then Outstanding (by written notice to the Authority and to the Trustee accompanied by the written consent of the Credit Provider) may, on behalf of the Holders 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. The Trustee shall provide the Credit Provider with notice of any such rescission.

**Institution of Legal Proceedings by Trustee.** Subject to the right of the Credit Provider to direct all remedial proceedings, in addition, if one or more of the Events of Default under the Indenture shall happen and be continuing, the Trustee in its sole discretion may with the consent of the Credit Provider, and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding with the consent of the Credit Provider, upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) or upon the written direction of the Credit Provider shall, proceed to protect or enforce its rights or the rights of the Holders and the Credit Provider 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 in the Indenture, or in aid of the execution of any power granted in the Indenture, 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 and moneys in the funds and accounts (other than the Rebate Fund and the Bond Purchase 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 premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

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

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

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

Fourth: To the Credit Provider, if any, for amounts due under the Credit Facility other than as the Holder of Credit Provider Bonds, as certified by the Credit Provider to the Trustee.

**Effect of Delay or Omission to Pursue Remedy.** No delay or omission of the Trustee or of any Holder of Bonds of a Series 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 by the Indenture to the Trustee or to the Holders of Bonds of a Series 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, the Credit Provider and the Holders of such Series of 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, the Credit Provider and the Holders of such Series of Bonds shall continue as though no such proceedings had been taken.

**Remedies Cumulative.** No remedy in the Indenture conferred upon or reserved to the Trustee, to any Holder of Bonds of a Series or to the Credit Provider 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.

**Covenant to Pay Bonds in Event of Default.** The Authority covenants that, upon the happening of any Event of Default, the Authority will pay to the Trustee upon demand, but only out of Revenues, including amounts made available under the Credit Facility, and any other funds pledged therefor under the Indenture, for the benefit of the Holders of the Outstanding Bonds of a Series, the whole amount then due and payable thereon (by declaration or otherwise) for interest or for principal and premium, or both, as the case may be, and all other sums which may be due under the Indenture or secured by the Indenture, including reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by the Trustee under the Indenture. In case the Authority shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees and expenses, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Revenues, amounts made available under the Credit Facility and any other funds pledged therefor under the Indenture, as provided in the Indenture and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the Indenture, and the right of the Trustee to recover such judgment shall not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of the Indenture.

**Trustee Appointed Agent for Bondholders.** The Trustee is appointed the agent and attorney of the Holders 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 Holders of the Bonds, it shall have full power, in the exercise of its discretion for the best interests of the Holders 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 Credit Provider, or the Holders 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 with the consent of the Credit Provider. In the event that there is a conflict between the directions of the Holders of the Bonds and the Credit Provider, the directions of the Credit Provider shall prevail.

All rights of action under the Indenture or under any of the Bonds secured 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 Bondholders, subject to the provisions of the Indenture.

**Limitation on Bondholders' Right to Sue.** Subject to the right of the Credit Provider to direct all remedial proceedings, no Holder of a Bond issued under the Indenture 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 (i) such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (ii) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (iii) said Holders 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; (iv) 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; and (v) the Credit Provider shall have consented.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Holders 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 provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

The right of any Holder to receive payment of the principal of (and premium, if any) and interest on a Bond out of Revenues, amounts made available under the Credit Facility and any other funds pledged therefor under the Indenture, 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 Holder, notwithstanding the foregoing provisions of the Indenture.

### **The Trustee and the Remarketing Agent**

**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, 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; and

(ii) 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 Holders 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

(iii) 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, 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 provisions of 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; and

(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 (unless other evidence in respect thereof be specifically prescribed in the Indenture) 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 Office.

(g) Before taking any action under the Indenture, 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, subject to those provisions of the Indenture requiring the Trustee to take actions without pursuing indemnification.

(h) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

**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.

**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 (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by federal or state authority and acceptable to the Credit Provider. If such a 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 caption 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 its 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 the Indenture summarized under this caption, 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, the Borrower and the Credit Provider and by giving to the Bondholders notice either by publication of such resignation, which notice shall be published at least once in a Qualified Newspaper, or by giving Notice by Mail to such Bondholders. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agency. Upon receiving such notice of resignation, the Authority, with the advice and consent of

the Borrower and the consent of the Credit Provider 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 thirty (30) days after the giving of such notice of resignation by the resigning Trustee, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Credit Provider or any Bondholder who has been a bona fide Holder 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 the Credit Provider or any Bondholder who has been a bona fide Holder 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 and consent of the Borrower and the consent of the Credit Provider appoint a successor trustee by an instrument in writing, or the Credit Provider or any Bondholder who has been a bona fide Holder for at least six (6) months may, on behalf of himself and others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee, and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee, and appoint a successor trustee. 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 Holders of a majority in aggregate principal amount of the Bonds at the time Outstanding may at any time remove the Trustee, and with the consent of the Credit Provider, if any, appoint a successor trustee, by an instrument or concurrent instruments in writing signed by the Authority or such Bondholders, 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 caption shall become effective only upon acceptance of appointment by the successor trustee as provided in the Indenture, and upon transfer of the Credit Facility then in effect to the successor trustee.

**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, the Credit Provider 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 in the Indenture; 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 as provided under this caption 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 under this caption, the Authority or such successor trustee shall give the Bondholders, the Credit Provider and the Rating Agency notice of the succession of such trustee to the trusts under the Indenture in the manner prescribed in the Indenture for the giving of notice of resignation of the Trustee.

**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 to the Indenture, anything in the Indenture to the contrary notwithstanding, provided that such successor trustee shall be eligible under the provisions of the Indenture.

**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 in the Indenture to the Trustee or hold title to the properties, in trust, as granted in the Indenture, 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 trustee or co-trustee. In the absence of an Event of Default under the Indenture, the appointment of any such separate trustee or co-trustee shall be subject to the approval of the Authority, the Credit Provider and the Borrower. The following provisions of this caption are adapted to these ends.

In the event that the Trustee appoints an additional institution as a separate trustee or 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 separate trustee or co-trustee but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or 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.

Should any instrument in writing from the Authority be required by the separate trustee or 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 separate trustee or co-trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or 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 separate trustee or co-trustee.

**Appointment, Duties and Qualifications of Remarketing Agent.**

In order to carry out the duties and obligations of the Remarketing Agent contained in the Indenture, the Borrower, with the approval of the Credit Provider, shall appoint the Remarketing Agent

for each Series of the Bonds subject to the conditions set forth below. A Remarketing Agent shall be a bank, trust company or member of the Financial Industry Regulatory Authority, or its successors or assigns, organized and doing business under the laws of any state of the United States of America or the District of Columbia and shall have together with its parent, if any, a capitalization of at least \$50,000,000 as shown in its or its parent's most recently published annual report and acceptable to the Credit Provider. The Remarketing Agent initially appointed for each Series of the Bonds is Banc of America Securities LLC.

The Borrower shall enter into a Remarketing Agreement with the Remarketing Agent and such other parties as shall be appropriate, pursuant to which such Remarketing Agent shall designate its Principal Office and agree particularly (but without limitation): (i) to perform the duties and comply with the requirements imposed upon it by the Remarketing Agreement, the Indenture and the Agreement; and (ii) to keep such books and records with respect to its activities as Remarketing Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by each of the Authority, the Trustee, the Credit Provider and the Borrower at all reasonable times. The Remarketing Agent shall not be entitled to any compensation from the Authority, the Credit Provider or the Trustee, but rather shall only be entitled to compensation from the Borrower.

The Borrower shall furnish a copy of the Remarketing Agreement to the Authority, the Trustee and the Credit Provider.

The Remarketing Agent may resign by notifying the Authority, the Trustee, the Credit Provider and the Bondholders at least thirty (30) days before the effective date of such resignation. The Borrower or the Authority may remove the Remarketing Agent pursuant to the terms of the Remarketing Agreement. Any appointment of a successor Remarketing Agent by the Borrower shall be subject to the consent of the Credit Provider and not objected to by the Authority within ten (10) Business Days after the Authority's receipt of a written notice from the Borrower of the Borrower's intent to make such appointment. The Borrower may select for appointment as Remarketing Agent only from the firms on the State Treasurer's list of underwriters approved for negotiated offerings pursuant to Section 5703 of the Government Code of the State. The Authority and the Credit Provider shall be third party beneficiaries of the Remarketing Agreement.

### **Modification of Indenture, Agreement**

Modification Without Consent of Bondholders. The Authority and the Trustee, without the consent of or notice to any Bondholders from time to time and at any time, and at all times with the consent of the Credit Provider but subject to the conditions and restrictions contained in the Indenture, may enter into a Supplemental Indenture or Supplemental Indentures amending or supplementing the Indenture as theretofore in effect, which Supplemental Indenture or Indentures thereafter shall form a part of the Indenture; and the Trustee, without the consent of or notice to any Bondholders, and at all times with the consent of the Credit Provider but subject to the conditions and restrictions contained in the Indenture, from time to time and at any time may consent to any Amendment to the Agreement; 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 the Agreement, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power 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 Holders 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 the Agreement, or in regard to matters or questions arising under the Indenture or the Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture or any Supplemental 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 or any Supplemental Indenture 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 materially adversely affect the interests of the Holders of the Bonds;

(d) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds; provided that such Amendment or Supplemental Indenture shall not materially adversely affect the interests of the Holders of the Bonds;

(e) to modify or eliminate the book-entry registration system for the Bonds;

(f) to provide for the procedures required to permit any Bondholder 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 an exhibit to the Agreement in accordance with the provisions thereof and of the Tax Agreement;

(i) to provide for an extension of a Credit Facility or the provision of an Alternate Credit Facility;

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

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

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

Before the Authority or the Trustee enters into a Supplemental Indenture and before the Trustee consents to any Amendment to the Agreement pursuant to the provisions of the Indenture, the Authority, or the Trustee, as the case may be, shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to the Credit Provider and the Rating Agency. A copy of

the proposed Supplemental Indenture or Amendment shall accompany such notice. Not less than one week after the date of the first mailing of such notice, 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 and the Credit Provider 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 their respective terms; (iii) will upon the execution and delivery thereof be valid and binding upon the Authority in accordance with its terms; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds.

Notwithstanding the foregoing provisions of the Indenture summarized under this caption, 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 caption 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 Bondholders.** In each case, with the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, evidenced as provided in the Indenture, and the Credit Provider but subject to the conditions and restrictions contained in the Indenture (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 or of any Supplemental Indenture; or (ii) the Trustee may consent to any Amendment to the Agreement; 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 with respect to the Bonds without the consent of the Holders of all of the Bonds then Outstanding; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Holders whose consent is required for the execution of such Supplemental Indenture or Amendment, or permit the creation of any lien on the Revenues and the other funds pledged to the payment of the Bonds under the Indenture, prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permit the creation of any preference of any Bondholder over any other Bondholder, except as permitted in the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture upon the Revenues and the other funds pledged to the payment of the Bonds under the Indenture, without the consent of the Holders of all the Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Bondholder of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture.

Upon receipt by the Trustee of: (1) if the Authority approves the execution and delivery of such Supplemental Indenture or Amendment by resolution, a Certified Resolution approving 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 their respective terms; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; and (3) evidence of the consent of the Bondholders and the Credit Provider, 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 Amendment without first obtaining the Borrower's written consent thereto.

It shall not be necessary for the consent of the Bondholders under this caption 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 under this caption, the Trustee shall mail a notice (prepared by the Borrower) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Credit Provider to each Bondholder at the address contained in the Bond Register and to the Rating Agency. 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, 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, the Credit Provider and all Holders of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture and under the Agreement subject in all respects to such Supplemental Indenture and Amendment, 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.

**Required and Permitted Opinions of Counsel.** Subject to the provisions of the Indenture, the Trustee is entitled to receive an Opinion of Counsel and rely on such Opinion of Counsel as conclusive evidence that any Supplemental Indenture or Amendment executed pursuant to the provisions of the Indenture complies with the requirements of the Indenture, that the appropriate consents have been obtained and that such Supplemental Indenture or Amendment has been duly authorized by the Authority.

## **Defeasance**

**Discharge of Indenture.** If the entire indebtedness on 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 premium, if any, and interest on all Bonds, as and when the same become due and payable; or
- (b) by the delivery to the Trustee, for cancellation by it, of all Bonds; or
- (c) by providing for the payment or redemption thereof as provided in the Indenture;

and if all other sums payable under the Indenture by the Authority and all sums payable to the Credit Provider under the Credit Agreement shall be paid and discharged and the Credit Facility has been returned to the Credit Provider for cancellation, then thereupon the Indenture shall cease, terminate and become null and void, all liability of the Authority and the Borrower in respect of the Bonds shall cease, terminate and be completely discharged, except: (i) that the Authority shall remain liable for such payment but only from, and the Bondholders shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and Government

Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture and (ii) that in the case of Bonds (or portions thereof) for which provision for the payment or redemption thereof has been made in accordance with the Indenture, the provisions of the Indenture relating to the transfer and exchange of such Bonds (or portions thereof) and, if so reserved by the Authority, the right to call the Bonds for optional redemption prior to maturity shall continue to apply to the Bonds (or portions thereof). Thereupon the Trustee shall, upon receipt by the Trustee and of an Opinion of Bond Counsel stating 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 Trustee shall mail written notice of such payment and discharge to the applicable Rating Agency and to the Credit Provider. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee to charge and be reimbursed by the Borrower for any expenditures which it may thereafter incur in connection with the Indenture.

**Discharge of Liability of Particular Bonds.** Any Bond, or any portion thereof such that the portion that is not considered paid in accordance with this caption shall be in an Authorized Denomination, shall be deemed to be paid within the meaning of, and with the effect set forth in the Indenture when, whether upon or prior to the maturity or redemption date, as applicable, (a) payment of the principal and Purchase Price of and premium, if any, on such Bond or such portion thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption), either (i) shall have been made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment (1) Available Amounts sufficient to make such payment or (2) nonprepayable, noncallable Government Obligations purchased with the Available Amounts and maturing as to principal and interest in such amounts and at such times as will insure, without reinvestment, the availability of sufficient moneys, together with any other Available Amounts needed by the Trustee for such purposes, to make such payment, provided, however, that provision for the payment of the Purchase Price of such Bond may be made by means of the Credit Facility; (b) if such Bond (or portion thereof) is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for giving such notice; (c) all necessary and proper fees, compensation and expenses of the Trustee pertaining to any such deposit shall have been paid or the payment thereof provided for to the satisfaction of the Trustee; (d) the Trustee shall have been irrevocably instructed to apply such Available Amounts and Government Obligations to the payment of the principal (and unless such Purchase Price is to be paid from amounts made available under the Credit Facility, the Purchase Price) of, premium, if any, and interest on the Bond (or portion thereof) to be discharged; (e) the Authority and the Trustee shall have received an Approving Opinion of Bond Counsel with respect to such deposit of Available Amounts and/or Government Obligations; and (f) the Authority and the Trustee shall have received an Accountant's Certificate verifying that the Available Amounts and Government Obligations so deposited, together with the interest earnings thereon (without reinvestment) will be sufficient to pay when due the principal (and unless such Purchase Price to be paid from amounts made available under the Credit Facility, the Purchase Price) of, premium, if any, and interest on the Bond (or portion thereof) to be discharged to and including the earlier of its maturity or redemption date. The Trustee shall not be responsible for verifying the sufficiency of funds or Government Obligations provided to effect the defeasance of Bonds pursuant to the Indenture.

The Authority and the Borrower may at any time surrender to the Trustee for cancellation by it any Bonds previously authenticated and delivered which the Authority and 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.

**Payment of Bonds after Discharge of Indenture.** 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 or premium on, any Bond remaining unclaimed for two (2) years after such payment has become due and payable (whether on an Interest Payment Date, at maturity, upon call for redemption or by declaration as provided in the Indenture), then such moneys shall be repaid to the Borrower upon its written request, and the Holder of such Bond 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 expense of the Borrower) first publish at least once in a Qualified Newspaper a notice, in such form as may be deemed appropriate by the Borrower and the Trustee, in respect of the amount so payable with respect to such Bond 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 Holder of the Bond in respect of which such moneys were deposited shall thereafter be deemed to be an unsecured creditor of the Borrower for amounts equivalent to the respective amounts deposited for the payment of the amount so payable with respect to such Bond and so repaid to the Borrower (without interest thereon).

### **Miscellaneous**

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

### **Evidence of Action by Bondholders.**

Any request, consent or other instrument required by the Indenture to be executed by Bondholders may be in any number of concurrent writings of substantially similar tenor and may be executed by such Bondholders 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 and the Authority if made in the manner provided under this caption.

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.

The ownership of Bonds shall be proved by the Bond Register.

Any request, consent or vote of the Holder shall bind every future Holder of the same Bond and the Holder 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.

Except as otherwise provided in the Indenture, in determining whether the Holders 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 (other than a Credit Provider), 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 (other than a Credit Provider), 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 paragraph 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 (other than a Credit Provider). 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.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondholders upon such notice and in accordance with such rules and regulations, including the right of the Bondholders 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, agent or employee of the Authority, and no officer, official, agent or employee of the State or any department, board or agency of the State shall be individually or personally liable for the payment of the principal or Purchase Price of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds; but nothing in the Indenture contained shall relieve any such member, officer, 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.

**Credit Provider.** All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by a Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by such Credit Provider during any time in which no Credit Facility is in effect with respect to a Series of the Bonds and no amounts are owing to such Credit Provider, or such Credit Provider has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Credit Facility, or after the Credit Facility shall at any time for any reason cease to be valid and binding on such Credit Provider, or while such Credit Provider is denying further liability or obligation under the Credit Facility (unless such Credit Facility has been fully drawn or to the extent that the conditions to payment thereunder have not been strictly satisfied) or after such Credit Provider has rescinded, repudiated or terminated the Credit Facility and no amounts are owing to the Credit Provider; provided, however, that nothing contained in this caption shall limit the rights of a Credit Provider as a Holder of Credit Provider Bonds.

All provisions in the Indenture relating to a Credit Provider shall be of no force and effect with respect to such Credit Provider if the Credit Facility is no longer in effect, there are no related Credit Provider Bonds and all amounts owing to such Credit Provider under the Credit Agreement have been paid.

**Action Not on Business Day.** Except as otherwise specifically provided in the Indenture, if any date specified for the payment of any principal amount of any Bond or the interest on any Bond or the performance of any act falls on a day which is not a Business Day, such payment or performance shall be

made on the next succeeding Business Day with the same effect as if made on such date. In the case of the payment of the Principal of any Bond or the interest on any Bond which shall be due on a day which is not a Business Day, and such payment is made on the next succeeding Business Day, no additional interest shall accrue as a result of such delayed payment.

## **LOAN AGREEMENT**

### **Payment of Bonds.**

In repayment of the loan of the proceeds of the Bonds made pursuant to the Agreement, and the payment of interest thereon, the Borrower agrees that it will make payments (the "Base Loan Payments") to the Trustee, for the account of the Authority, in the amounts necessary for the payment when due of the principal, premium and interest on the Outstanding Bonds, as follows:

(1) No later than 9:00 a.m., Pacific time, on or prior to each Bond Payment Date (whether at maturity, by redemption or by acceleration as provided in the Indenture) with respect to the Bonds and continuing until the principal of and premium, if any, and interest on the Bonds shall have been fully paid (or provision for the payment thereof shall have been made as provided in the Indenture), the Borrower shall pay in funds which will be immediately available as of such time and date, as an installment in repayment of the loan from the Authority under this Agreement, a sum equal to the aggregate amount payable on such Bond Payment Date as principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture but excluding any Purchase Price required to be paid pursuant to the Indenture) and premium, if any, and interest on the Bonds, at the Principal Corporate Trust Office of the Trustee; provided, however, that if such principal of, premium if any, and interest on the Bonds has been paid to the Trustee by the Credit Provider, the Borrower may make the payments required under this paragraph directly to the Credit Provider, with notice to the Trustee. In accordance with the Indenture, the Trustee shall use its best efforts to provide the Borrower with 7 Business Days' prior written notice of the approximate sum due on each Bond Payment Date; provided, however, failure by the Trustee to give such notice, or the insufficiency of any such notice, shall not affect or diminish the obligations of the Borrower to make payments under this paragraph.

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

The obligation of the Borrower to make any payment under this paragraph shall be deemed to have been satisfied to the extent of any corresponding payment made by the Credit Provider to the Trustee under the Letter of Credit.

If the Borrower fails to make any payment required under the Agreement by the due date thereof (it being recognized that no payments with respect to the Purchase Price of the Bonds are required under the Agreement), the Trustee shall promptly notify the Credit Provider and the Authority, such notice to be given by telephone, telecopy or telegram followed by written notice.

### **Additional Payments.**

In addition to the Base Loan Payments required to be made by the Borrower, the Borrower shall also pay to the Trustee or to the Authority, as the case may be, the following (the "Additional Payments"):

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

The reasonable annual (or other regular) fees and expenses of the Trustee and its agents appointed pursuant to the Indenture, and all reasonable fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Indenture, including without limitation any amounts payable to the Trustee by the Authority from Additional Payments pursuant to the Indenture, as and when the same become due and payable;

The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements or opinions or provide such other services as are reasonably required under this Agreement, the Indenture or the Tax Agreement;

Annual fees and reasonable expenses of the Authority and any agency of the State selected by the Authority to act on its behalf in connection with the loans to the Borrower under this Agreement, the Bonds, the Indenture or any other documents contemplated thereby, and reasonable expenses incurred by the Authority in supervision and inspection of the Borrower and its operations with respect to the use and application of such loans; and

Such amounts as may be necessary to satisfy the rebate requirements in accordance with the Tax Agreement.

### **Prepayment.**

(a) The Borrower may at any time prepay all or any part of the Base Loan Payments payable under this Agreement by providing written notice, at least five days prior to the last day by which the

Trustee is permitted to give notice pursuant to the Indenture to the Holders, the Credit Provider and the Authority, specifying the date of such prepayment, for the purposes and at the prices set forth in the Indenture, and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered by the Borrower. All such prepayments shall be deposited in the Revenue Fund and credited against the Base Loan Payments in the order of their due date or, at the election of the Borrower exercised in a Request of the Borrower, used for the redemption of Outstanding Bonds, in the amounts and on the redemption dates specified in such Request; provided that the redemption date shall be such as to comply with the optional redemption provisions and the notice provisions of the Indenture. Notwithstanding any such prepayment, the Borrower shall not be relieved of its obligations under the Agreement until all of the Bonds have been fully paid and retired (or provision for payment thereof shall have been made as provided in the Indenture).

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

(c) The Borrower gives notice of its intent to prepay Base Loan Payments on the dates and in the amounts set forth in the applicable Credit Agreement for any required exercise of the Borrower's rights to make prepayments of Base Loan Payments under the Agreement and to cause such prepayments to be applied to the redemption of Bonds pursuant to the optional redemption provisions of the Indenture. The Borrower requests that all such prepayments be applied to the optional redemption of Bonds of a Series pursuant to the Indenture on the dates and in the amounts specified in the applicable Credit Agreement.

### **Certain Covenants of the Corporation**

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

(a) The Borrower covenants and agrees that, so long as any of the Bonds are Outstanding, it will maintain its existence as a California nonprofit public benefit corporation and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it. Notwithstanding the foregoing, the Borrower may, without violating the covenants contained in this caption, consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve, if:

(1) The surviving, resulting or transferee corporation, as the case may be:

(a) qualifies under the Act as a "participating college";

(b) assumes in writing, if such corporation is not the Borrower, all of the obligations of the Borrower under this Agreement; provided such written instrument shall be executed and delivered to the Trustee, and shall be satisfactory to the Credit Provider and the Trustee, containing the agreement of such corporation to assume, jointly and severally, the due and punctual payment

of the principal of, premium, if any, and interest on all obligations of the Borrower (including, without limitation, the Bonds) according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Agreement to be kept and performed by the Borrower, accompanied by an opinion of counsel as to the validity and enforceability of such assumption (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof are acceptable to the Credit Provider and the Trustee); and

(c) is not, after such transaction, otherwise in default under any provisions of this Agreement or the Credit Agreement;

(d) 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

(e) demonstrates that the unrestricted net assets of the corporation would not be less than 90% of the unrestricted net assets of the Borrower immediately prior to consolidation, merger, sale, acquisition or transfer.

(2) The Authority and the Trustee shall have received a Certificate of the Borrower to the effect that the covenants under the Agreement will be met after such consolidation, merger, sale or transfer; and

(3) The Trustee and the Authority shall have received an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not cause interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code.

(b) If a merger, consolidation, sale or other transfer is effected, as provided in this caption, the provisions of this caption 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 caption.

(c) 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 this Agreement if the foregoing provisions (other than (a)(1)(a)) are satisfied. In such event, references in this 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 purposes of all obligations of the Borrower under this Agreement.

#### **Insurance; Condemnation Proceeds.**

The Borrower shall maintain insurance covering such risks and in such amounts as is customarily maintained by institutions in the State in similar circumstances having facilities of a comparable type and size and offering comparable services as those of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance. In addition, to the extent commercially available and, in the Borrower's discretion, economically practicable the Borrower shall maintain earthquake and flood insurance, subject to reasonable deductibles, in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of the Outstanding Bonds. Such insurance shall be provided by carriers rated at least "A" by A.M. Best

Company, Inc. All insurance policies maintained pursuant to this caption shall name the Borrower, the Authority and the Trustee as insured parties, beneficiaries and loss payees as their interests may appear. The Borrower shall at all times also maintain worker's compensation coverage as required by the laws of the State.

The insurance required above may be maintained by the maintenance of a self-insurance plan so long as any such plan provides for (1) the establishment by the Borrower of a separate segregated self-insurance fund funded in an amount determined (initially and on at least an annual basis) by an insurance or actuarial consultant satisfactory to the Credit Provider employing accepted actuarial techniques and (2) the establishment and maintenance of a claims processing and risk management program.

The proceeds of any casualty insurance or title insurance with respect to any Property of the Borrower or any condemnation award (or settlement in lieu of condemnation) with respect to any property of the Borrower, in either case exceeding \$250,000, shall be applied either to the redemption of Bonds or to the repair or replacement of the Property with respect to which such insurance proceeds or condemnation award is received.

If the Authority shall so request in a Request of the Authority, the Borrower shall provide to the Authority summaries or other evidence of its insurance coverage.

### **Tax Covenants**

(a) The Borrower covenants that it shall not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the generality of the foregoing, the Borrower covenants that it shall comply with the requirements of the Tax Agreement, which is incorporated in the Agreement as if fully set forth in the Agreement. This covenant shall survive the payment in full or the defeasance of the Bonds.

(b) Notwithstanding any provisions of this caption, if the Borrower provides to the Trustee and the Authority an Opinion of Bond Counsel to the effect that any specified action required under this caption is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this caption and the Tax Agreement, and the covenants under the Agreement shall be deemed to be modified to that extent.

**Compliance with Laws.** The Borrower will comply with all material laws, statutes, ordinances, regulations, covenants, conditions and restrictions now or hereafter affecting the Project, the Borrower or the operations thereof, and it will not commit, suffer or permit any act to be done in violation of any law, ordinance or regulation, except, in each case, where such noncompliance or act would not have a material adverse effect upon the Borrower's assets, operations or financial condition.

### **Maintenance Operation and Use of the Project and the Facilities.**

(1) The Borrower will use its best efforts to cause the Project to be maintained in good condition and repair, will maintain, operate and use the Project, during the useful life thereof, as an integral part of the Facilities and will not alienate, sell, convey or transfer the Project unless it provides to the Trustee and the Authority an Opinion of Bond Counsel to the effect that such alienation, sale, conveyance or transfer will not cause interest on the Bonds to be included in the gross income of the Holders thereof for federal income tax purposes.

(2) The Borrower will not use the Project, during the useful life thereof (irrespective of whether the Bonds are at the time Outstanding), for sectarian instruction or as a place of religious worship or primarily in connection with any part of the program of any school or department of divinity.

(3) The Borrower will operate the Facilities as a postsecondary educational institution, maintain the Facilities in good repair, working order and condition to achieve this function and otherwise to meet the covenants and obligations contained in the Agreement and honor all valid restrictions on the uses to which the Facilities may be subject so long as the Facilities are owned by the Borrower or any distributee upon dissolution or any voluntary grantee of the Borrower.

**Taxes, Assessments, Other Governmental Charges and Utility Charges.** The Borrower will pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Facilities, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Facilities or any part thereof, provided, however, that the Borrower shall not be required to pay any tax, assessment, rate or charge as provided in the Agreement as long as it shall in good faith contest the validity thereof by a proceeding which operates to prevent any forfeiture or sale of the Facilities or any part thereof.

**Accreditation.** The Borrower will maintain its accreditation by WASC or its successor as a body that accredits schools like the Borrower or, if none, another nationally recognized body or bodies that accredit such schools. The Borrower will maintain the accreditation of its law school by the ABA or its successor as a body that accredits law schools or, if none, another nationally recognized body or bodies that accredits law schools. The Borrower covenants to provide to the Authority, within thirty (30) days of receipt thereof, copies of any action letter, sent to the Borrower by either such accrediting body following its review of the report of the team which visited the Borrower's campus, which apprises the Borrower that such accrediting body is issuing a warning to the Borrower or placing the Borrower on probation.

**Limitation on Encumbrances.** The Borrower covenants and agrees that it will not, without the prior written consent of the Credit Provider, encumber any of its Property except for Permitted Encumbrances.

**Compliance with the Provisions of the Act and the United States and California Constitutions Relating to Religion.** The Borrower covenants that it will not restrict entry on racial or religious grounds or require students gaining admission to receive instruction in the tenets of a particular faith. On such date as the audited financial statements are furnished pursuant to the Agreement, or by such later date at least annually as shall be acceptable to the Authority, so long as there shall be any Bonds Outstanding, the Borrower covenants to furnish to the Authority a certificate executed by an officer or authorized agent of the Borrower certifying that the Borrower (i) has not used or applied any part of the proceeds of the loan made to the Borrower under the Agreement to finance or refinance any facility used or to be used for sectarian instruction or as a place for religious worship or any facility used or to be used primarily in connection with any part of the program of any school or department of divinity, (ii) has in all respects complied with the provisions of the Act with respect to the use and applications of the proceeds of any such loan, (iii) is in compliance with the insurance requirements of the Agreement, (iv) neither restricts entry on racial or religious grounds nor requires students gaining admission to receive instruction in the tenets of a particular faith and (v) has made all necessary filings on a timely basis as required in the Continuing Disclosure Agreement. The Authority and its assignees shall have the right to inspect the premises of the Borrower at all reasonable times for the purpose of verifying

compliance with the foregoing covenant and due compliance by the Borrower with all the terms of the Act and the Constitutions and laws of the United States and of the State of California.

**ERISA Compliance.** The Borrower shall cause any ERISA Plans maintained by the Borrower for its employees to be in compliance, in all material respects, with all applicable provisions contained in ERISA, the Code and the regulations published thereunder, and cause all benefit plans maintained by the Borrower for its employees and not subject to the provisions of ERISA, to be in compliance with all requirements of law (including regulations) applicable thereto.

Without limiting any of the foregoing, the Borrower further agrees as follows:

(1) The Borrower will not, with respect to any ERISA Plan:

(A) incur any “accumulated funding deficiency,” as such term is defined in Section 412 of the Code, whether or not waived, if the amount of such accumulated funding deficiency, plus any accumulated funding deficiencies previously incurred with respect to such ERISA Plan and not eliminated, would aggregate more than \$100,000; provided that the incurring of such an accumulated funding deficiency will not be an “event of default” under the Agreement if it is reduced below \$100,000 or eliminated within 90 days after the date upon which the Borrower becomes aware of such accumulated funding deficiency; or

(B) terminate any such ERISA Plan in a manner which could result in the imposition of a material lien on the property of the Borrower pursuant to Section 4068 of ERISA and which could reasonably be expected to materially adversely affect the business, earnings, properties or financial condition of the Borrower; or

(C) withdraw from a Multiemployer Plan in a “complete withdrawal” or a “partial withdrawal” as defined in Sections 4203(a) and 4205(a), respectively, of ERISA, if such withdrawal could reasonably be expected to materially adversely affect the Borrower’s ability to comply at any time with any of the provisions of this Agreement.

(2) The Borrower will:

(A) fund all current and past service pension liabilities under the provisions of all ERISA Plans subject to Title IV of ERISA such that if all such ERISA Plans were terminated at the same time by the Borrower any liens imposed on the Borrower under Section 4068 of ERISA would not be in an amount in the aggregate which would materially affect the Borrower’s ability to comply at any time with any of the provisions of the Agreement; and

(B) otherwise comply in all respects with the provisions applicable to its ERISA Plans contained in ERISA, the Code and the regulations published thereunder except for any noncompliance that could not reasonably be expected to affect the Borrower’s ability to comply at anytime with any provision of this Agreement; and

(C) notify the Authority promptly after the Borrower knows or has reason to know (i) of the happening of any material Reportable Event with respect to any ERISA Plan and, in any event, at least five days prior to any notification of such material Reportable Event given to the Pension Benefit Guaranty Corporation pursuant to the terms of Section 4043 of ERISA or (ii) of an assessment against the Borrower or any Common Control Entity of any withdrawal liability to a Multiemployer Plan. Notwithstanding anything herein to the contrary,

the Borrower need not notify the Trustee or the Authority of such material Reportable Event or withdrawal liability unless it might materially adversely affect the business, prospects, earnings, properties or condition (financial or otherwise) of the Borrower.

For purposes of this caption and the representations and warranties of the Borrower contained in the Agreement, the following terms shall have the following meanings. The term “Multiemployer Plan” has the meaning set forth in Section 4001(a)(3) of ERISA and all rules and regulations promulgated from time to time thereunder. The term “Common Control Entity” means any entity which is a member of a “controlled group of corporations” with, or is under “common control” with, the Borrower as defined in Section 414(b) or (c) of the Code. The term “PBGC” means the Pension Benefit Guaranty Corporation.

**Events of Default.** The following shall be “events of default” under the Agreement:

(a) The Borrower fails to make any Base Loan Payment or Additional Payment by its due date, and such failure continues for five Business Days after such due date; or

(b) The Borrower fails to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement other than as referred to in paragraph (a) above for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Borrower by the Authority or the Credit Provider; provided, however, if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the default is corrected; provided, further however, that no such extension shall be granted without the prior written consent of the Credit Provider; or

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

(d) Default by the Borrower in the payment of debt outstanding in an aggregate principal amount of more than \$500,000; or

(e) The Borrower applies for or consents to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property or admits in writing its inability to pay its debts as they mature; or such a receiver, trustee or similar officer is appointed without the application or consent of the Borrower and such appointment continues undischarged for a period of sixty (60) days; or the Borrower institutes (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding is instituted (by petition, application or otherwise) against the Borrower and remains undismissed for a period of sixty (60) days; or the Borrower makes a general assignment for the benefit of creditors.

#### **Remedies upon an Event of Default.**

In the event any of the Bonds shall at the time be Outstanding and unpaid (and provision for the payment thereof shall not have been made as provided in the Indenture) and any event of default referred to in the Agreement shall have happened and be continuing the Authority or the Trustee may take any one or more of the following remedial steps with the consent of the Credit Provider:

(1) The Authority or the Trustee may, at its option, declare all installments of Base Loan Payments payable for the remainder of the term of this Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(2) The Authority or the Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due under the Agreement, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, condition or covenant of the Borrower under this Agreement.

The term "all installments" shall mean an amount equal to the entire principal amount of the then Outstanding Bonds, together with all interest accrued or to accrue on and prior to the next succeeding redemption date or dates on which the Bonds can be and actually are redeemed after giving notice to the Holders thereof as required by the Indenture (less moneys available for such purpose then held by the Trustee) plus any other payments due or to become due under this Agreement, including, without limitation, any unpaid fees and expenses of the Authority, the Trustee and any paying agents of the Bonds which are then due or will become due prior to the time that the Bonds are paid in full and the trust established by the Indenture is terminated.

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

In the event the Borrower should default under any of the provisions of this Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this 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 that it will on demand therefor pay to the Authority or the Trustee the reasonable fee of such attorneys and such other reasonable expenses so incurred by the Authority or the Trustee.

Anything in the Agreement to the contrary notwithstanding, no remedy may be exercised under the Agreement by the Authority without the written consent of the Credit Provider except as described in clause (2) above with respect to rights of the Authority not assigned to the Trustee, so long as the Credit Provider is not in default of its obligations under the Credit Facility, and the Trustee (as assignee of the Authority) shall exercise its remedies under the Agreement as directed in writing by the Credit Provider. In no event is acceleration of any amount payable under the Agreement a remedy that may be exercised by the Authority with respect to the rights of the Authority not assigned to the Trustee.

#### **Miscellaneous.**

**Continuing Disclosure.** The Borrower covenants and agrees that upon conversion to a Term Rate of greater than nine months duration or a Fixed Rate, it will comply with and carry out all of the continuing disclosure requirements of S.E.C. Rule 15c2-12. Notwithstanding any other provision of the Agreement, failure of the Borrower to comply with any of the disclosure requirements of such Rule shall

not be considered an Event of Default under the Agreement; however any Bondholder or Beneficial Owner may take, and the Trustee shall, at the written request of the Holders of at least 25% aggregate principal amount in Outstanding Bonds, and upon provision of indemnification satisfactory to the Trustee, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its obligations under this caption.

**Governing Law; Venue.** The Agreement is a contract made under the laws of the State of California, and shall be governed by and construed in accordance with the Constitution and the laws applicable to contracts made and performed in said State. The Agreement shall be enforceable in the State of California, and any action arising out of the Agreement shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California unless the Authority waives this requirement. The parties to the Agreement acknowledge that each such party and its respective counsel have participated in the drafting and revision of this Agreement and the Indenture. Accordingly, the parties agree that the Authority shall not be deemed to be the drafting party of this Agreement or the Indenture for purposes of any rule of construction which disfavors the drafting party.

**Severability.** In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of the Agreement.

**Amounts Remaining in Funds and Accounts.** It is agreed that any amounts remaining in the Redemption Fund and the Revenue Fund established pursuant to the Indenture, after payment in full of the Bonds (or after provision for payment thereof as provided in the Indenture) and of the fees, charges and expenses of the Trustee and the Authority, shall be paid to the Credit Provider to the extent of any amounts due to it, or if there is then no Credit Facility for the Bonds or amounts so owing to the Credit Provider, to the Borrower.

**Agreement Represents Complete Agreement; Amendments.** This Agreement, the Indenture, and the Tax Agreement represent the entire contract between the Authority and the Borrower with respect to the Bonds, the loan of the proceeds thereof to the Borrower and related matters. This Agreement may not be effectively amended, changed, modified, altered or terminated except in writing signed by the parties to the Agreement and with the concurring written consent of the Trustee and the Credit Provider, given in accordance with the provisions of the Indenture. The Authority agrees that it will not consent to an amendment of the Indenture without the approval of the Borrower.

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

**Applicability of Provisions Regarding the Credit Provider.** Except as otherwise expressly provided in the Agreement, whenever provision is made in the Agreement or in the Indenture for documents or notice to be given to the Credit Provider or that any action under the Agreement requires the acceptance, approval or consent of the Credit Provider (other than in its capacity as Holder of Bank Bonds), each and every such provision shall require such notice of approval or consent to be in writing and every such provision shall be deemed to refer to the Authority and not the Credit Provider in the event that (a) at the applicable time the Credit Provider has been reimbursed for all draws under the Credit Facility, and there is no Credit Facility for the Bonds, or (b) during any period during which there is a Letter of Credit Failure, or (c) after the Credit Facility shall at any time for any reason cease to be valid and binding on the Credit Provider, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after the Credit Facility has been rescinded, repudiated or terminated, or after a receiver, conservator or liquidator has been appointed for the Credit Provider; provided, however, that

notwithstanding the foregoing the payment of amounts due (including without limitation all indemnity payments) to the Credit Provider pursuant to the terms of the Agreement, whether as Credit Provider or the Holder of Bank Bonds, shall continue in full force and effect. The foregoing shall not affect any other rights of the Credit Provider.

**Waiver of Personal Liability.** No member, officer, agent or employee of the Authority or any director, officer, agent or employee of the Borrower shall be individually or personally liable for the payment of any principal (or redemption price) or interest on the Bonds or any sum under the Agreement or under the Indenture 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.

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## APPENDIX E

### PROPOSED FORM OF BOND COUNSEL OPINION

*Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:*

[Date of Delivery]

California Educational Facilities Authority  
915 Capitol Mall, Room 590  
Sacramento, California 95814

California Educational Facilities Authority  
Variable Rate Demand Revenue Bonds  
(Chapman University)  
2008 Series A, 2008 Series B and 2008 Series C  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Educational Facilities Authority (the "Authority") in connection with the issuance of \$88,885,000 aggregate principal amount of California Educational Facilities Authority Variable Rate Demand Revenue Bonds (Chapman University) 2008 Series A, 2008 Series B and 2008 Series C (the "Bonds"), issued pursuant to an indenture of trust, dated as of July 1, 2008 (the "Indenture"), between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The Indenture provides that the Bonds are being issued for the purpose of making a loan of the proceeds thereof to Chapman University (the "Borrower") pursuant to a Loan Agreement, dated as of July 1, 2008 (the "Agreement"), 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 Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the Authority and the Borrower, opinions of counsel to the Authority, the Trustee and the Borrower, certificates of the Authority, the Trustee, the Borrower 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 Rutan & Tucker, LLP, Costa Mesa, California, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower regarding the use of facilities refinanced with the proceeds of

the 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 of counsel to the Borrower does not address Section 513 of the Code. Failure of the Borrower 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 the Borrower within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

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 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 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 Agreement and the 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 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 Bonds, the Indenture, the Agreement and the 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 instrumentalities in and 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 assets described in or as subject to the lien of the Indenture or the Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 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 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 Bonds, of the Revenues and any other amounts held by the

Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund and the Bond Purchase 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 Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

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