

File No. 14124

Committee Item No. 12

Board Item No. 20

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date November 19, 2014

Board of Supervisors Meeting

Date 11/25/14

Cmte Board

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Completed by: Linda Wong Date November 14, 2014
Completed by: L.W. Date 11/20/14

1 [Issuance of Tax-Exempt Obligation - California College of the Arts - Not to Exceed
2 \$26,000,000]

3 **Resolution approving, in accordance with the Internal Revenue Code, Section 147(f),**
4 **the issuance of tax-exempt obligations by the California Statewide Communities**
5 **Development Authority in an aggregate principal amount not to exceed \$26,000,000 to**
6 **finance and refinance various capital facilities owned by California College of the Arts**
7 **or an affiliate.**

8
9 WHEREAS, California College of the Arts, a California nonprofit corporation (the
10 "Corporation") has requested that the California Statewide Communities Development
11 Authority, a joint exercise of powers agency established pursuant to the laws of the State of
12 California, or other conduit issuer (the "Authority"), issue from time to time tax-exempt
13 obligations (the "Obligation"), in an aggregate principal amount not expected to exceed
14 \$26,000,000 for the purpose of making one or more loans (collectively, the "Loan") to the
15 Corporation pursuant to a plan of financing for various capital facilities as more fully described
16 below; and

17 WHEREAS, The City and County of San Francisco (the "City") is a member of the
18 Authority and has entered into that certain Amended and Restated Joint Exercise of Powers
19 Agreement relating to the Authority, dated as of June 1, 1988 (the "Agreement") among
20 certain local agencies, including the City; and

21 WHEREAS, The Corporation expects to use the proceeds of the Loan for the following
22 purposes: (1) redeem in full all of the outstanding \$18,535,000 California Educational
23 Facilities Authority ("CEFA") Revenue Bonds (California College of the Arts), Series 2005 (the
24 "2005 Bonds") and the portion of CEFA's outstanding \$37,765,000 Revenue Bonds (College
25 and University Financing Program), Series 2007, allocable to the Corporation (the "2007

1 Bonds," and together with the 2005 Bonds, the "Refunded Bonds"), the proceeds of which
2 Refunded Bonds were used to finance or refinance the construction, acquisition,
3 improvement, capital maintenance, equipment acquisition and other related capital
4 expenditures at the Corporation's facilities located at 1111 Eighth Street, San Francisco,
5 California (the "San Francisco Campus") and 5212 Broadway, Oakland, California (the
6 "Oakland Campus"), (2) pay and/or reimburse the Corporation for miscellaneous capital
7 expenditures related to the acquisition, construction, improvement and equipping of the San
8 Francisco Campus and/or the Oakland Campus, and (3) pay various costs of issuance and
9 other related costs (collectively, the "Project"); and

10 WHEREAS, The issuance of the Obligation shall be subject to the approval of and
11 execution by the Authority of all financing documents relating thereto to which the Authority is
12 a party and subject to the issuance of the Obligation by the Authority; and

13 WHEREAS, All or a portion of the Project is and will be located within the City; and

14 WHEREAS, The interest on the Obligation may qualify for tax exemption under Section
15 103 of the Internal Revenue Code of 1986, as amended (the "Code") only if the Obligation is
16 approved in accordance with Section 147(f) of the Code; and

17 WHEREAS, The Board of Supervisors of the City (the "Board") is the elected legislative
18 body of the City and is the applicable elected representative required to approve the issue
19 within the meaning of Section 147(f) of the Code; and

20 WHEREAS, The Authority has requested the Board to approve the issuance of the
21 Obligation in order to satisfy the public approval requirements of Section 147(f) of the Code
22 and the requirements of Section 9 of the Agreement; and

23 WHEREAS, On September 19, 2014, the City caused a notice to appear in the *San*
24 *Francisco Examiner*, which is a newspaper of general circulation in the City, stating that a
25

1 public hearing with respect to the issuance of the Obligation would be held by the City's Office
2 of Public Finance on October 3, 2014; and

3 WHEREAS, The Office of Public Finance held the public hearing described above on
4 October 3, 2014, and an opportunity was provided for persons to comment on the issuance of
5 the Obligation and the financing and refinancing of the Project; now, therefore, be it

6 RESOLVED, That this Board hereby finds and declares the above recitals are true and
7 correct; and, be it

8 FURTHER RESOLVED, That this Board hereby approves the issuance of the
9 Obligation by the Authority; and, be it

10 FURTHER RESOLVED, That it is the purpose and intent of this Board that this
11 Resolution constitutes (a) approval of the issuance of the Obligation by the applicable elected
12 representative of the governmental unit having jurisdiction over the area in which the Project
13 is located for the purposes of and in accordance with Section 147(f) of the Code, and (b)
14 approval of the Obligation for purposes of Section 9 of the Agreement; and, be it

15 FURTHER RESOLVED, That the approval of the issuance of the Obligation by the City
16 is neither an approval of the underlying credit issues of the proposed Project nor an approval
17 of the financial structure of the Obligation; and, be it

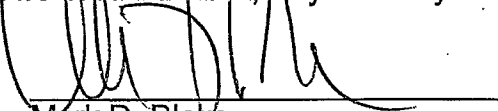
18 FURTHER RESOLVED, That the Obligation shall not constitute a debt or obligation of
19 the City and the payment of the principal, prepayment premium, if any, and purchase price of
20 and interest on the Obligation shall be solely the responsibility of the Corporation; and, be it

21 FURTHER RESOLVED, That adoption of this Resolution shall not obligate (i) the City
22 to provide financing to the Corporation for the acquisition, rehabilitation and development of
23 the Project or to issue the Obligation for purposes of such financing; or (ii) the City, or any
24 department of the City, to approve any application or request for, or take any other action in
25

1 connection with, any environmental, General Plan, zoning or any other permit or other
2 regulatory action sought in connection with the Project; and be it

3 FURTHER RESOLVED, That this Resolution shall take effect immediately upon its
4 adoption.

5
6 APPROVED AS TO FORM:
7 DENNIS J. HERRERA, City Attorney

8 By: 
9 Mark D. Blake
Deputy City Attorney

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

November 13, 2014

Supervisor Malia Cohen
City Hall, Room 244
City and County of San Francisco Board of Supervisors
1 Dr. Carlton B. Goodlett Place
San Francisco CA 94102

Dear Supervisor Cohen:

Thank you for agreeing to introduce the Board of Supervisors resolution approving, for the purposes of the Internal Revenue Code, the issuance of tax exempt obligations (the "Obligations") by the California Statewide Communities Development Authority (the "Authority") on behalf of California College of the Arts (the "School"), a California nonprofit public benefit corporation described in section 501(c)(3) of the Internal Revenue Code, to finance and refinance various projects owned by the School. I respectfully request introduction of the resolution at the meeting of the Board of Supervisors on Tuesday, November 25, 2014.

Pursuant to the Tax Equity and Fiscal Responsibility Act (TEFRA), to facilitate the tax exemption of interest on the Obligations the City is required to conduct a public hearing and to approve the financing by the Authority. The Office of Public Finance held such hearing on Monday, October 3, 2014, notice of which was published in the *San Francisco Examiner* on September 19, 2014. The action by the Board acknowledges that the hearing was duly held and that the financing is proceeding.

The Obligations will be issued in an aggregate principal amount not to exceed \$26,000,000. I have performed a limited due diligence review of information pertaining to the project and proposed financing that I have summarized below.

The School

Founded in 1907, California College of the Arts (CCA) offers 21 undergraduate and 13 graduate majors in the areas of fine arts, architecture, design, and writing. CCA has a total enrollment of 1,968 students, including 1,512 undergraduate and 456 graduate students as of 2013.

The Project

The College is seeking up to \$26 million in a tax-exempt nonprofit loan (the "Obligation") from First Republic Bank (the "Lender") to refund the series 2005 & 2007 California Educational Facilities Authority bonds. The refunding is being done solely for debt service savings due to a substantially lower interest rate. The proceeds of the Obligations will be loaned to the School to (1) redeem in full all of the outstanding \$18,535,000 California Educational Facilities Authority ("CEFA") Revenue Bonds (California College of the Arts), Series 2005 (the "2005 Bonds") and the portion of CEFA's outstanding \$37,765,000 Revenue Bonds (College and University Financing Program), Series 2007, allocable to the Corporation (the "2007 Bonds," and together with the 2005 Bonds, the "Refunded Bonds"), the proceeds of which Refunded Bonds were used to finance or refinance the construction, acquisition, improvement, capital maintenance, equipment acquisition and other related capital expenditures at the Corporation's facilities located at 1111 Eighth Street, San Francisco, California (the "San Francisco Campus") and 5212 Broadway, Oakland, California (the "Oakland Campus"), (2) pay and/or reimburse the Corporation for miscellaneous capital expenditures related to the acquisition, construction, improvement and equipping of the San Francisco Campus and/or the Oakland Campus, and (3) pay various costs of issuance and other related costs (collectively, the "Project").

Financing Information

Assuming all required approvals are obtained, the Authority expects to issue tax-exempt obligations in an amount not to exceed \$26,000,000. Bond Counsel on the transaction is Hawkins Delafield & Wood LLP.

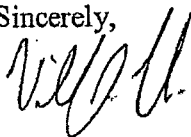
Public Approval Process

The City and County of San Francisco is a participating member of the Authority, a joint powers authority. The Authority is authorized to issue bonds, notes, certificates of participation, or other forms of indebtedness, including refunding previously issued debt.

As noted above, federal tax law requires that the governing body of the jurisdiction in which the project is located approve the financing and the project after providing the opportunity for a duly-noticed public hearing before the Obligations may be issued on a tax-exempt basis.

Your assistance with this matter is greatly appreciated. Please contact me at (415) 554-4862, if you any questions or require additional information. Thank you.

Sincerely,



Vishal Trivedi
Controller's Office of Public Finance

Cc: Yoyo Chan, Office of Supervisor Malia Cohen
Mark Blake, Deputy City Attorney

PROOF OF PUBLICATION

(2015.5 C.C.P.)

THE EXAMINER

225 Bush St. 17th Floor San Francisco, CA 94104
Phone 415-359-2811; Fax 415-359-2701
clamb@sfexaminer.com

**STATE OF CALIFORNIA
County of San Francisco**

Notice of Public Hearing

Clayton Lamb

deposes and says that all times herein mentioned he was and is a citizen of the United States, and a resident of the County aforesaid, over the age of eighteen years, and not a party to or interested in the above-entitled matter; and is and was during and at all said times, the Principal Clerk of the Printer and Publisher of THE EXAMINER, a newspaper of general circulation, printed and published in the County of San Francisco, and which newspaper has been adjudged a newspaper of general circulation by the Superior Court of the County of San Francisco, State of California, under the date of October 18, 1951, Case Number 410667; that the notice, of which the annexed is a printed copy (set in type not smaller than nonpareil), has been published in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates, to-wit:

September 19,

all in the year(s) 2014

I certify (or declare) under penalty of perjury that the foregoing is true and correct.

Dated at San Francisco, San Francisco County, California,

9/19/2014

Signature: 

**CITY AND COUNTY OF SAN FRANCISCO
NOTICE OF PUBLIC HEARING PURSUANT TO SECTION 147(f) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED FOR THE FINANCING AND/OR REFINANCING OF CERTAIN FACILITIES FROM THE ISSUANCE OF TAX-EXEMPT OBLIGATIONS.**

NOTICE IS HEREBY GIVEN that at 10:30 a.m. on October 3, 2014 in the City and County of San Francisco's Office of Public Finance, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, California, 94102, a public hearing (the "Public Hearing") will be held with respect to the proposed issuance of tax-exempt obligations (the "Obligation") by the California Statewide Communities Development Authority or other conduit issuer (the "Authority") in an aggregate principal amount not to exceed twenty-six million dollars (\$26,000,000), pursuant to a plan of finance for various capital facilities as more fully described below.

Proceeds of the Obligation are to be loaned to California College of the Arts, a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") (or any affiliate thereof or successor thereof) (the "Corporation"), pursuant to a master loan agreement (the "Master Loan Agreement"). The Corporation expects to use the proceeds of the Obligation to: (1) pay debt service and the redemption price of all of the outstanding \$16,535,000 California Educational Facilities Authority ("CEFA") Revenue Bonds (California College of the Arts) Series 2005 (the "2005 Bonds") and the portion of CEFA's outstanding \$37,765,000 Revenue Bonds (College and University Financing Program) Series 2007, allocable to the Corporation (the "2007 Bonds") and together with the 2005 Bonds, the "Refunded Bonds"; the proceeds of which Refunded Bonds were used to finance or refinance the construction, acquisition, improvement, capital maintenance, equipment acquisition and other related capital expenditures at the Corporation's facilities located at 1111 Eighth Street, San Francisco, California (the "San Francisco Campus") and 5212 Broadway, Oakland, California, (the "Oakland Campus"); (2) pay, and/or reimburse, the Corporation for miscellaneous capital expenditures related to the acquisition, construction, improvement and equipping of the San Francisco Campus and/or the Oakland Campus; and (3) pay various costs of issuance and other related costs (collectively, the "Project").

The Project is and will be owned by the Corporation and used for the educational purposes hereof.

The Obligation will be paid entirely from payments by the Corporation under the Master Loan Agreement. Neither the full faith and credit nor the taxing power, if any, of the City and County of San Francisco (the "City"), the Authority and its members, the State of California (the "State") or any other political corporation, subdivision or agency of the State, is pledged to the payment of the principal of, premium, if any, or interest on the Obligation; nor shall the City, the Authority and its members, the State, or any other political corporation, subdivision or agency of the State be liable or obligated to pay the principal of, premium, if any, or interest on the Obligation.

The Public Hearing is intended to comply with the public approval requirements of Section 147(f) of the Code. Those wishing to comment on the issuance of the Obligation; the proposed nature or location of the Project, or the plan of finance may either appear in person at the time and place indicated above or submit written comments which must be received prior to the Public Hearing; to the City, c/o, Office of Public Finance, at the address indicated above.

Date: September 19, 2014
CITY AND COUNTY OF SAN FRANCISCO
Is/ Angela Calvillo
Angela Calvillo
Clerk of the Board of Supervisors
City and County of San Francisco

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Bonds is exempt from State of California personal income taxes. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

\$11,465,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds
(California College of the Arts),
Series 2012

Dated: Date of Delivery

Due: June 1, as shown below

The California Educational Facilities Authority Revenue Bonds (California College of the Arts), Series 2012, in the aggregate principal amount of \$11,465,000 (the "Bonds"), will be issued by the California Educational Facilities Authority (the "Authority"), pursuant to that certain Indenture of Trust, dated as of October 1, 2012 (the "Indenture"), by and between the Authority and Wilmington Trust, N.A., as trustee (the "Trustee"). The Authority will loan the proceeds of the Bonds to the California College of the Arts, a private California institution of higher education (the "Borrower") pursuant to a loan agreement, dated as of October 1, 2012, by and between the Authority and the Borrower (the "Loan Agreement").

CCo CALIFORNIA COLLEGE OF THE ARTS

The Borrower will use the net proceeds of the Bonds to refinance the construction, rehabilitation or acquisition of educational facilities and, in particular, to provide for the refunding of a portion of the Authority's outstanding Revenue Bonds (California College of Arts and Crafts), Series 2001 (the "2001 Bonds"), as more fully described herein. In addition, a portion of the net proceeds of the Bonds will be used to fund a reserve fund for the Bonds and to pay certain costs of issuance of the Bonds. See "FINANCING PLAN" herein.

The Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive instruments representing their interest in the Bonds purchased. DTC will act as securities depository for the Bonds. Payments of principal, premium, if any, and interest on the Bonds will be payable by the Trustee to DTC, which will in turn remit such principal, premium, if any, and interest to the DTC Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds, all as more fully described herein.

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing December 1, 2012.

The Bonds are subject to redemption prior to maturity as described herein. See "REDEMPTION OF BONDS" herein.

The Bonds are limited obligations of the Authority payable only out of Revenues and other amounts held in the funds established by the Indenture and will be of equal rank and parity with the portion of the 2001 Bonds not being refunded, with the Authority's Revenue Bonds (California College of the Arts), Series 2005 (the "2005 Bonds"), and with the portion of the Authority's Revenue Bonds (College and University Financing Program), Series 2007, allocable to the Borrower (the "2007 Bonds"), primarily from funds to be paid by the Borrower under the Loan Agreement and by amounts payable by the Borrower under loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds. In the Loan Agreement, the Borrower will pledge its full faith and credit to the payment of its obligations thereunder and, to secure its payments thereunder, the Borrower will grant a lien on and interest in certain real property and will pledge its "Gross Revenues" (as defined herein). In the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds, the Borrower has pledged its full faith and credit to the payment of its obligations thereunder and, to secure its payments thereunder, the Borrower has granted a lien on and interest in certain real property and has pledged its Gross Revenues.

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 BORROWER. NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL, PREMIUM (IF ANY) OR INTEREST ON THE BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE INDENTURE, AND NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO EXERCISE OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

MATURITY SCHEDULE

CUSIP+ Prefix: 130178

\$5,585,000 Serial Bonds

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix
2013	\$ 570,000	2.500%	1.180%	S49
2020	790,000	5.000	3.260	S64
2021	1,075,000	5.000	3.500	S72
2022	1,135,000	5.000	3.680	S80
2023	1,195,000	5.000	3.820c	S98
2024	820,000	5.000	3.900c	T22

\$5,880,000 5.250% Term Bonds due June 1, 2030, Price: 109.628%, to Yield 4.030% c; CUSIP+: 130178 T30

c Priced to the June 1, 2022, par call date

This cover page contains information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors should review this entire Official Statement before making any investment decision.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to a final legal opinion of Squire Sanders (US) LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by the Attorney General of the State. Certain matters will be passed upon for the Borrower by Adler & Colvin, San Francisco, California, and for the Underwriter by Quint & Thimmig LLP, San Francisco, California. It is expected that the Bonds, in definitive form, will be available for delivery through the facilities of DTC, on or about October 25, 2012.

Honorable Bill Lockyer
Treasurer of the State of California
 As Agent for Sale

WEDBUSH

Dated: October 11, 2012

Copyright 2012, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services Bureau, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the Borrower and are included solely for the convenience of the holders of the Bonds. Neither the Authority nor the Borrower is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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, salesman or any other person has been authorized by the Authority, the Borrower or the Underwriter to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds and, if given or made, such information or representation 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 Borrower and other sources (other than the Authority) which are believed to be current and reliable, but the accuracy or completeness of such information is not guaranteed by, and is not to be construed as a representation by, the Underwriter. Estimates and opinions are included but 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 or the Borrower since the date hereof.

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

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

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A—INFORMATION REGARDING THE BORROWER.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE BORROWER DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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\$11,465,000
CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds
(California College of the Arts),
Series 2012

INTRODUCTORY STATEMENT

General

This Introductory Statement does not purport to be complete and reference is made to the body of this Official Statement, the Appendices and the documents referred to herein for more complete statements with respect to the matters summarized. Capitalized terms used without definition have the meanings ascribed thereto under "Definitions" contained in APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.

This Official Statement, including the cover page, the introductory statement and the Appendices hereto (the "Official Statement"), provides certain information in connection with the offering of California Educational Facilities Authority Revenue Bonds (California College of the Arts), Series 2012, in the aggregate principal amount of \$11,465,000 (the "Bonds"), to be issued by the California Educational Facilities Authority (the "Authority"). The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. See APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS for a summary of various documents referred to herein.

The Bonds

The Bonds will be issued pursuant to the Constitution and laws of the State of California (the "State") and particularly under the California Educational Facilities Authority Act, constituting Chapter 2 (commencing with section 94100) of Part 59 of Division 10 of Title 3 of the California Education Code, as amended (the "Act"), and under an indenture (the "Indenture"), dated as of October 1, 2012, by and between the Authority and Wilmington Trust, N.A., as trustee (the "Trustee").

Purpose

The Authority will loan the proceeds of the Bonds to California College of the Arts, a private California institution of higher education (the "Borrower"), pursuant to a loan agreement, dated as of October 1, 2012, by and between the Authority and the Borrower (the "Loan Agreement"). The Borrower will use the net proceeds of the Bonds to provide for the refunding of a portion of the Authority's outstanding Revenue Bonds (California College of Arts and Crafts), Series 2001 (the "2001 Bonds"), as more fully described herein. In addition, a portion of the net proceeds of the Bonds will be used to fund a reserve fund for the Bonds and to pay certain costs of issuance of the Bonds. See "FINANCING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Borrower

See APPENDIX A—"INFORMATION REGARDING THE BORROWER" for a more detailed description of the Borrower.

Security and Sources of Payment for the Bonds

The Bonds are limited obligations of the Authority payable only out of Revenues and other amounts held in the funds established by the Indenture and will be of equal rank and parity with (i) the 2001 Bonds not being refunded (the "Unrefunded 2001 Bonds"), (ii) the Authority's Revenue Bonds (California College of the Arts), Series 2005 (the "2005 Bonds"), and (iii) the Authority's Revenue Bonds (College and University Financing Program), Series 2007, allocable to the Borrower (the "2007 Bonds"), primarily from funds to be paid by the Borrower under the Loan Agreement and by amounts payable by the Borrower under loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds.

In the Loan Agreement, the Borrower is obligated to make payments to the Trustee in amounts necessary for the payment of debt service on the Bonds. Such payments will be used to pay the principal of and premium, if any, and interest on the Bonds. Pursuant to the provisions set forth in the Indenture, the Authority will pledge the payments to be received under the Loan Agreement, and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds to the Trustee for the benefit of the Bondholders and the holders of the Unrefunded 2001 Bonds, the 2005 Bonds and the 2007 Bonds. See "SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS—Payments by the Borrower and Other Amounts Held by the Trustee Under the Indenture." To secure its payments under the Loan Agreement, the Borrower will grant a fourth lien on and interest in certain real property owned by the Borrower in Oakland, California (the "Oakland Property") and a fourth lien on and interest in certain real property owned by the Borrower in San Francisco, California (the "San Francisco Property") pursuant to a deed of trust (the "2012 Deed of Trust") and will pledge its Gross Revenues, which includes the proceeds realized from the Oakland Property and the San Francisco Property. See "SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS—Real Property Security and Pledge of Gross Revenues." Under the loan agreements related to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds, the Borrower has pledged its full faith and credit to the payment of its obligations thereunder and, to secure its payments thereunder, the Borrower has granted prior liens on and interest in the Oakland Property and the San Francisco Property and has pledged its Gross Revenues.

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 BORROWER. NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL, 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, PREMIUM (IF ANY) OR INTEREST ON THE BONDS. 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.

Miscellaneous

Included in this Official Statement and the Appendices hereto are descriptions of the Authority, the Borrower, the Bonds, the Indenture, the Loan Agreement and the Continuing Disclosure Agreement. All references herein to the Indenture and the Loan Agreement are qualified in the entirety by reference to the terms thereof, and the information with respect thereto, included in the Indenture and the Loan Agreement, respectively. All descriptions are

further qualified in their entirety by reference to laws relating to or effecting the enforcement of creditors' rights. The agreements of the Authority with the holders of Bonds are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. Insofar as any statements are made in this Official Statement involving matters of opinion, regardless of whether expressly so stated, they are intended merely as such and not as representation of fact. 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 or the Borrower.

Additional information regarding this Official Statement and copies of the documents referred to herein may be obtained by contacting the Trustee.

The Borrower will undertake, in a Continuing Disclosure Agreement dated the date of issuance of the Bonds, for the benefit of the holders of the Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"). See "CONTINUING DISCLOSURE" and APPENDIX F—FORM OF CONTINUING DISCLOSURE AGREEMENT.

Set forth in APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS are summary definitions of certain terms defined and used in the Loan Agreement, the Indenture and this Official Statement and summaries of certain provisions of the Indenture, the Loan Agreement and the Deeds of trust. The summaries do not purport to be complete or definitive and reference is made to the specific documents for the full text thereof.

THE AUTHORITY

The Authority is a public instrumentality of the State created pursuant to the provisions of the Act. The Authority is authorized to issue the Bonds, to make the loans contemplated by the Loan Agreement and to secure the Bonds by a pledge of the Revenues derived by the Authority pursuant to the Loan Agreement and certain other sources of payment as provided in the Indenture, including amounts held in any fund or account established pursuant to the Indenture (excluding the Rebate Fund).

Organization and Membership of the Authority

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 and the other must be affiliated with a private institution of higher education, in each case 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 listed below.

Bill Lockyer, Chairman, Treasurer of the State of California

John Chiang, Member, Controller of the State of California

Ana J. Matosantos, Member, Director of Finance of the State of California

William G. McGinnis, Member, Trustee, Butte-Glenn Community College District Board

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

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

Indebtedness of the Authority

The Act does not limit the amount of indebtedness the Authority may have outstanding from time to time. As of September 30, 2012, the Authority had outstanding \$4,347,250,835 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.

PLAN OF FINANCING

A portion of the proceeds of the Bonds will be applied to refinance certain capital improvements for the Borrower and, in particular, to refund, on a current basis, a portion of the 2001 Bonds. The proceeds of the 2001 Bonds were used to advance refund the Authority's California Educational Facilities Authority Revenue Bonds (Pooled College and University Projects), 2000 Series C, the proceeds of which were loaned to the Borrower to finance the purchase and renovation of a five-story building located at 1515 Webster Street in Oakland, California, for the creation of an 85-bed dormitory and for the construction of a 126-bed student housing facility and 41 parking spaces on Borrower-owned property located at 5276 Broadway Street, Oakland, California.

In addition, a portion of the net proceeds of the Bonds will be used to fund a reserve fund for the Bonds and to pay certain costs of issuance of the Bonds.

The 2001 Bonds maturing on June 1, 2012, 2013, 2025 and 2030 (the "Refunded 2001 Bonds") will be refunded. The 2001 Bonds maturing on June 1, 2014, 2015, 2016 and 2019 are non-callable and are the Unrefunded 2001 Bonds.

A portion of the proceeds of the Bonds, together with certain moneys pledged to the 2001 Bonds, will be used to purchase direct obligations of the United States of America (collectively, the "Escrow Securities"), to be held in trust in a separate fund or funds (the "Escrow Fund") for the Refunded 2001 Bonds, established under an Escrow Agreement, dated as of October 1, 2012 (the "Escrow Agreement"), by and between the Borrower and Wilmington Trust, N.A., as escrow bank, as security solely for the Refunded 2001 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS." The Escrow Securities will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts, that, together with the moneys available in the Escrow Fund, sufficient moneys will be available to pay, when due, all principal of and interest on the Refunded 2001 Bonds through June 1, 2012, and to provide for the redemption of the Refunded 2001 Bonds in full on June 1, 2012, at a redemption price equal to 100% of the par amount of the Refunded 2001 Bonds then outstanding. The sufficiency of the moneys, investment earnings and maturing Escrow Securities for such purposes will be verified by Grant Thornton LLP (the "Verification Agent"). See

“VERIFICATION OF MATHEMATICAL COMPUTATIONS.” Assuming the accuracy of the Verification Agent’s computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the obligations of the Authority and the Borrower with respect to the Refunded 2001 Bonds will be defeased and discharged. The maturing principal of and the investment income to be derived from the Escrow Securities will be held in trust solely for the Refunded 2001 Bonds and will not be available to pay principal of, or premium or interest on, the Bonds or any bonds other than the Refunded 2001 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied as set forth below:

SOURCES

Principal Amount of the Bonds	\$11,465,000.00
Plus: Original Issue Premium	1,085,476.80
Plus: Released Moneys from the 2001 Bonds	923,973.28
Plus: Borrower Equity Contribution	43,081.21
Total	<u>\$13,517,531.29</u>

USES

Deposit to Escrow Fund ⁽¹⁾	\$11,964,910.28
Deposit to Bond Reserve Fund ⁽²⁾	1,255,047.68
Costs of Issuance Fund ⁽³⁾	297,573.33
Total	<u>\$13,517,531.29</u>

⁽¹⁾ Amounts in the Escrow Fund will be used to provide for the defeasance of the Refunded 2001 Bonds. See “PLAN OF FINANCING.”

⁽²⁾ Represents the Bond Reserve Requirement for the Bonds.

⁽³⁾ Includes Underwriter’s discount. Amounts in the Costs of Issuance Fund will be used to pay costs of issuance of the Bonds. To the extent amounts within the Costs of Issuance Fund are insufficient, the balance of the costs and expenses will be paid from contributions by the Borrower.

THE BONDS

General Description

The Bonds will be issued as book-entry only bonds in denominations of \$5,000 and any integral multiple thereof. The Bonds will be dated their date of delivery and will bear interest from the Interest Payment Date to which interest has been paid, as of the date on which such Bond is authenticated or, if such Bond is authenticated on or before November 15, 2012, from its dated date; *provided, however*, that if, at the time of authentication of any Bond, interest is in default on such Bond, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable in arrears on each Interest Payment Date, upon maturity or upon prior redemption. The Bonds will mature (subject to the right of prior redemption as provided herein) on the dates, in the amounts and will bear interest as set forth on the cover of this Official Statement.

The principal of and premium, if any, on the Bonds will be payable in lawful money of the United States of America upon surrender at the Principal Office of the Trustee. The interest on any Bond shall be payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof as of the close of business on the Record Date for

each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on such Interest Payment Date, to the registered owner at his or her address as it appears on such registration books. Notwithstanding the foregoing, however, any Holder of \$1,000,000 or more in an aggregate principal amount of the Bonds shall be entitled to receive payments of interest on the Bonds held by it by wire transfer of immediately available funds to such bank or trust company located within the United States of America as such Holder shall designate in writing to the Trustee by the Record Date for such payment. So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable by wire transfer in same day funds by the Trustee to Cede & Co., as nominee for the Depository.

Book-Entry System

The Bonds will be registered in the name of Cede & Co., the nominee of DTC, and held in DTC's book-entry system. So long as the Bonds are held in the book-entry system, DTC or its nominee will be the registered owner of the Bonds for all purposes of the Indenture and the Bonds. So long as the Bonds are held in book-entry form through DTC, all payments with respect to principal of and interest on each Bond will be made pursuant to DTC's rules and procedures. See APPENDIX C—BOOK-ENTRY SYSTEM.

The Authority, the Borrower and the Trustee will have no responsibility or obligation to DTC, any DTC Participants, or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any other Securities Depository for the Bonds, any Nominee or any Participant with respect to any ownership interest in the Bonds, (b) the delivery of any notice by DTC or any DTC Participant or (c) the payment by DTC or by any DTC Participant of any amount due to any DTC Participant or Beneficial Owner, respectively, in respect of the principal of and interest on any Bond.

In the event of the discontinuance of the book-entry system for the Bonds, Bond certificates will be printed and delivered and the following provisions of the Indenture will apply: (a) principal of and premium, if any, on the Bonds will be payable upon surrender of the Bonds at the Principal Office of the Trustee, (b) Bonds may be transferred or exchanged for other Bonds of authorized denominations at the Principal Office of the Trustee, without cost to the owner thereof except for any tax or other governmental charge, and (c) Bonds will be issued in denominations as described under the heading "Description of the Bonds" above.

Redemption

Optional Redemption. The Bonds maturing on and prior to June 1, 2022, are not subject to redemption prior to their stated maturities. The Bonds maturing on and after June 1, 2023, are subject to redemption prior to their respective stated maturities, as a whole or in part on any date on or after June 1, 2022, at par, plus accrued interest, if any, to the date of redemption, from any moneys received by the Trustee from the Borrower pursuant to the Loan Agreement, provided in each case that the maturities and amount of Bonds of each maturity to be redeemed from the amount so prepaid and the redemption date shall be as specified by the Borrower in accordance with the Loan Agreement.

The Borrower shall be required to give the Trustee written notice of its intention to redeem Bonds at least forty-five (45) days prior to the date fixed for such redemption unless the Trustee otherwise agrees to a shorter period for such notice.

Mandatory Redemption from Sinking Account Payments. The Bonds maturing on June 1, 2030, shall be subject to mandatory redemption prior to their stated maturity in part, by lot, on each June 1, from and after June 1, of the years specified below at the principal amount thereof

together with interest accrued thereon to the date fixed for redemption, without premium, by application of mandatory sinking fund payments on the following dates and in the following amounts:

Mandatory Sinking Fund Payment Dates (June 1)	Mandatory Sinking Fund Payments
2025	\$ 855,000
2026	905,000
2027	955,000
2028	1,000,000
2029	1,055,000
2030†	1,110,000

†Maturity

Mandatory Redemption from Proceeds of Condemnation or Insurance. The Bonds are subject to mandatory redemption, in whole or in part, by lot, from prepayments of Base Loan Payments on deposit in the Optional Redemption Account within the Bond Fund paid from the proceeds of condemnation of the Pledged Property or casualty insurance with respect to the Pledged Property pursuant to the Loan Agreement on any date at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium); provided that if there is no default in the payment of any Base Loan Payments or additional payments under the Loan Agreement, the Borrower need not transfer to the Trustee and the Trustee need not apply the amount of any such proceeds to such repayment and redemption if the conditions in the Loan Agreement are satisfied.

Selection of Bonds for Redemption. Whenever provision is made for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed, from the Outstanding Bonds not previously called for redemption, by lot within a maturity and, if from more than one maturity, in inverse order of maturity or in such other order of maturity as shall be specified in a Request of the Borrower. In the event of a partial redemption of Bonds subject to mandatory sinking fund payments, the Borrower will receive a credit against such payments in the aggregate amount of the partial redemption in the years and amounts specified by the Borrower.

Notice of Redemption. Notice of redemption shall be given by the Trustee as hereinafter provided to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee, (ii) the Authority; (iii) the Information Services; and (iv) the Securities Depositories. Each notice of redemption shall state the date of such notice, 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 CUSIP number (if any) of the maturity or maturities, any conditions to the redemption and, if less than all the Bonds of any maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Receipt of such notice by such registered owners shall not be a condition precedent to such redemption. The Trustee may deliver a notice of redemption that states that the related redemption of Bonds is conditioned upon the receipt of funds or any other condition and the Trustee may either rescind or amend

any notice delivered prior to the redemption date, such notice of rescission or amendment to be delivered to the same parties and in the same manner as the notice of redemption was sent.

Any notice of redemption shall be mailed by first class mail, postage prepaid, to Bondholders not less than thirty (30) days or more than sixty (60) days prior to the date fixed for redemption. Notices to the Information Services shall be mailed by the Trustee by certified, registered or overnight mail at the time of the mailing of notices to Bondholders. Notices to the Securities Depositories shall be given by telecopy or by certified, registered or overnight mail at least one Business Day before the mailing of notices to Bondholders.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Borrower, for and on behalf of the Authority.

Failure by the Trustee to give notice or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption of any Bond for which notice was properly given.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Holder thereof, at the expense of the Borrower, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue from and after the redemption date, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date.

Debt Service Requirements

The following table sets forth the annual debt service requirements for the Bonds.

Year Ending June 1	Principal ⁽¹⁾	Interest	Total Debt Service
2013	\$ 570,000	\$344,220.00	\$ 914,220.00
2014	—	559,450.00	559,450.00
2015	—	559,450.00	559,450.00
2016	—	559,450.00	559,450.00
2017	—	559,450.00	559,450.00
2018	—	559,450.00	559,450.00
2019	—	559,450.00	559,450.00
2020	790,000	559,450.00	1,349,450.00
2021	1,075,000	519,950.00	1,594,950.00
2022	1,135,000	466,200.00	1,601,200.00
2023	1,195,000	409,450.00	1,604,450.00
2024	820,000	349,700.00	1,169,700.00
2025	855,000	308,700.00	1,163,700.00
2026	905,000	263,812.50	1,168,812.50
2027	955,000	216,300.00	1,171,300.00
2028	1,000,000	166,162.50	1,166,162.50
2029	1,055,000	113,662.50	1,168,662.50
2030	1,110,000	58,275.00	1,168,275.00

⁽¹⁾ Includes mandatory sinking fund installments.

SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS

Payments by the Borrower

The Bonds are limited obligations of the Authority payable only out of the Revenues and certain other amounts on deposit in the funds and accounts under the Indenture. Revenues will consist primarily of Base Loan Payments made by the Borrower pursuant to the Loan Agreement in an aggregate amount equal to the debt service payable on the Bonds.

A number of factors could have an adverse impact on the ability of the Borrower to generate sufficient revenues to meet its obligations under the Loan Agreement. The ability of the Borrower to generate sufficient revenues is dependent upon a number of elements, the most important of which is the ability to achieve enrollment, tuition, and fundraising levels. This, in turn, is affected by numerous circumstances both within and outside the control of the Borrower, including a continuation of favorable governmental policies and programs with respect to post-secondary education; the future direction of demographic trends determining the number of college-age persons in the general population; prospective levels of regional and national economic prosperity; the absence of natural, national or international calamities; the competitive appeal and perceived quality of the Borrower's curriculum and other factors; the ability and energy of its faculty and administration; and the benevolence of its supporters. See Appendices A and B hereto for more detailed information regarding the Borrower.

Other Amounts Held by the Trustee Under the Indenture

Moneys on deposit in the Bond Fund and the Bond Reserve Fund are pledged to the payment of the Bonds to the extent described in the Indenture. Separate accounts will be established on behalf of the Borrower within these funds, as appropriate. The Bond Reserve Fund will be initially funded from proceeds of the Bonds in an amount equal to the Bond Reserve Fund Requirement for the Bonds.

Upon the occurrence of a default of the Borrower in making any of its Base Loan Payments, such deficiency will be satisfied by a draw on any amounts then on deposit in the Bond Reserve Fund.

In the case of a Loan Default Event, the Trustee or the Authority may accelerate the Loan Agreement and may take whatever action at law or in equity as may appear necessary or desirable to collect the payments due or to enforce performance and observance of any obligation, condition, or covenant of the Borrower. See APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Summary of Certain Provisions of the Loan Agreement—Events of Default and Remedies. Amounts received by the Trustee from the Borrower following a Loan Default Event will be applied to the mandatory redemption of Bonds as and to the extent provided in the Indenture. See “THE BONDS—Redemption of the Bonds” and APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Summary of Certain Provisions of the Indenture.

Pledge of Gross Revenues

To secure payments under the Loan Agreement and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds, the Borrower has pledged, on a parity basis, its Gross Revenues to the payment thereof. The Borrower must deposit Gross Revenues when received in a fund designated as the “Gross Revenue Fund” which the Borrower will establish and maintain at a banking institution or institutions of its choice. The term “Gross Revenues” is defined to mean “all revenues, income, receipts and money received by or on behalf of the Borrower, solely from its Facilities, including (a) gross revenues derived from its operation and possession of such Facilities, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Base Loan Payments, (c) proceeds derived from (i) condemnation proceedings, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) insurance proceeds, (vi) contract rights and other rights and assets now or hereafter owned by such Borrower, (vii) the proceeds of realization on any collateral provided by such Borrower under the Loan Agreement, including, without limitation, the Oakland Property and the San Francisco Property pledged under the Deeds of Trust, and (d) rental income from the lease of office space.” See APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Summary of Certain Provisions of the Loan Agreement—Specific Covenants of the Borrower. There is no restriction on the withdrawal by the Borrower of moneys in the Gross Revenue Fund unless and until such Borrower is delinquent for more than one Business Day in the payment or required prepayment of any Base Loan Payment, in which case, unless payment is made within ten days after notice, the Gross Revenue Fund shall be transferred to the name and credit of the Trustee for use to make payments owing under the Loan Agreement, the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds and any additional agreements. See APPENDIX E—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—THE LOAN AGREEMENT.”

There is no assurance that moneys will be in a Gross Revenue Fund at such time, if applicable, that it is transferred to the name and credit of the Trustee, or that Gross Revenues will be deposited in such Gross Revenue Fund thereafter. Moreover, pursuant to the Loan Agreement and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds, the Borrower may incur other indebtedness which has a claim on Gross Revenues, thus reducing the amount that is available for the payment of the Bondholders. The Authority has issued the 2001 Bonds, the 2005 Bonds and the 2007 Bonds for the benefit of the Borrower. The Borrower’s obligations thereunder are equally secured by a pledge of the Gross Revenues. In the event of a default by the Borrower in the payment of amounts owing under the Loan

Agreement or the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds, Gross Revenues would be applied, in accordance with the Loan Agreement and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds on a pro rata basis for all obligations. See APPENDIX A—"INFORMATION REGARDING CALIFORNIA COLLEGE OF THE ARTS" under the caption "Liabilities, Including Long-Term Indebtedness." Additionally, the lien of revenues will not extend to revenues received after the filing of bankruptcy unless the revenues can be traced as proceeds of other collateral (such as rent from the Real Property Collateral).

The Borrower will execute and cause to be filed Uniform Commercial Code financing statements, will execute and cause to be sent to each Depository Bank a notice of the security interest granted under the Loan Agreement and will execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Trustee or the Authority or the holders of any Parity Debt in order to perfect or maintain as perfected such security interest or give public notice thereof. The pledge of Gross Revenues may be subordinated to the interest and claims of others. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State bankruptcy or insolvency laws that may affect the enforceability of the Indenture or pledge of Gross Revenues and (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee or the Depository Bank(s). In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds) prior to actual deposit by the Borrower in the Gross Revenue Fund.

Real Property Security

To secure its payments under the Loan Agreement, on the date of issuance of the Bonds, the Borrower will execute fourth priority deeds of trust (behind the 2001, 2005 and 2007 deeds of trust that secure outstanding 2001, 2005 and 2007 Bonds) granting a lien on and security interest in the Oakland Property and the San Francisco Property for the benefit of the Bondholders (the "Deeds of Trust") subject to Permitted Encumbrances (as defined in the Indenture). A description of such property is described in APPENDIX A—INFORMATION REGARDING THE BORROWER with respect to the Borrower under the caption "Certain Property Pledged to Secure Base Loan Payments." See APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Summary of Certain Provisions of the Deeds of Trust.

Pursuant to an intercreditor agreement, dated as of October 1, 2012, by and between the trustees of the 2001 Bonds, the 2005 Bonds, the 2007 Bonds and the Bonds, the pledge of Gross Revenues under the Loan Agreement (including proceeds derived from the realization of the Oakland Property and the San Francisco Property) securing the Bonds is on a parity basis with the pledge to secure the 2001 Bonds, the 2005 Bonds and the 2007 Bonds.

Financial Covenants

The Borrower has agreed to comply with certain financial covenants under the Loan Agreement.

Liquidity. The Borrower will covenant in the Loan Agreement that the ratio of the market value of Liquid Assets to Long-Term Indebtedness at fiscal year-end will not be less than .15 times as evidenced by its audited financial statements.

Debt Service Coverage. The Borrower will covenant in the Loan Agreement that the ratio of its Revenues at fiscal year-end to the total principal, interest or other payments with respect to its Long-Term Indebtedness in any one year will be equal to or greater than 1.10 times.

Limitation on Additional Debt. The Borrower will covenant in the Loan Agreement that it will not create, incur, assume or otherwise become or remain obligated in respect of, or permit to be outstanding, any Debt unless: (i) the Debt Service Coverage Ratio calculated for the most recent preceding fiscal year of the Borrower, including the debt service for any proposed additional Debt, is equal to or greater than 125%; and (ii) the ratio of Maximum Annual Debt Service, including the Maximum Annual Debt Service on any proposed additional Debt, to Gross Revenues, shall be equal to or less than 10%.

See APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Summary of Certain Provisions of the Loan Agreement—Specific Covenants of the Borrower.

INVESTMENT CONSIDERATIONS

General

Except as noted herein, the Bonds are payable solely from and secured by the Authority's pledge of the Revenues, which consist primarily of payments to be made by the Borrower under the Loan Agreement and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds. There can be no assurance that income and receipts will be realized by the Borrower in amounts sufficient to make payments under the Loan Agreement and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds and thus sufficient to pay the principal of, premium, if any, or interest on the Bonds.

Future economic and other conditions, including, without limitation, the loss by the Borrower of its accreditation, destruction or loss of a substantial portion of the Borrower's facilities, litigation, competition, a continuation of favorable governmental policies and programs with respect to post-secondary education, the future direction of demographic trends determining the number of college-age persons in the general population, prospective levels of regional and national economic prosperity, natural, national or international calamities, the competitive appeal and perceived quality of the Borrower's curriculum, reduction in the amounts received by the Borrower through fundraising efforts, reduction of the value of endowment funds, increased operating expenses due to higher energy or other costs may adversely affect income and receipts of the Borrower. There can be no assurance that the Borrower's income and receipts will not decrease.

Tax-Exempt Status of the Bonds

Tax-Exempt Status of Interest on the Bonds. The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal

income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the "IRS"). The Authority and the Borrower have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by the Borrower 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.

Tax-Exempt Status of the Borrower. The tax-exempt status of interest on the Bonds presently depends upon the maintenance by the Borrower of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modern tax-exempt organizations.

Tax-exempt organizations such as the Borrower are subject to scrutiny from ongoing IRS audit programs. 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 tax-exempt status of nonprofit corporations or trusts, it could do so in the future. Loss of tax-exempt status by the Borrower would most likely result in loss of tax exemption of interest on the Bonds and of future tax-exempt debt of the Borrower, if any, and defaults in covenants regarding the Bonds and existing and future tax-exempt debt, if any, would likely be triggered. Loss of tax-exempt status of the Borrower would also have material adverse consequences on the financial condition of such Borrower.

Bond Audit. In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division.

The Borrower have not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Squire Sanders (US) LLP, Bond Counsel, is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See the section entitled "TAX MATTERS."

Unrelated Business 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 Borrower have not historically generated any UBTI. The Borrower may participate in activities which generate UBTI in the future. Management of the Borrower 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 Borrower as well as the

exclusion from gross income for federal income tax purposes of the interest on the Bonds and other future tax-exempt debt of the Borrower, if any.

State Income Tax Exemption

The State has not been as active as the IRS in scrutinizing the income tax exemption of organizations, though this does not preclude future State scrutiny, and it is likely that the loss by the Borrower of federal tax exemption would also trigger a challenge to the State tax exemption of the Borrower. Depending on the circumstances, such an event could be adverse and material.

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 corporations with respect to their real property tax exemptions. The management of the Borrower believes that its real property and the planned improvements thereon are and will continue to be exempt from California real property taxation.

Investment of Funds Risk

All funds and accounts held under the Indenture are required to be invested in Investment Securities as provided under the Indenture. See APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS for the definition of "Investment Securities." See APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE BORROWER for a summary of the investments of the Borrower as of the date of such financial statements. All investments, including the Investment Securities and other investments made by the Borrower, contain a certain 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 held under the Indenture or by the Borrower could have a material adverse effect on the security of the Bonds.

Factors That Could Affect the Security Interest in the Borrower's Gross Revenues

Attachment, perfection and priority of the security interest in the Gross Revenues and the Gross Revenue Fund is subject to a number of risks and it may not be possible to enforce such security interest. The Trustee's security interest in the Gross Revenue Fund and all the Gross Revenues may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the Loan Agreement or pledge of Gross Revenues, (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee, (vii) commingling of proceeds of Gross Revenues with other moneys of the Borrower not subject to the security interest in the Gross Revenues; and (viii) claims that might arise if control agreements with banks or securities firms are not executed or appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect. In addition, it may not be possible to perfect or enforce a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations and certain insurance proceeds) prior to actual receipt by the Borrower for deposit in the Gross Revenue Fund. Additionally, the lien on the Gross Revenues may not extend to revenues received after the filing of bankruptcy.

Limitations Relating to Remedies under the Deeds of Trust

Priority of Liens. While the aggregate value of the Oakland Property and the San Francisco Property exceeds the total par amount of the Bonds, the Unrefunded 2001 Bonds, the 2005 Bonds and the 2007 Bonds, the holders of the Unrefunded 2001 Bonds, the 2005 Bonds and the 2007 Bonds have superior liens on such property than the lien on such property securing the Bonds.

Foreclosure. There are two methods of foreclosing on a deed of trust under California law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by California statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure any monetary default and reinstate the secured indebtedness by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. Following a nonjudicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor. See "Antideficiency Legislation and Certain Other Limitations on Lenders" below.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and may require several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, in order to assure collection of any rents assigned as additional collateral under the Deeds of Trust, a receiver for the encumbered Facilities might need to be appointed by a court.

Antideficiency Legislation and Certain Other Limitations on Lenders. California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except for limited exceptions not applicable to the Deeds of Trust.

Under the latter (not applicable in this situation), a deficiency judgment is barred when a foreclosed deed of trust secures certain purchase money obligations.

Another California statute, commonly known as the "one form of action" rule requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If the Trustee, the trustee under the Deeds of Trust or the holders of the Bonds were to file suit or take other actions (including set off) to collect the debt secured by the Deeds of Trust without first seeking to enforce their remedies under the Deeds of Trust, they might be precluded from thereafter proceeding under the Deeds of Trust, or they may be compelled to first seek to enforce their remedies under the Deeds of Trust.

Another statutory provision limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale.

Other statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deeds of Trust in the event of a default by the Borrower. See "Bankruptcy" below.

Seismic Risks

The facilities of the Borrower are located in a seismically active region of California. The occurrence of severe seismic activity in the area could result in substantial damage to the facilities of the Borrower and could have a material, adverse impact on the Borrower's finances. The Loan Agreement does not require the Borrower to maintain earthquake insurance for its facilities. For information on insurance currently maintained by the Borrower, see APPENDIX A—INFORMATION REGARDING THE BORROWER.

Bankruptcy and Other Factors that Could Affect Security for the Bonds

The ability of the Trustee to enforce the obligations of the Borrower under the Loan Agreement and the Deeds of Trust may be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium and by other similar laws affecting creditors' rights, including equitable principles. In addition, the Trustee's ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or may be limited.

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

The Trustee's security interest in the Revenues under the Indenture may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the Loan Agreement or pledge of Revenues, (vi) rights of third parties in Revenues converted to cash and not in the

possession of the Trustee or a depository bank, (vii) commingling of proceeds of Revenues with other moneys of the Borrower not subject to the security interest in the Revenues; and (viii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect.

Except as noted herein, the Bonds are payable solely from and secured by the Authority's pledge of Revenues, which consist primarily of payments to be made by the Borrower under the Loan Agreement. There can be no assurance that income and receipts will be realized by the Borrower in amounts sufficient to make payments under the Loan Agreement and the loan agreements relating to the 2001 Bonds, the 2005 Bonds and the 2007 Bonds and thus sufficient to pay the principal of, premium (if any) and interest on the Bonds. The revenues of the Borrower also secure the payment of the 2001 Bonds, the 2005 Bonds and the 2007 Bonds which also could be affected if such revenues are lower than expected.

Future economic and other conditions, including, without limitation, the loss by the Borrower of its accreditation, destruction or loss of a substantial portion of the Borrower's facilities, litigation, competition, reduction in the amounts received by the Borrower through fundraising efforts or research grants, changes in federal reimbursement programs, reduction of the value of endowment funds, the occurrence of national or international calamities, changes in the perceived quality of the Borrower and the ability and energy of the Borrower's faculty and administration, may adversely affect income and receipts of the Borrower. There can be no assurance that the Borrower's income and receipts will not decrease.

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

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of Bonds upon an Event of Default under the Indenture or the 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 the Authority, by or against the Borrower or by or against any of their 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 such as the Loan Agreement or the Indenture 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 opinions) 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.

LEGALITY FOR INVESTMENT IN CALIFORNIA

Obligations issued by the Authority under the Act are, under State 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 other obligations of the State is now or may hereafter be authorized by law.

TAX MATTERS

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority and the Borrower contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. In addition, Bond Counsel has relied on, among other things, the opinion of Adler & Colvin, counsel to the Borrower, regarding the current status of the Borrower as an organization described in Section 501(c)(3) of the Code, which opinion is subject to a number of qualifications and limitations. Bond Counsel also has relied upon representations of the Borrower 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 Borrower has given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of the Authority or the Borrower. Failure of the Borrower to maintain 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 Borrower's charitable purpose under Section 513(a) of the Code, may cause interest on the Bonds to be included in gross income retroactively to the date of the issuance of the Bonds. Bond Counsel will not independently verify the accuracy of the Authority's and the Borrower's certifications and representations or the continuing compliance with the Authority's and the Borrower's covenants and will not independently verify the accuracy of the opinion of the Borrower's counsel.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Authority or the Borrower may

cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Borrower and, subject to certain limitations, the Authority have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market value of the Bonds.

A portion of the interest on the Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, both the American Jobs Act of 2011 proposed by President Obama on September 12, 2011, and introduced into the Senate on September 13, 2011, and the federal budget for fiscal year 2013 as proposed by President Obama on February 13, 2012, contain provisions that could, among other things, result in additional federal income tax for tax years beginning after 2012 on taxpayers that own tax-exempt obligations, including the Bonds, if they have incomes above certain thresholds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the respective prices indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

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 Borrower or the owners of the Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. 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 other obligations presenting similar tax issues, may affect the market value of the Bonds.

Certain of the Bonds ("Discount Bonds") as indicated on the cover of this Official Statement were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of a Discount Bond is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Bonds ("Premium Bonds") as indicated on the cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly

accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

The proposed form of Bond Counsel's legal opinion is attached hereto as APPENDIX D— FORM OF OPINION OF BOND COUNSEL.

APPROVAL OF LEGAL MATTERS

Certain legal matters incident to the issuance of the Bonds are subject to the approving opinion of Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Quint & Thimmig LLP, San Francisco, California ("Underwriter's Counsel"). Certain legal matters pertaining to the Authority will be passed upon by the Attorney General of the State ("Authority Counsel"). Certain legal matters pertaining to the Borrower will be passed upon by Adler & Colvin, San Francisco, California. Such counsel will deliver legal opinions at the time of the issuance of the Bonds as provided in the bond purchase agreement relating to the Bonds. No party other than the parties to whom such opinions are addressed, or to whom a separate reliance letter is delivered, is entitled to rely on such opinions. None of Bond Counsel, Underwriter's Counsel or Authority Counsel has undertaken any responsibilities to the Holders of the Bonds for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

There is no litigation pending, with service of process having been accomplished, against the Authority concerning the validity of the Bonds. For information on litigation pending against the Borrower, see APPENDIX A—INFORMATION CONCERNING THE BORROWER—Legal Proceedings.

UNDERWRITING

Under a bond purchase contract among the Authority, the Treasurer of the State of California and Wedbush Securities Inc. the Bonds are being purchased at a price of \$12,458,183.55 (being the principal amount of the Bonds of \$11,465,000, less an Underwriter's discount of \$92,293.25 and plus an original issue premium of \$1,085,476.80). The bond purchase contract provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to the terms and conditions set forth in the bond purchase contract, including the approval of certain legal matters by counsel for the Underwriter.

The Underwriter intends to offer the Bonds to the public initially at the offering prices set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice.

The Underwriter may offer and sell the Bonds to certain dealers and others at lower than the public offering prices.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, have assigned their municipal bond ratings of "Baa3" and

"BBB-," respectively, to the Bonds. There is no assurance that such credit ratings will be maintained for any period of time or that such ratings may not be lowered or withdrawn entirely by such rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify, from the information provided to it, the mathematical accuracy as of the date of the closing on the Bonds of computations relating to the adequacy of the proceeds of the Bonds to be deposited with the various escrow banks for the defeasance of the Refunded 2001 Bonds. The Verification Agent will also verify the yield of the Bonds and on the Escrow Securities to be deposited in the Escrow Funds upon the delivery of the Bonds. The Verification Agent will restrict its procedures to examining the arithmetical accuracy of certain computations and will not make a study or evaluation of the information and assumptions on which such computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

INDEPENDENT ACCOUNTANTS

The audited financial statements of the Borrower for their most recently completed fiscal years attached hereto as APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEAR ENDED APRIL 30, 2012, have been audited by their respective independent auditors, as stated in their reports. However, the auditors did not review Appendix A for content or accuracy and express no opinion thereon.

CONTINUING DISCLOSURE

The Borrower has undertaken all responsibilities for any continuing disclosure to Holders of Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to the Rule (as defined in APPENDIX E—FORM OF CONTINUING DISCLOSURE AGREEMENT). The Borrower has covenanted for the benefit of Holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Borrower by not later than 150 days following the end of the Borrower's fiscal year (which currently would be April 30 (the "Annual Report"), commencing with the report for the fiscal year ending April 30, 2012, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by Wilmington Trust, N.A., as dissemination agent (the "Dissemination Agent") on behalf of the Borrower, with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system, as the sole central repository for electronic continuing disclosure information, or any other entity designated or authorized by the Securities and Exchange Commission. The notices of enumerated events will be filed by the Dissemination Agent on behalf of the Borrower with the EMMA system. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX E—FORM OF CONTINUING DISCLOSURE AGREEMENT. The covenants have been made in order to assist the Underwriter in complying with the Rule. The Borrower has complied, in all material respects, with such agreements during the past five years.

MISCELLANEOUS

All quotations from and summaries and explanations of the Act, the Indenture and the Loan Agreement, the Escrow Agreement, the Deeds of Trust and the Continuing Disclosure 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, the Escrow Agreement, the Deeds of Trust and the Continuing Disclosure Agreement may be obtained upon request directed to the Underwriter or the Borrower. Copies of the Indenture, the Loan Agreement and the Escrow Agreement, the Deeds of Trust and the Continuing Disclosure Agreement are also available for inspection at the Principal Corporate Trust Office of the Trustee in San Francisco, California.

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 Borrower and Holders of any of the Bonds. Appendices A and B hereto contain certain information with respect to the Borrower. The information contained in this Official Statement regarding the Borrower, including such Appendices, has been furnished by the Borrower and the respective officers, officials and representatives of the Borrower, and the Authority makes no representations or warranties whatsoever with respect to the information contained in any of the Appendices or any other information contained in this Official Statement, except for information set forth under the captions "THE AUTHORITY" and "LITIGATION" (solely as it relates to the Authority).

The execution and delivery of this Official Statement by the Executive Director of the Authority have been duly authorized by the Authority.

CALIFORNIA EDUCATIONAL
FACILITIES AUTHORITY

By /s/ Ronald L. Washington
Executive Director

This Official Statement has been reviewed and approved by the Borrower. Currently with the delivery of the Bonds, the Borrower will furnish a certificate executed on behalf of such Borrower by its chief executive officer (or other authorized officer) to the effect that this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, to the extent applicable to such Borrower, does not contain any untrue statement of a material fact relating to such Borrower or omit to state such a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

CALIFORNIA COLLEGE OF THE ARTS

By /s/ David Kirshman
Senior Vice President for
Finance and Administration

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APPENDIX A

INFORMATION REGARDING CALIFORNIA COLLEGE OF THE ARTS

The information presented in this Appendix A has been provided by California College of the Arts and has not been independently verified or reviewed by the Authority.

General

The California College of the Arts (the "College"), founded in 1907, has been distinguished by its recognition of the craft art forms as fine arts and for its interdisciplinary approaches to the fields of art, architecture, and design. In design, "West Coast Imagery" is largely the product of designers associated with the College for the last two decades. In architecture, the College has created a new American architecture school, accredited by the National Architectural Accrediting Board. The College maintains fully two campuses located in Oakland and San Francisco, California. The curriculum is designed to educate artists, not just to train specialists; thus, the College also has extensive requirements in humanities and sciences.

Board of Trustees

The College is governed by a self-sustaining Board of Trustees, comprised of 33 leaders in business and the community. The terms of approximately one-third of the Trustees expire annually with currently no limit on the number of terms a Trustee can serve.

The Board of Trustees is responsible for the overall management of the College, including its physical assets, development programs, academic policy, long-range planning, and financial and budgetary affairs. The Board of Trustees has eight standing committees: Academic, Advancement, Finance/Audit, Executive, Committee on Trustees, Investment, Facilities, and Marketing/Communications.

Academic Committee: Reviews policies, procedures and programs that affect the academic life of the College including enrollment, personnel, faculty advancement, academic programs, and student life. Selects honorary doctorate recipients. Advises and makes recommendations to the Board concerning these matters.

Advancement Committee: Plans for securing funds to meet the College's needs, reviews public and alumni relation programs and goals, reviews new gift campaigns and progress on current campaigns, and plans and assists staff in pursuing fundraising opportunities.

Finance/Audit Committee: Reviews the annual operating budget prepared and presented by the staff of the College and makes recommendations to the Board. Reviews major financial transactions not provided for in the budget and submits recommendations to the Board. Reviews and recommends approval of plans and cost estimates for new facilities. Reviews and analyzes an annual audited statement of the financial condition of the College.

Committee on Trustees: Conducts ongoing analysis of the Board to determine needs and opportunities for enhanced engagement of trustees as well as recruitment of trustees. Develops strategies and policies for recruitment. Solicits nominations and researches candidates for Board membership. Prepares and recommends nominations for trustees to the full Board. Discusses the slate for Board officers as selected by the Chair of the Board prior to vote of the full Board. Evaluates trustee service. Helps develop strategies for identifying and developing leadership and ensuring trustee appreciation and recognition.

Marketing/Communications Committee: Advises the College on issues relating to increasing the visibility and reputation of the institution, including institutional identity and image, marketing to potential students, marketing research, advertising, public relations, publications, web, and government/community relations. The Committee makes recommendations to the Board for

marketing/communications initiative. Reviews annual communications plan prepared by the staff of the College. Members of this committee are active advocates for the College and develop creative ways to involve the full Board in promotion of the institution.

Investment Committee: Oversees the management, conservation and use of the endowment assets of the College. Reviews the purpose and objectives of these assets, and regularly reviews portfolio performance, asset allocation and the Investment Policy, and reports to and brings to the Board for ratification any substantive changes in this regard.

Facilities Committee: The Facilities Committee advises the college on issues relating to facilities including acquisition, upgrades, and renovations. The committee contributes to ongoing strategic issues as well as development of the campus-wide facilities master plan.

Executive Committee: The only standing committee of the Board that has all of the powers of the Board, as limited by law and the bylaws of the College. Meets annually to assess the performance of the president. Otherwise meets as needed between Board meetings to conduct the business of the Board. The Executive Committee, according to the Bylaws, is comprised of the Chair and any other trustees recommended by the Chair and approved by the vote of the full Board. Typically the Executive Committee has been comprised of the Chair, the chairs of the standing committees, and additional trustees referred to as the officers of the Board.

Board of Trustees 2011-12

<u>Name</u>	<u>Affiliation</u>	<u>Appointed</u>	<u>End of Term</u>
JOHANNA BARUCH	Artist, San Francisco, California	2009	2014
SIMON J. BLATTNER	Marketing Consultant, Publisher, San Francisco, California	1994	2013
TIMOTHY C. E. BROWN	CEO and President, IDEO, Palo Alto, California	2004	2012
TECOAH P. BRUCE	CCA Alumna, MA/ED, 1978, Art Advisor, Berkeley, California	1981	2012
C. DIANE CHRISTENSEN (Vice-Chair)	President and CEO, Manzanita Management Corp., Palo Alto, California	2004	2012
SUSAN M. CUMMINS (Secretary)	Director, Rotasa Foundation, Tiburon, California	2006	2012
PATRICIA W. FITZPATRICK	Founder, Previous owner of the Design Source, Civic Leader, Hillsborough, California	2011	2014
NANCY S. FORSTER	Strategic Planning Consultant, Hillsborough, California	2002	2014
M. ARTHUR GENSLER, JR., FAIA	Founder, Gensler, San Francisco, California	2010	2014
EMMA J. GOLTZ	Former Manager of Bain & Company, San Francisco office	2011	2015
ANN M. HATCH	Founder, Oxbow School; Founder Capp Street Project, San Francisco, California	1998	2012
BETTY HINE	Civic Leader, Oakland, California	1968	2012
NANCY HOWES	CCA Alumna, BFA, 2005, Artist, Los Altos Hills, California	2010	2014
GEORGE F. JEWETT, III	CCA Alumnus, BArch, 1996; Principal, Jewett Design, San Francisco, California	1997	2013
BYRON D. KUTH, FAIA	Principal, Kuth/Ranieri Architects, San Francisco, California	2004	2013
JOYCE B. LINKER	Principal, Wealth Management, Robert Baird & Co., San Francisco	2011	2015
LORNA F. MEYER (Vice-Chair)	Senior Vice President, Private Banking and Investment Group, Merrill Lynch, San Francisco, California	2001	2012
ANN MORHAUSER	CCA Alumna, BFA, 1979; Glass Artist; Founder and Principal Annieglass, Watsonville, California	2003	2013
TIMOTHY MOTT	Executive Chairman, Flixlab, San Francisco, California, Former CEO/Chairman, Macromedia	2004	2012
STEVEN H. OLIVER	President, Oliver & Company, Developer, Richmond, California	1981	2013
F. NOEL PERRY (Chair)	Founder and Managing Director, Baccharis Capital, Inc., Menlo Park, California	2005	2014
NATHAN E. (GENE) SAVIN	Emeritus Professor of Economics, University of Iowa, Iowa City, Iowa	2009	2014
BARCLAY SIMPSON	Chairman Emeritus, Simpson Manufacturing Company, Pleasanton, California	1986	2013
ALAN L. STEIN (Treasurer)	Senior Consultant, JMP Securities, San Francisco, California	2004	2013
JUDITH P. TIMKEN	Arts Advocate, Lafayette, California	1989	2014
JOHN S. (JACK) WADSWORTH, JR.	Advisory Director, Morgan Stanley Dean Witter; Honorary Chairman, Morgan Stanley, Asia	2011	2014
ASHER WALDFOGEL	Technology Industry Entrepreneur, Palo Alto, California	2009	2012
KAY KIMPTON WALKER	Former Owner, K Kimpton Contemporary Art, Civic Leader, San Francisco, California	2006	2014
VINITHA WATSON	CCA Alumna, Artist, Design Consultant and Advisor to small business and non-profits	2011	2014
CALVIN B. WHEELER, M.D.	Physician-in-Chief, Kaiser Permanente, Fremont, California	2001	2013
CARLIE WILMANS	Executive Director, Phyllis C. Wattis Foundation, San Francisco, California	2006	2014
RONALD C. WORNICK	Founder and Former President, The Wornick Company, St. Helena, California	1992	2013
MARY L. ZLOT	Founder and Principal Mary Zlot & Associates, Art Advisor, San Francisco, California	2003	2013

Executive Officers

The President of the College is appointed by the Board of Trustees and, as chief executive officer, is charged with the principal responsibility for administration of the College. All other officers of the College are appointed by the Board of Trustees but are subject to the day-to-day direction of the President.

The following table sets forth the names of principal officers of the College, the position held by each, and the period during which each has served in such position. A brief statement of the background of each officer is set forth below the table.

<u>Name</u>	<u>Title</u>	<u>Year Appt</u>	<u>Academic Degree</u>	<u>Previous position</u>
Stephen Beal	President	2008	M.F.A. School of the Art Institute Chicago	Provost, CCA
David Kirshman	Treasurer, Senior Vice President for Finance and Administration	2008	B.S. Wharton School, University of Pennsylvania; J.D. University of Michigan	VP & CFO, Avirnex Communications Group
Sheri Sivin McKenzie	Vice President for Enrollment Management	2001	B.A., State University of New York College at Buffalo; M.S. and Ed.S., State University of New York at Albany	Associate Vice President, Enrollment Services, California College of Arts and Crafts
Susan Avila	Secretary, Senior Vice President for Advancement	2008	M.A. University of San Francisco; B.A. University of California, Berkeley	Development Director, San Francisco Museum of Modern Art

Stephen Beal, *President*, joined the College in 1997, and prior to his appointment as President in 2008, served as Provost of CCA. Previously he served as Vice President of Academic Planning and Associate Vice President of Academic Affairs at the School of Art Institute Chicago. He worked at the Institute since 1982, holding the positions of Chair of the Graduate Division, Chair of the Post-Baccalaureate Program, and Assistant Professor of Painting. Stephen Beal graduated with an M.F.A. from the Institute. His discipline is painting and he has continually exhibited his paintings at a variety of galleries.

David Kirshman, *Treasurer, Senior Vice President for Finance and Administration*, joined the College in 1999 and previously was the Executive Vice President and Chief Financial Officer of Avirnex Communications Group. Before joining Avirnex, Mr. Kirshman was a partner at Ernst & Young LLP. He is a certified public accountant and a member of the California Bar.

Sheri Sivin McKenzie, *Vice President for Enrollment Management*, joined the College in June, 1983. She previously held the following positions at the College: Associate Vice President, Enrollment Services, Director, Enrollment Services, Director, Financial Aid. She received an M.S. degree in Counseling and Student Administration, and graduated magna cum laude with a B.A. degree in Sociology.

Susan Avila, *Senior Vice President for Advancement*, joined the College in 1994 as Associate Vice President for Development. She left in 1998 to serve as Development Director at the San Francisco Museum of Modern Art. She holds a Masters in Non-Profit Administration from the University of San Francisco, and a B.A. degree in History from the University of California, Berkeley. In 1993, she received the Smithsonian Institution's Award for Museum Leadership.

Facilities

Established in 1907, the College is located on two campuses, one in Oakland and the other in San Francisco. The Oakland campus is comprised of 17 buildings totaling approximately 200,000 square feet of space on 4.4 acres. The Oakland campus houses the majority of departments in Fine Arts, the Humanities and Sciences (including Writing and Literature, Visual Studies), as well as the First Year Program. Fine Arts departments include: Sculpture, Jewelry/Metal Arts, Glass, Photography, Animation, Drawing and Painting, Ceramics, Printmaking, and Textiles. The Oakland campus is also home to the

Center for Art and Public Life and Extended Education. Facilities include: Meyer Library, 130-person lecture hall, Oliver Art Center, the Digital Fine Arts Studio and a cafe. Additional resources include: a foundry; wood, metal, glass, and plaster shops; a black and white photography studio and lighting lab; state of the art digital photography facilities and animation studios; a fully equipped media center; large day-lit painting and drawing studios; etching, lithography, screen, woodblock and book-making facilities; and departmental and general access computer labs.

The Oakland campus provides housing for approximately 260 students. 185 students are housed on-campus. An additional 75 students are provided housing in 20,00 square feet owned by the college near campus. The college has leased space adjacent to the Oakland campus for an expanded student exhibition program and student counseling offices.

The San Francisco campus is comprised of 6 buildings totaling approximately 250,000 gross square feet. In 2011, the college acquired 102,000 square foot lot adjacent to the main building on the San Francisco campus. This acquisition brings the college's total land holdings in San Francisco to 6.6 acres.

The San Francisco campus houses departments and programs in Design, Architecture, and Graduate Studies. The 177,000 square foot main campus building houses programs in Design (BFA/MFA), Architecture (BA/MA), and Design Strategy (MBA). Undergraduate design programs include Interior Architecture, Industrial Design, Graphic Design, Furniture, Illustration, Interaction Design, and Fashion. Fine Arts programs located on the San Francisco campus include: Film, Drawing, and Painting. Facilities and resources include the Simpson Library; Materials Resource Center; a 130-person lecture hall; media center; film production stage, post-production studios and individual editing and audio suites; alternative materials, rapid prototyping, model making, wood, welding, and fashion studios; advanced undergraduate and graduate student workspace; smart classrooms and studios; departmental and general access computer labs; and a digital output center.

The 50,000 square foot Graduate Center is comprised of 3 buildings and outdoor courtyards housing 100 individual MFA studios, shared work space, smart classrooms, a dedicated digital lab and administrative offices.

Other facilities on the San Francisco campus include the Writing program located in a 4,300 square foot building surrounded by approximately 5,700 square feet of outdoor space, and an adjacent 20,000 square foot administrative office building. The college has also leased space nearby to accommodate additional administrative functions as well as housing in San Francisco for approximately 50 students.

Accreditation and Affiliations

The College's accreditation was reaffirmed in June 2009 by the Western Association of Schools and Colleges. The College is also accredited by the National Association of Schools of Art and Design (NASAD), the National Architectural Accrediting Board (NAAB), and the Council for Interior Design (CIDA).

Academic Programs

The College grants the following degrees: bachelor of fine arts (BFA), bachelor of arts (BA), bachelor of architecture (BArch), master of fine arts (MFA), master of arts (MA), master of architecture (MArch) and master of business administration design strategy (MBA).

The foundation of the curriculum is the Core Program, which introduces all undergraduates to the major disciplines of art: two dimensional (2D), three dimensional (3D) and time-based media. Students from the Architectural and Design programs join with those from Fine Arts in the Core Program, enriching the classroom with a diverse mix of interests and approaches.

Students also complete the College's Humanities and Sciences Program that emphasizes the cultural and historical content of art. Study in these disciplines teaches students language and critical thinking skills, broadening their intellectual horizons.

Faculty and Other Staff

The following table reflects the number of full-time and part-time faculty appointments for the current and past five academic years, as well as the number of full-time faculty with tenure. The data is for instructional faculty only, and excludes deans, associate deans, administrators, and librarians who may hold faculty rank.

Faculty Positions

Academic Year	Tenured Full-Time	Other Full-Time	Part-Time FTE	Total FTE
2007-08	26	40	173	239
2008-09	29	52	178	259
2009-10	27	55	186	268
2010-11	30	56	194	280
2011-12	32	52	210	294

Of the 84 full-time faculty in 2011-12, 21 are professors, 34 are associate professors and 19 are assistant professors. Approximately 63% of the full- and part-time faculty and 75% of the full-time faculty have obtained a Ph.D. or other terminal degree and 9% of the faculty is tenured. The current undergraduate student/faculty ratio is 10 to 1. Approximately 46% of the faculty are women and 22% of the faculty represent minority faculty appointments.

In addition to the full-time and part-time faculty, the College employs 246 staff/administrators. None of the faculty, staff, or administrators is represented by a union.

Students

The College's entering class for Fall 2011 had representatives from 31 states and 20 foreign countries; 41% of the class was from outside California. The average entering GPA for the class was 3.18.

Applicant Pool

Academic Year	# of Apps	Freshman*		# of Apps	Transfer*	
		Offered Admission	New Enrollments		Offered Admission	New Enrollments
2008-09	1182	908	248	554	398	164
2009-10	1181	884	212	603	451	183
2010-11	1287	976	233	647	477	186
2011-12	1352	1031	234	666	497	192
2012-13	1337	1113	230 (estimate)	629	445	175 (estimate)

*Headcount not full-time equivalent

Academic Year	# of Apps	Freshman and Transfer (combined)*		
		Offered Admission	Selectivity Ratio	New Enrollments
2008-09	1736	1306	75%	412
2009-10	1784	1335	75%	395
2010-11	1934	1453	75%	419
2011-12	2018	1528	76%	426
2012-13	1966	1558	79%	405 (estimate)

*Headcount not full-time equivalent

Graduate Programs*				
<u>Fall Semester</u>	<u># of Apps</u>	<u>Offered Admission</u>	<u>Selectivity Ratio</u>	<u>New Enrollments</u>
2008-09	931	477	51%	191
2009-10	1131	548	48%	210
2010-11	1234	648	53%	240
2011-12	1213	663	55%	236
2012-13	1042	673	65%	210 (estimate)

*Headcount not full-time equivalent

Enrollments and Degrees (Full-Time Equivalent)

<u>Academic Year</u>	<u>Enrollments</u>			<u>Degrees Awarded</u>		
	<u>Undergrad FTE</u>	<u>Grad FTE</u>	<u>Total FTE</u>	<u>Bachelor</u>	<u>Graduate</u>	<u>Total</u>
2007-08	1236.50	289.10	1525.60	253	121	374
2008-09	1296.00	347.41	1643.41	262	131	393
2009-10	1318.50	414.25	1732.75	184	269	453
2010-11	1347.25	459.33	1806.58	184	261	445
2011-12	1438.00	478.92	1916.92	267	191	458

Comprehensive Fees

Tuition and fees for full-time students at the College for the 2012-13 year total \$38,798; room charge is \$7,700. A five-year summary of tuition, fees and room charges is provided below:

Undergraduate Tuition, Fees, Room & Board

<u>Academic Year</u>	<u>Undergraduate Tuition & Fees</u>	<u>Room & Board</u>	<u>Undergraduate Total</u>
2008-09	31,382	6,600	37,982
2009-10	33,254	6,870	40,124
2010-11	35,222	7,070	42,292
2011-12	37,310	7,475	44,785
2012-13	38,798	7,700	46,498

Financial Condition

Set forth below is information for the last five fiscal years with respect to the following: 1) Statement of Financial Position Summary; 2) Statement of Activities, and 3) Ratio of Unrestricted and Temporarily Restricted Assets to Bonds Outstanding.

The Summary Statement of Financial Position presents the financial position of the College as of the end of the fiscal year. The Statement of Activities presents financial activities during the fiscal years indicated, thereby reconciling the beginning and end-of-year net asset positions contained in the Summary Statement of Financial Position. The Statement of Cash Flows summarizes cash-related activities during the fiscal year, thereby reconciling the beginning and end-of-year cash balances contained in the Statement of Financial Position. From May 1, 2011 to April 30, 2012, total net assets have grown by 6%.

Statement of Financial Position Summary
As of April 30, (dollars in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Assets	\$111,661	\$102,493	\$108,329	\$121,213	\$128,348
Total Liabilities	52,385	52,573	52,208	52,128	55,019
Total Net Assets	<u>\$59,276</u>	<u>\$49,920</u>	<u>\$56,121</u>	<u>\$69,085</u>	<u>\$73,329</u>

Summary of Activities
As of April 30,
(dollars in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
REVENUE & SUPPORT:					
Tuition & Fees	\$46,910	\$53,294	\$59,627	\$65,823	\$73,047
Less: College funded scholarships	(12,869)	(15,514)	(17,790)	(19,076)	(20,731)
Net Tuition & Fees	34,041	37,780	41,837	46,747	52,316
Investment earnings	1,842	(6,096)	4,659	3,784	(1,272)
Government contracts & grants	795	811	1,002	920	895
Private gifts, grants & bequests	6,856	1,984	1,697	8,720	3,722
Auxiliary enterprises	1,586	1,959	1,910	2,031	2,730
Other sources	570	537	579	579	667
Total revenue & support	<u>45,690</u>	<u>36,975</u>	<u>51,684</u>	<u>62,781</u>	<u>59,058</u>
Net revenue & support	<u>\$45,690</u>	<u>\$36,975</u>	<u>\$51,684</u>	<u>\$62,781</u>	<u>\$59,058</u>
EXPENSES:					
Program services:					
Instruction	\$17,670	\$19,895	\$20,811	\$23,021	\$25,031
Instructional services	4,194	4,121	3,895	4,017	4,318
Student Services	4,642	4,884	4,838	5,474	6,027
Auxiliary enterprises	541	576	553	535	993
Total program services	<u>\$27,047</u>	<u>\$29,476</u>	<u>\$30,097</u>	<u>33,047</u>	<u>36,369</u>
Supporting services:					
General and administrative					
Administrative	3,459	4,159	3,652	4,260	4,737
General institution support	1,357	1,110	1,218	1,331	1,961
Facilities	4,226	4,271	3,725	4,005	4,268
Depreciation	2,139	2,048	2,121	2,144	2,398
Interest on indebtedness	2,420	2,391	2,352	2,329	2,307
Bond financing defeasance costs	-	-	-	-	-
Total general and administrative	<u>13,601</u>	<u>13,979</u>	<u>13,068</u>	<u>14,069</u>	<u>15,671</u>
Marketing & fundraising	2,575	2,876	2,318	2,701	2,774
Total supporting services	<u>16,176</u>	<u>16,855</u>	<u>15,386</u>	<u>16,770</u>	<u>18,445</u>
Total expenses	<u>43,223</u>	<u>46,331</u>	<u>45,483</u>	<u>49,817</u>	<u>54,814</u>
Increase (decrease) in net assets	2,467	(9,356)	6,201	12,964	4,244
Net assets at beginning of year	56,809	59,276	49,920	56,121	69,085
Net assets at end of year	<u>\$59,276</u>	<u>\$49,920</u>	<u>\$56,121</u>	<u>\$69,085</u>	<u>\$73,329</u>

Ratio of Unrestricted & Temporarily Restricted Assets to Bonds Outstanding
As of April 30,
(dollars in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unrestricted & Temporarily Restricted Assets	\$93,460	\$84,160	\$89,776	\$102,424	\$109,371
Bonds Outstanding	44,408	43,864	43,297	42,706	42,084
Ratio of Unrestricted & Temporarily Restricted Assets to Bonds Outstanding	2.10	1.92	2.07	2.40	2.60

Endowment (and Quasi-Endowment) and Similar Funds

The following table summarizes the book value of the assets in the College's Endowment and Similar Funds at April 30 of each of the last five fiscal years.

Endowment and Quasi-Endowment Net Assets As of April 30, (dollars in thousands)

<u>Year</u>	<u>Permanent Endowment</u>	<u>Temporarily Restricted Endowment & Unrestricted Quasi-Endowment</u>	<u>Total</u>
2008	\$18,201	\$14,081	\$32,282
2009	18,333	6,841	25,174
2010	18,553	10,000	28,553
2011	18,789	12,349	31,138
2012	18,977	9,644	28,621

Investments

The following table summarizes the market value of the College's Investments at April 30 of each of the last five fiscal years. Investments are stated at market value. The net realized and unrealized gain or loss in market value is determined by comparison of amounts with cost, determined on a first-in, first-out basis. It is the College's policy to invest and maintain a diversified investment portfolio.

Investments Summary, at Fair Value As of April 30, (dollars in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Cash & cash equivalents	\$ 3,716	\$ 4,299	\$ 5,476	\$ 2,192	\$942
Common & preferred stock	14,534	7,042	11,499	16,566	5,717
Corporate & foreign bonds	4,881	5,090	2,377	3,035	-
Mutual funds	4,964	4,096	5,604	6,824	19,309
Osterweis strategic income fund	710	-	-	-	-
Alternative investment	-	2,070	2,001	120	117
S&P 500 Index Funds	-	-	-	-	1,273
Total	<u>\$28,805</u>	<u>\$22,597</u>	<u>\$26,597</u>	<u>\$28,737</u>	<u>\$27,358</u>

Gifts and Grants

The following table summarizes the amounts and classifications of the College's gifts and grants for the year ended April 30 of each of the last five fiscal years.

Gifts and Grants As of April 30, (dollars in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unrestricted	\$ 329	\$ 451	\$ 336	\$ 991	\$392
Temporary restricted	6,020	2,212	2,143	8,413	4,037
Permanently restricted	1,302	132	220	236	188
Total Gifts & Grants	<u>\$7,651</u>	<u>\$2,795</u>	<u>\$2,699</u>	<u>\$9,640</u>	<u>\$4,617</u>

Financial Aid

Approximately 86% of all students at the College receive some form of financial aid. Total financial assistance to College students for the current academic year is estimated to be in excess of \$20 million. The following table shows student aid resources for the last five fiscal years.

Financial Aid (dollars in thousands)

<u>Academic Year</u>	<u>State</u>	<u>Federal</u>	<u>Student- Funded</u>	<u>Work Study</u>	<u>Other</u>	<u>Total</u>
2008-09	1,240	1,780	17,678	944	14,492	36,134
2009-10	1,277	2,635	20,940	1,040	16,806	42,698
2010-11	1,432	2,977	22,662	988	17,909	45,968
2011-12	1,844	2,931	23,747	1,119	19,741	49,382

Property, Plant and Equipment

The following table summarizes the College's Property, Plant, and Equipment for the last five fiscal years. Property purchased is stated at cost, and properties acquired by gift or bequest are stated at market value at date of acquisition. The College believes that the market value of these assets exceeds the book value.

Property, Plant & Equipment Summary As of April 30, (dollars in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Land, buildings & leasehold improvements	\$61,147	\$68,641	\$69,027	\$78,023	\$82,107
Furniture, equipment & library books	12,163	13,105	13,900	14,718	16,337
Construction in progress	251	29	-	17	7
Subtotal	73,561	81,775	82,927	92,758	98,451
Lease: accumulated depreciation	(19,992)	(21,925)	(23,973)	(25,767)	(28,090)
Total	<u>\$53,569</u>	<u>\$59,850</u>	<u>\$58,954</u>	<u>\$66,991</u>	<u>\$70,361</u>

Retirement Plan

The College has a 403(b) Tax Sheltered Annuity (TSA) and a Salary Reduction Annuity (SRA) Plan for its employees. Plan Participants direct how their contributions and balances are to be invested and reinvested. There are various methods by which benefits may be distributed under the Plan. Employees contribute to the Salary Reduction Annuity (SRA) through written salary reduction agreements. The College's employer contribution is presently 5% of annual compensation as defined under the Plan. In fiscal year 2012, College employer contributions to the Plan totaled \$752,000. The College, through its funding policy, does not accrue unfunded contribution liabilities under the Plan.

Insurance

The College carries \$92 million of replacement value insurance per occurrence, under blanket policies on its buildings and their contents. The College does not carry earthquake insurance.

Liabilities, Including Long-Term Indebtedness

The College's liabilities as of April 30, 2011, are set forth in the College's audited financial statements attached hereto in APPENDIX B—"AUDITED FINANCIAL STATEMENTS OF THE BORROWERS."

The following table represents the College's future long-term Authority debt service requirements after giving effect to the issuance of the bonds of the current issue and the refunding of a portion of the Authority's Revenue Bonds (California College of Arts and Crafts), Series 2001, issued for the benefit of the College.

Fiscal Year Ending April 30	Series 2001	Series 2005	Series 2007	Series 2012	Total*
2013	\$ 94,703	\$ 926,750	\$1,063,250	\$ 57,370	\$2,142,073
2014	189,406	926,750	1,062,750	1,136,575	3,315,481
2015	537,031	926,750	1,060,750	559,450	3,083,981
2016	531,594	926,750	1,062,250	559,450	3,080,044
2017	524,781	926,750	1,062,000	559,450	3,072,981
2018	521,422	926,750	1,060,000	559,450	3,067,622
2019	516,344	926,750	1,061,250	559,450	3,063,794
2020	765,438	926,750	1,060,500	559,450	3,312,138
2021	—	926,750	1,062,750	1,329,700	3,319,200
2022	—	926,750	1,037,750	1,568,075	3,532,575
2023	—	926,750	1,201,750	1,572,825	3,701,325
2024	—	926,750	320,250	1,574,575	2,821,575
2025	—	1,619,000	—	1,149,200	2,768,200
2026	—	1,627,375	—	1,141,256	2,768,631
2027	—	1,623,750	—	1,145,056	2,768,806
2028	—	1,628,125	—	1,146,231	2,774,356
2029	—	1,635,125	—	1,139,913	2,775,038
2030	—	1,629,875	—	1,140,969	2,770,844
2031	—	1,637,250	—	1,139,138	2,776,388
2032	—	2,860,625	—	—	2,860,625
2033	—	2,858,500	—	—	2,858,500
2034	—	2,860,375	—	—	2,860,375
2035	—	2,860,875	—	—	2,860,875
2036	—	2,859,750	—	—	2,859,750

*Totals may not add due to rounding.

Legal Proceedings

The College may be involved in legal proceedings arising in the ordinary course of its affairs which, in the aggregate, are not expected to have any material adverse effect on the financial condition or operations of the College.

Certain Property Pledged to Secure Base Loan Payments

The College will pledge certain land and improvements as security for its obligations of repayment of the loan from the Authority. Specifically, these properties include a fourth priority deed of trust on the San Francisco Campus of the College and on portions of the Oakland campus of the College (behind 2001, 2005 and 2007 deeds of trust that secure the 2001 Bonds, the 2005 Bonds and the 2007 Bonds).

The College has pledged its Gross Revenues to secure its obligations on the 2001 Bonds, the 2005 Bonds and the 2007 Bonds. The pledge of Gross Revenues to secure the College's obligations under the Loan Agreement, as described herein, is on a parity basis with the pledge to secure the College's obligations in respect of such outstanding 2001 Bonds, the 2005 Bonds and the 2007 Bonds.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE BORROWER
FOR THE FISCAL YEAR ENDED APRIL 30, 2012**

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CALIFORNIA COLLEGE OF THE ARTS

APRIL 30, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

California College of the Arts

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF TRUSTEES
CALIFORNIA COLLEGE OF THE ARTS
San Francisco, California

We have audited the accompanying statement of financial position of **CALIFORNIA COLLEGE OF THE ARTS (the College)** as of April 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the College's 2011 financial statements and, in our report dated September 14, 2011, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of April 30, 2012, and the results of its activities and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Francisco, California
August 30, 2012

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California College of the Arts

Statement of Financial Position (in thousands)

<i>April 30, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Current Assets:		
Cash and equivalents	\$ 16,006	\$ 10,009
Restricted cash	41	82
Accounts receivable - net of allowance for doubtful accounts of \$405 in 2012 and \$295 in 2011	432	488
Grants and pledges receivable, current portion	2,724	3,550
Other current assets	530	543
Total current assets	19,733	14,672
Non-Current Assets:		
Notes receivable, net	892	918
Property, plant and equipment, net	70,361	66,991
Grants and pledges receivable, net	3,418	3,338
Bond reserve funds	4,164	4,104
Investments	27,358	28,737
Contributions receivable from irrevocable trusts	1,623	1,650
Other assets	799	803
Total Assets	\$ 128,348	\$ 121,213
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 6,775	\$ 5,979
Bonds payable, current portion	926	602
Capital leases payable, current portion	706	450
Note payable, current portion	121	
Tuition deposits	1,452	1,499
Other liabilities	68	96
Total current liabilities	10,048	8,626
Long-Term Liabilities:		
Capital leases payable, net of current portion	444	295
Note payable, net of current portion	2,379	
Bonds payable, net of current portion	41,158	42,104
Refundable loan program advances	472	534
Other long-term liabilities	518	569
Total liabilities	55,019	52,128
Net Assets:		
Unrestricted:		
Undesignated	40,388	33,175
Endowment deficiencies (underwater)	(20)	
Designated for program	336	336
Board designated endowment	2,171	2,358
Total unrestricted net assets	42,875	35,869
Temporarily restricted:		
Accumulated endowment gains	7,493	9,991
Educational and general	3,984	4,311
Plant activities		125
Total temporarily restricted net assets	11,477	14,427
Permanently restricted - endowment	18,977	18,789
Total net assets	73,329	69,085
Total Liabilities and Net Assets	\$ 128,348	\$ 121,213

The accompanying notes are an integral part of this statement.

California College of the Arts

Statement of Activities (in thousands)

Year Ended April 30, 2012 (with comparative totals for 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating:					
Revenue and support:					
Tuition and fees	\$ 73,047			\$ 73,047	\$ 65,823
Less: college funded scholarships	(20,731)			(20,731)	(19,076)
Net tuition and fees	52,316			52,316	46,747
Investment and endowment earnings	112	\$ 1,159		1,271	1,348
Government contracts and grants		895		895	920
Private gifts, grants and bequests	392	1,465		1,857	2,803
Auxiliary enterprises	2,663	67		2,730	2,031
Other sources	633	29		662	575
Total revenue and support	56,116	3,615		59,731	54,424
Net assets released from restrictions	3,702	(3,702)			
Net revenue and support	59,818	(87)		59,731	54,424
Expenses:					
Program services:					
Instruction	25,031			25,031	23,021
Instructional services	4,318			4,318	4,017
Student services	6,027			6,027	5,474
Auxiliary enterprises	993			993	535
Total program services	36,369			36,369	33,047
Supporting services:					
General and administrative:					
Administrative	4,737			4,737	4,260
General institution support	1,961			1,961	1,331
Facilities	4,268			4,268	4,005
Depreciation	2,398			2,398	2,144
Interest on indebtedness	2,307			2,307	2,329
	15,671			15,671	14,069
Fundraising and communication	2,774			2,774	2,701
Total supporting services	18,445			18,445	16,770
Total expenses	54,814			54,814	49,817
Total increase (decrease) in operating net assets	5,004	(87)		4,917	4,607
Non-Operating:					
Investment (loss) earnings on endowment	(292)	(2,251)		(2,543)	2,436
Private gifts, grants and bequests		1,677	\$ 188	1,865	5,917
Revenue and support - other sources		5		5	4
Net assets released from restrictions	2,294	(2,294)			
Total increase (decrease) in non-operating net assets	2,002	(2,863)	188	(673)	8,357
Change in Net Assets	7,006	(2,950)	188	4,244	12,964
Net Assets - beginning of year	35,869	14,427	18,789	69,085	56,121
Net Assets - end of year	\$ 42,875	\$ 11,477	\$ 18,977	\$ 73,329	\$ 69,085

The accompanying notes are an integral part of this statement.

California College of the Arts

Statement of Cash Flows (in thousands)

<i>Year Ended April 30, 2012 (with comparative totals for 2011)</i>	2012	2011
Operating Activities:		
Change in net assets	\$ 4,244	\$ 12,964
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Depreciation	2,398	2,144
Expenditures financed by lease obligation	118	109
Amortization of bond premium and issue costs and investment agreements	(20)	(20)
Net realized and unrealized losses (gains) on investments	1,874	(3,094)
Contributions received for long-term investment and acquisition of long lived assets	(3,190)	(2,554)
Change in fair value of irrevocable trusts	27	(298)
Allowance and forgiveness of notes receivable	56	76
Changes in operating assets and liabilities:		
Accounts receivables	56	(9)
Grant and pledges receivables	746	(3,474)
Other assets	17	(79)
Accounts payable and accrued liabilities	801	699
Student and tuition deposits and other liabilities	(126)	(276)
Net cash provided by operating activities	7,001	6,188
Investing Activities:		
Proceeds from maturities and sales of investments	15,839	1,870
Purchases of investments	(16,395)	(539)
Acquisitions of property, plant and equipment	(2,095)	(9,537)
Student and faculty loans collected	120	130
Student and faculty loans advanced	(150)	(85)
Net cash used by investing activities	(2,681)	(8,161)
Financing Activities:		
Contributions received for long-term investment and acquisition of long lived assets	3,190	2,554
Payments of bond principal	(602)	(571)
Payments on capital leases	(890)	(572)
Advances for government loan program, net	(62)	(93)
Net cash provided by financing activities	1,636	1,318
Net Change in Cash and Equivalents and Restricted Cash	5,956	(655)
Cash and Equivalents and Restricted Cash, beginning of year	10,091	10,746
Cash and Equivalents and Restricted Cash, end of year	\$ 16,047	\$ 10,091
Supplemental Cash Flow Information:		
Interest paid	\$ 2,307	\$ 2,329
Non-cash transactions:		
Equipment acquisitions and expenditures financed with leases	\$ 1,178	\$ 701
Property acquisition financed with note payable	\$ 2,500	
Accrued purchase of property, plant and equipment	\$ 12	\$ 17

The accompanying notes are an integral part of this statement.

California College of the Arts

Notes to Financial Statements

Note 1 - Organization and Operations:

The California College of the Arts (the College) is a private, non-profit educational institution founded in 1907 to educate students of diverse backgrounds in the visual arts. The College provides instruction in a wide variety of media and is a significant factor in the development of the arts in Northern California. The College has campuses in San Francisco and Oakland.

The College's operations are primarily funded through revenue generated by tuition and fees. Additionally, the College receives private contributions from donors that increase the College's ability to provide instruction.

The College assists students in the financing of their education through private and institution awards as well as federally-funded student aid programs.

The College is accredited by the Western Association of Schools and Colleges (WASC), the National Association of Schools of Art and Design (NASAD), the National Architectural Accrediting Board (NAAB), and the Council for Interior Design Accreditation (CIDA). These accreditations are subject to periodic review and renewal.

Note 2 - Significant Accounting Policies:

The College's significant accounting policies include the following:

a. Basis of Presentation

The College's financial statements are prepared on an accrual basis of accounting in accordance with generally accepted accounting principles for not-for-profit organizations which utilizes unrestricted, temporarily restricted and permanently restricted net asset classifications for presentation.

b. Cash Equivalents

The College considers all instruments with a maturity of three months or less at the time of purchase to be cash equivalents, except for cash equivalents included in and managed with the College's pooled investments.

c. Restricted Cash

Restricted cash represents cash that is restricted for specific purposes, including unlent cash in the College's Perkins loan program.

California College of the Arts

Notes to Financial Statements

d. Investments

The College invests in marketable debt and equity securities, and alternative investments in a limited liability corporation fund and a limited partnership private equity fund. Debt and equity securities are recorded at fair value based on quoted market prices. The fair value of the alternative investments is calculated using the net asset value of the funds. The College believes the carrying amounts of these investments are a reasonable estimate of their fair value. Due to the inherent uncertainty of the valuation of the alternative investments, the estimated value may differ significantly from the value that would have been used had a ready market for the alternative investments existed.

e. Accounts Receivable and Notes Receivable

Accounts receivable are balances due from students for tuition and fees. Notes receivable include uncollateralized loans made to students based on financial need, and loans made to faculty and senior staff. Student loans are funded through the U.S. Department of Education Perkins loan program. Accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when an individual account has been through multiple collection agencies, several years of collection attempts have been expended and management has deemed the account uncollectible. Student loans receivable may be assigned to the Department of Education. Recoveries of student accounts and loans receivable previously written off or assigned are recorded when received.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest (3 to 5 percent annually) is charged on student loans receivable and is recognized as it is charged. Late charges are charged if payments are not paid by the payment due date and are recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 90 days of the payment due date. After receivables become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the Department of Education. The notes are generally payable in monthly installments over a 10-year period beginning nine months after graduation.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost, if purchased, or estimated fair value at date of receipt, if donated. Depreciation is recorded using the straight-line method over estimated useful lives of 50 years for buildings and 3 to 18 years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the lesser of the asset's useful life or the lease term. Library books are depreciated using the straight-line method over an estimated useful life of 12 years.

California College of the Arts

Notes to Financial Statements

g. Collectibles

The College owns a collection of artwork, antique textiles, and prints all of which were contributed to the College. The art collection, which is made up of several works of artistic significance, is on display in certain college buildings and activities verifying their existence and assessing their condition are performed regularly. The other collections, which are of unknown value, but are not estimated to be significant, are in safekeeping. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. No significant deaccessions occurred during the current year.

h. Interest Rate Swap Agreement

The fair value of the interest rate swap related to the note payable is accrued as market rates change. The change in fair value of the derivative during the year, if material, is recognized within non-operating activities. (see Note 8.b)

i. Description of Net Assets

All resources that are not restricted by donors are included in unrestricted net assets. Temporarily restricted net assets represent the portion of net assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations. Permanently restricted net assets are the portion of net assets restricted by the donor for investment in perpetuity. Income, gains and losses from these permanently restricted net assets are classified as temporarily restricted. The income from approximately \$3 million of permanently restricted funds is restricted for bond debt service. The majority of the remainder of the funds have been restricted by donors to provide student financial aid. Accumulated endowment gains reflect unspent investment earnings generated by endowment funds.

The Board of Trustees had established designated funds for long-term investment and future needs of the College. As of April 30, 2012, the funds total \$2,171,000, of which \$2,060,000 is invested on a pooled basis with endowment funds, and \$111,000 has been loaned for various capital projects of the College. The funds loaned for various capital projects is to be replenished to the designated funds over a period of nine years expiring in the fiscal year ending April 30, 2013.

California College of the Arts

Notes to Financial Statements

j. Revenue Recognition

Student tuition accounts receivable are recorded when students are billed. Tuition revenue is recorded as earned, on a pro rata basis over the applicable teaching period. Payments received for tuition for future periods are reported as deferred revenue. Collection or development of payment plans for tuition is required prior to registration for the following term.

Contributions and pledges are recognized as revenue when they are received or unconditionally pledged. The College reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions of assets other than cash are recorded at their estimated fair value. Pledges receivable represent amounts committed by donors that have not been received by the College.

Revenues are reported as increases in the appropriate category of net assets. Income on investments is reported as increases or decreases in unrestricted net assets unless their use is restricted explicitly by donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions.

k. Contributions Receivable from Irrevocable Trusts

Contributions receivable from irrevocable trusts represents the estimated net present value of the College's remainder interest in various irrevocable trusts held by third party trustees. The net present value of these receivables was actuarially determined using IRS life annuities and mortality tables and an annual investment return of 2.6%.

l. Advertising Expenses

The College's policy is to expense advertising costs as they are incurred. Costs related to the production of the College's catalog are amortized over the three year period covered by the catalog.

m. Functional Expense Allocations

Certain expenses, such as depreciation and amortization expense, supplies, travel, personnel, facility maintenance operations and interest on indebtedness, are allocated among program services and supporting services based on allocation methods and estimates made by the College's management (see Note 10).

California College of the Arts

Notes to Financial Statements

n. Operating and Non-operating Classifications

Operating revenue and expense in the statement of activities include the operating activities associated with furthering the College's educational mission and exclude certain private gifts that are restricted to endowment or investment in plant facilities. Other items excluded from operating activities include net investment income on endowments in excess of the College's spending policy as well as certain investment income from interest and dividends not subject to the College's spending rule.

o. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The College classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the College's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

p. Income Taxes

The principal activities of the College are exempt from income taxes under provisions of the U.S. Internal Revenue Code, Section 501(c)(3) and the California Tax Code. The College continues to remain subject to examination by U.S. federal authorities for the years 2009 through 2011 and for California state authorities for the years 2008 through 2011. Management evaluated the College's tax positions and concluded that the College had maintained its tax exempt status and had not taken uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

q. Use of Estimates

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

California College of the Arts

Notes to Financial Statements

r. Comparative Financial Statements

The financial statements include certain 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended April 30, 2011, from which the information was derived.

s. Recent Accounting Pronouncements

Adopted:

In July 2010, Financial Accounting Standard Board (FASB) amended its Accounting Standard Update (ASU) 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310), which requires that receivables be disaggregated by portfolio segment and class of financing receivable and also requires to disclose the entity's policy for charging off uncollectible trade receivables that have a contractual maturity of one year or less and arose from the sale of goods and services. Those disclosures are effective for fiscal year ending December 31, 2011. The College has implemented this update as of April 30, 2012.

Pronouncement effective in the future:

In May 2011, FASB issued additional disclosure requirements for fair value measurements. Under this guidance, the amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments explain how to measure fair value and do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. The disclosure is effective for years beginning after December 15, 2011. The College does not believe that the adoption of this update will have a material impact of its financial statements.

t. Subsequent Events

The College has reviewed the results of operations for the period of time from the end of its fiscal year on April 30, 2012 through the date the financial statements are issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

California College of the Arts

Notes to Financial Statements

Note 3 - Note Receivables:

At April 30 2012, notes receivable constituted the College's financing receivable and consisted of the following:

	Perkins Loans	Faculty and Staff Loans	Total
Notes receivable	\$1,066,000	\$ 115,000	\$1,181,000
Less allowance for doubtful accounts:			
Beginning of year	(253,000)		(253,000)
Increase	(36,000)		(36,000)
End of year	(289,000)		(289,000)
Notes receivable, net	\$ 777,000	\$ 115,000	\$ 892,000

The availability of funds for loans under the Perkins loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of \$472,000 at April 30, 2012 are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

The amount past due under the Perkins loan program and faculty and staff loans was \$152,000 and \$0 at April 30, 2012, respectively.

Note 4 - Investments:

Investments include plant and endowment funds, and consisted of the following at April 30, 2012:

Cash and equivalents	\$ 942,000
Stocks	5,717,000
Mutual funds	19,309,000
S&P 500 Index fund	1,273,000
Alternative investments	117,000
	<u>\$ 27,358,000</u>

California College of the Arts

Notes to Financial Statements

Note 5 - Fair Value Measurements:

The table below presents assets at April 30, 2012 measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments:				
<u>Domestic Stocks</u>				
Consumer discretionary	\$ 417,000			\$ 417,000
Consumer staples	590,000			590,000
Energy	660,000			660,000
Financials	508,000			508,000
Health care	1,264,000			1,264,000
Industrials	780,000			780,000
Information technology	751,000			751,000
Materials	432,000			432,000
Utilities	315,000			315,000
Total stocks	5,717,000			5,717,000
<u>Mutual Funds</u>				
Equity funds - domestic	10,800,000			10,800,000
Bond funds – domestic and international	8,509,000			8,509,000
Total mutual funds	19,309,000			19,309,000
<u>Index Funds</u>				
IShares Trust S&P 500	1,273,000			1,273,000
<u>Alternative Investments</u>				
Coast Access IV LLC, Class C			\$ 72,000	72,000
Park Street Private Equity Fund X, LP			45,000	45,000
Total alternative investments			117,000	117,000
Bond reserve fund:				
U.S. Government obligations		\$ 2,832,000		2,832,000
Contributions receivable from irrevocable trusts				
			1,623,000	1,623,000
Totals	\$ 26,299,000	\$ 2,832,000	\$ 1,740,000	\$ 30,871,000

California College of the Arts

Notes to Financial Statements

The following is a roll-forward of the Level 3 assets:

	Coast Access IV LLC	Park Street Private Equity Fund X, LP	Contributions Receivable from Irrevocable Trusts	Total
Fair value at April 30, 2011	\$ 120,000		\$ 1,650,000	\$ 1,770,000
Additions		\$ 50,000		50,000
Liquidations	(35,000)			(35,000)
Total realized and unrealized losses	(13,000)	(5,000)	(27,000)	(45,000)
Fair value at April 30, 2012	\$ 72,000	\$ 45,000	\$ 1,623,000	\$ 1,740,000

The College uses net asset value as reported by the fund managers to determine the fair value of the alternative investments on a recurring basis. At April 30, 2012, the alternative investments consist of investments in Coast Access IV, LLC and Park Street Capital, Private Equity Fund X, LP. The investment in Coast Access IV, LLC is an interest in a hedge fund which the College received as a gift. Pursuant to the limited liability corporation agreement, investments in the fund are redeemable only in the event of a total liquidation of the fund. At April 30, 2012, the fund is in the process of total liquidation, which is scheduled to be completed in January 2015.

Park Street Capital Private Equity Fund X, LP invests in a select group of private equity funds in the venture capital, buyout and capital restructuring sectors. The College has subscribed to \$500,000 of limited partnership interest, and paid \$50,000 as of April 30, 2012. Pursuant to the limited partnership agreement, investments in the partnership are generally not redeemable until partnership dissolution and liquidation, which is expected to occur on or after December 31, 2020.

Financial Instruments Not Measured at Fair Value:

Some of the College's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. These financial instruments include cash equivalents, accounts and student loan receivables, grants and pledges receivable and refundable loan program advances. For cash equivalents, accounts and student loan receivables, grants and pledges receivable and accounts payable and accrued expenses, the carrying amounts represent a reasonable estimate of the corresponding fair values.

The fair value of the bond obligations and note payable approximate their carrying value.

California College of the Arts

Notes to Financial Statements

Note 6 - Grants and Pledges Receivable:

Grants and pledges receivables at April 30, 2012 are due as follows:

Within one year	\$ 2,724,000
One to five years	3,418,000
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Total pledges receivable	\$ 6,142,000

During the fiscal year ended April 30, 2011, the Board of Trustees initiated a campaign for a strategic land acquisition to allow for future expansion of the San Francisco campus. The campaign raised contributions totaling \$7,390,000 from members of the Board of Trustees through April 30, 2012 to fund the purchase of land, which was completed during the fiscal year ending April 30, 2011 for a total cost of \$8,400,000. Pledges outstanding at April 30, 2012 include \$3,271,000 of pledges from Trustees related to the campaign and \$661,000 for annual giving and other purposes.

All pledges are considered collectible. A discount for the present value of the receivables was not considered significant to the financial statements.

Note 7 - Property, Plant and Equipment:

Property, plant and equipment at April 30, 2012 is composed of the following:

Land, buildings and leasehold improvements	\$ 82,107,000
Furniture and equipment	14,503,000
Library books	1,834,000
Construction in progress	7,000
<hr/>	
	98,451,000
Less accumulated depreciation and amortization	(28,090,000)
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	\$ 70,361,000

Certain land and buildings are pledged as collateral for bonds and note payable (see Note 8).

California College of the Arts

Notes to Financial Statements

Note 8 - Debt:

a. Bonds Payable

The College is obligated under bonds payable as of April 30, 2012 as follows:

California Educational Facilities Authority Revenue Bonds, interest at 5.0% to 6.875%, maturing through June 2030 (CEFA 2001)	\$ 14,391,000
California Educational Facilities Authority Revenue Bonds, interest at 5.0%, maturing through June 2035 (CEFA 2005)	18,535,000
California Educational Facilities Authority Revenue Bonds, interest at 3.7% to 5.0%, maturing through June 2037 (CEFA 2007)	8,913,000
	<u>41,839,000</u>
Unamortized bond premium	245,000
	<u>42,084,000</u>
Current portion	926,000
Long-term portion	<u>\$ 41,158,000</u>

Pursuant to the loan agreements, the College is required to fund and maintain separate reserve funds with the trustee for the CEFA 2001, CEFA 2005 and CEFA 2007 bonds. These reserve funds will be used and withdrawn by the trustees solely for the purpose of making up any deficiency in the debt service payments or for the payment or redemption of all the outstanding bonds.

At April 30, 2012, bond reserve funds included approximately \$4,164,000 held in trust for debt service reserve as described in the CEFA bond agreements. Bond reserve funds are invested in money market accounts and U.S. government obligations.

The CEFA bond agreements contain covenants, which require, among other things, that the College maintain certain financial ratios, minimum enrollments and accreditation. As of April 30, 2012, the College was in compliance with the CEFA bonds agreements and covenants. Certain of the College's buildings and land are pledged as collateral for the bonds.

California College of the Arts

Notes to Financial Statements

Scheduled maturities of bonds are as follows:

Year ending	
April 30:	
2013	\$ 926,000
2014	1,005,000
2015	1,057,000
2016	1,112,000
2017	1,172,000
Thereafter	36,567,000
	<hr/>
	\$ 41,839,000

Interest expense on bonds payable was \$2,265,000 for the year ended April 30, 2012.

b. Note Payable and Interest Rate Swap Agreement

In March 2012, the College acquired a property by utilizing a long-term note payable to a bank of \$2,500,000 which bears a variable interest rate. Payments are due each month commencing May 1, 2012 through and including the termination date, April 1, 2027. As of April 30, 2012, the outstanding balance on this loan was \$2,500,000. The property acquired under this arrangement as of April 30, 2012 had a cost of \$3,420,000 and is collateral for the loan.

The College also entered into an interest rate swap agreement for a notional amount of \$2,500,000, that reduces as payments on the note payable are made. The effect of this swap agreement is to fix the interest rate on the note payable at 4.31%. The estimated fair value of the derivative was not considered significant to the financial statements as of April 30, 2012.

Future minimum payments on the note payable as of April 30, 2012 are as follows:

Year ending	
April 30:	
2013	\$ 121,000
2014	126,000
2015	132,000
2016	137,000
2017	144,000
Thereafter	1,840,000
	<hr/>
Total	\$ 2,500,000

California College of the Arts

Notes to Financial Statements

Note 9 - Retirement Plan:

Employees of the College are covered under the Teacher Insurance and Annuity Association Pension Plan, a multi-employer defined-contribution plan. Employees of the College may elect to make contributions to this plan on a pre-tax or after-tax basis. The College has a policy of making a matching contribution of five percent of compensation for those employees electing to make pre-tax contributions of at least five percent. Matching contributions to the plan were approximately \$752,000 for the year ended April 30, 2012.

Note 10 - Functional Expenses:

Functional expenses including allocations for facilities, depreciation and amortization, and interest on indebtedness based on methods and estimates determined by management are as follows:

Program services:	
Instruction	\$ 29,537,000
Instructional services	4,972,000
Student services	7,135,000
Auxiliary enterprises	2,038,000
	<hr/>
Total program services	43,682,000
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Supporting services:	
General and administrative:	
Administrative	5,558,000
General institution support	2,311,000
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Total general and administrative	7,869,000
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Fundraising and communication	3,263,000
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Total expenses	\$ 54,814,000

Advertising costs incurred for the purpose of generating tuition and fees were \$425,000 for the year ended April 30, 2012.

California College of the Arts

Notes to Financial Statements

Note 11 - Commitments and Contingencies:

a. Operating Leases

The College leases instructional and student dormitory spaces under non-cancelable leases, which expire at various dates through July 31, 2015. In addition, the College leases 11,651 square feet of instructional space for \$1 per year on a 99-year lease as a term of sale of the building in 1989.

Future minimum lease payments for all non-cancelable operating leases in excess of one year as of April 30, 2012 are as follows:

Year ending	
April 30:	
2013	\$ 636,000
2014	605,000
2015	226,000
2016	19,000
<hr/>	
Total	\$ 1,486,000

b. Capital Leases

The College acquired various assets including computer equipment utilizing long-term financing arrangements, which are treated as capital lease obligations. For financial reporting purposes, the assets acquired under these arrangements as of April 30, 2012 had a cost of \$2,236,000 and related accumulated amortization of approximately \$673,000. Amortization of the assets is included in depreciation expense.

The future minimum payments under capitalized lease obligations and the net present value of the future minimum principal payments at April 30, 2012 are as follows:

Total minimum payments	\$ 1,211,000
Amount representing interest	(61,000)
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Present value of minimum payments	1,150,000
Less current portion	(706,000)
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Total	\$ 444,000

California College of the Arts

Notes to Financial Statements

Future payments for all non-cancelable capital leases in excess of one year as of April 30, 2012 are as follows:

Year ending April 30:	
2013	\$ 706,000
2014	427,000
2015	5,000
2016	5,000
2017	5,000
Thereafter	2,000
Total	\$ 1,150,000

c. Other

The College has various commitments and is contingently liable in connection with claims and contracts arising in the normal course of its activities. In addition, the College receives funds from various federal and state government funded programs, which are subject to audit by cognizant governmental agencies. College management believes that the outcome of such matters will not have a significant effect on the financial position or results of activities of the College.

Note 12 - Net Assets Released from Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the year ended April 30, 2012 as follows:

	Operating	Non-Operating	Total
Restricted funds utilized for:			
Educational and general purposes	\$ 1,254,000	\$ 252,000	\$ 1,506,000
Financial aid	2,266,000		2,266,000
Plant activities	182,000	2,042,000	2,224,000
	\$ 3,702,000	\$ 2,294,000	\$ 5,996,000

Plant activities include funds released for interest on indebtedness.

California College of the Arts

Notes to Financial Statements

Note 13 - Endowment Funds:

Endowment net asset composition by type of fund as of April 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (20,000)	\$ 7,493,000	\$ 18,977,000	\$ 26,450,000
Board designated funds	2,171,000			2,171,000
Total Endowment Funds	\$ 2,151,000	\$ 7,493,000	\$ 18,977,000	\$ 28,621,000

Changes in endowment net assets for the year ended April 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 2,358,000	\$ 9,991,000	\$ 18,789,000	\$ 31,138,000
Investment return:				
Investment income	50,000	632,000		682,000
Net appreciation, realized and unrealized losses	(135,000)	(1,740,000)		(1,875,000)
Change in underwater endowment funds	(20,000)	20,000		
Investment management fees	(20,000)	(252,000)		(272,000)
Total investment return.	(125,000)	(1,340,000)		(1,465,000)
New gifts			188,000	188,000
Other income		5,000		5,000
Endowment distribution	(82,000)	(1,163,000)		(1,245,000)
Net assets, end of year	\$ 2,151,000	\$ 7,493,000	\$ 18,977,000	\$ 28,621,000

Endowment net assets are represented by investments of \$27,264,000 and receivables totaling \$1,357,000 at April 30, 2012.

California College of the Arts

Notes to Financial Statements

For endowments that donors have not specifically defined a spending policy, State law allows the College to appropriate so much of net appreciation on endowment investments as is prudent considering the College's long and short term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Amounts allocated for spending may exceed actual realized earnings from endowments. In 2009, for fiscal years beginning with the fiscal year end April 2010, the Board of Trustees approved spending policy of 5% calculated based on the average endowment market value of the trailing three fiscal years.

To satisfy its long term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation with a greater emphasis on equity-based investments in order to achieve its long-term return objectives consistent with the preservation of capital.

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

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

California College of the Arts

Notes to Financial Statements

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the College to retain as a fund of perpetual duration and record such deficiencies in unrestricted net assets. Deficiencies of this nature of approximately \$20,000 as of April 30, 2012 have been reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Note 14 - Concentrations of Risk:

The College has cash deposits, including restricted cash, in financial institutions in excess of federally insured limits at April 30, 2012.

To address concentration of market risk in the investment area, the College maintains a formal investment policy, which sets out performance criteria, investment guidelines and requires review of the investment managers' performance. Investments are managed by investment managers, who have the responsibility for investing the funds in various investment alternatives.

APPENDIX C

BOOK ENTRY ONLY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX C HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE ISSUER, THE BORROWER, THE TRUSTEE OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The Depository Trust Company, New York, New York, 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 of 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: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities 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 Securities 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 Securities is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer 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).

Payments of principal, interest and redemption prices, respectively, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the Borrower, on a 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 nor its nominee, the Authority, the Trustee or the Borrower, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borrower 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Borrower 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 Borrower may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

California Educational Facilities Authority
Sacramento, California

\$11,465,000
California Educational Facilities Authority
Revenue Bonds
(California College of the Arts), Series 2012

Ladies and Gentlemen:

We have acted as Bond Counsel to the California Educational Facilities Authority (the "Authority") in connection with issuance by the Authority of \$11,465,000 aggregate principal amount of its Revenue Bonds (California College of the Arts), Series 2012 (the "Bonds"), dated the date hereof.

The Bonds are 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 of California, as amended (the "Act") and an Indenture of Trust, dated as of October 1, 2012 (the "Indenture"), between the Authority and Wilmington Trust, N.A., as trustee (the "Trustee"). The Bonds are issued for the purpose of making a loan of the proceeds thereof to California College of the Arts (the "Borrower") pursuant to a Loan Agreement, dated as of October 1, 2012 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined in this letter are used as defined in the Indenture.

In our capacity as Bond Counsel, we have examined the transcript of proceedings relating to the issuance of the Bonds, the signed and authenticated Bond of the first maturity, the Resolution Number 288 of the Authority adopted April 26, 2012, the Indenture, the Loan Agreement, and such other documents, matters and law we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Bonds constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their respective terms.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority, enforceable in accordance with its terms. 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 (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund and Escrow 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. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority, enforceable in accordance with its terms.
4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the State of California nor any political subdivision thereof (other than the Authority to the extent provided in the Indenture)

shall be obligated to pay the Bonds, and neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion as to any other tax consequences regarding the Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined, (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Authority and (iii) the correctness of the legal conclusions contained in the legal opinion letters of counsel to the Authority, the Borrower and the Trustee delivered in connection with this matter.

In rendering those opinions with respect to the treatment of the interest on the Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Authority and the Borrower. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

In addition, in rendering those opinions with respect to the treatment of the interest on the Bonds under the federal tax laws, we also further assume the correctness of, and rely on the opinion of, Adler & Colvin, counsel to the Borrower, regarding the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Code, which opinion is subject to a number of qualifications and limitations. We also assume the correctness of, and rely upon the accuracy of, representations of the Borrower concerning the use of the facilities financed with the Bonds in activities that are considered "unrelated trade or business" activities of the Borrower, as defined in Section 513(a) of the Code. Neither we nor counsel to the Borrower have given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of the Authority or the Borrower. Failure of the Borrower to maintain its qualification as an organization described in Section 501(c)(3) of the Code, or to use the facilities financed by the Bonds in a manner that is substantially related to the Borrower's charitable purpose under Section 513(a) of the Code, may cause interest on the Bonds to be included in gross income retroactively to the date of the issuance of the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

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 Bonds, the Indenture or the Loan Agreement. Furthermore, we express no opinion with respect to the status or quality of title to, or interest in, any of the real, personal or intangible property and other assets described in, or subject to, the pledge or lien granted in the Indenture or Loan Agreement, or the accuracy or sufficiency of the description contained therein of, or the priority of, or the remedies available to enforce, any pledge or lien on any such assets.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Bonds has concluded on this date.

Respectfully submitted,

APPENDIX E

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following are summaries of certain provisions of the Indenture, the Loan Agreement and the Deeds of Trust which are not described elsewhere in this Official Statement. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of such documents.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in the Indenture, the Loan Agreement and the Deeds of Trust, and not otherwise defined in this Official Statement. Reference is hereby made to the entire documents for the definitions of all terms used in such documents. The following definitions are equally applicable to both singular and plural forms of any of the terms defined herein:

"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, acceptable to the Authority.

"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, as now in effect and as it may from time to time hereafter be amended or supplemented.

"Additional Agreement" means any agreement between the Authority and the Borrower providing for the lending of proceeds of bonds of the Authority to the Borrower; provided that, until such time as the Series 2001 Bonds are paid or defeased in accordance with their terms, upon issuance, any such bonds of the Authority shall be rated not less than "Baa3" by Moody's Investors Service.

"Additional Payments" means the payments denominated as such to be made by the Borrower to the Trustee or the Authority in accordance with the Loan Agreement.

"Authority" means the California Educational Facilities Authority, a public instrumentality of the State established by the Act, or its successors and assigns.

"Authorized Authority Representative" means the Chairperson or a deputy thereto, 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 and the Borrower, 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 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.

"Base Loan Payments" means the payments required to be made by the Borrower to the Trustee for the account of the Authority in accordance with the Loan Agreement for the payment of the debt service on 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 fund by that name established pursuant to the Indenture.

"Bondholder" or "Holder" means owner of any registered Bond.

"Bond Reserve Fund" means the fund by that name established pursuant to the Indenture.

"Bond Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (A) maximum annual debt service on the Bonds Outstanding as of such date, (B) one hundred twenty-five percent (125%) of average annual debt service on the Bonds Outstanding as of the issuance date of such Bonds, or (C) ten percent (10%) of the proceeds of issuance of the Bonds, and shall be, initially, the aggregate of the amounts indicated in the Indenture.

"Bonds" means the California Educational Facilities Authority Revenue Bonds (California College of the Arts) Series 2012, issued under and secured by the Indenture.

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

"Borrower" means (i) California College of the Arts, a California nonprofit public benefit corporation, and its successors or assigns, and (ii) any surviving, resulting or transferee corporation as provided in the Loan Agreement.

"Business Day" means any day other than a Saturday or a Sunday and any day on which banks located in California, New York and the cities in which the Principal Office of the Trustee is located, is not required or authorized to be closed and on which the New York Stock Exchange is not closed.

"Certificate of the Authority," "Consent of the Authority," "Order of the Authority" or "Request of the Authority" mean, respectively, a written certificate, consent, order or request of the Authority signed by or on behalf of the Authority by an Authorized Authority Representative.

"Certificate of the Borrower," "Request of the Borrower," "Requisition of the Borrower" or "Statement of the Borrower" mean, respectively, a written certificate, request, requisition or statement of the Borrower executed by an Authorized College Representative.

"Closing Date" means the date on which the Bonds were originally executed, delivered and paid for.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the Borrower and the Trustee, as dissemination agent, dated as of the date of delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"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.

"Deed of Trust" means one or more deeds of trust that satisfies the covenants of the Borrower set forth in the Loan Agreement and given by the Borrower in favor of the Trustee, as assignee of the Authority, for the benefit of the Holders of the Bonds and, if applicable, the holders of any Parity Debt.

"Deed of Trust Trustee" means Commonwealth Land Title Company, as trustee under each Deed of Trust, and its successors.

"Electronic Notice" means notice through facsimile transmission, internet, e-mail or other electronic means of communication.

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

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Plan" means any "employee pension benefit plan," as such term is defined in ERISA, from time to time in effect for the benefit of employees of the Borrower.

"Escrow Agreement" means the Escrow Agreement dated as of October 1, 2012 among Wilmington Trust, N.A., as "Escrow Trustee," the Authority and the Borrower.

"Escrow Fund" means each fund so designated and established pursuant to the Escrow Agreement.

"Facilities" means as of any date those facilities then owned and operated by the Borrower and operated as educational facilities.

"Fitch" means Fitch Ratings, or its successors and assigns.

"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, or securities evidencing ownership interests in such obligations or in specified portions thereof (which may consist of specific portions of the principal of or interest on such obligations).

"Gross Revenues" means all revenues, income, receipts and money received by or on behalf of, and the moneys due to, the Borrower, solely from its Facilities, including (a) gross revenues derived from its operation and possession of such Facilities, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Base Loan Payments, (c) proceeds derived from (i) condemnation proceedings, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) insurance proceeds, (vi) contract rights and other rights and assets now or hereafter owned by the Borrower, and (vii) the proceeds of realization on any collateral provided by a Borrower under the Loan Agreement, including, without limitation, any Deed of Trust, and (d) rental income from the lease of portions of the Facilities. Notwithstanding the foregoing, "Gross Revenues" shall not include (i) amounts received by or on behalf of, or moneys due to, the Borrower in connection with the guaranteed student loan origination programs in which the Borrower participates or may hereafter participate or (ii) amounts received by the Borrower as Federal Student Aid or restricted federal or state grants.

"Gross Revenue Fund" means the fund by that name established and maintained by the Borrower in accordance with the applicable provisions of the Loan Agreement.

"Hazardous Substances" means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Facilities or to persons on or about the Facilities or (ii) cause the Facilities to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric

fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law ("HWCL"), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act ("HSAA"), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Facilities or the owners and/or occupants of property adjacent to or surrounding the Facilities, or any other person coming upon the Facilities or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

"Indenture" means the Indenture dated as of October 1, 2012, pursuant to which the Bonds are issued, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into in accordance with the provisions thereof.

"Information Services" means Financial Information, Inc.'s "Financial Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services, "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Mergent/FIS, Inc.," 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314; and Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, as the Borrower may designate in a Certificate of the Borrower delivered to the Trustee.

"Interest Payment Date" means June 1 and December 1 of each year, commencing December 1, 2012.

"Loan" means the loan of a portion of proceeds of the Bonds to the Borrower under the Loan Agreement.

"Loan Agreement" or *"Agreement"* means the loan agreement, dated as of October 1, 2012, between the Authority and the Borrower, as originally executed or as it may from time to time be supplemented, modified or amended subject to and in accordance with the terms thereof and the Indenture.

"Loan Default Events" means any of the events of default specified in the Loan Agreement.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, or its successors and assigns.

"Mortgaged Property" means the estate, property and interest conveyed to the Deed of Trust Trustee pursuant to each Deed of Trust.

"Opinion of Bond Counsel" means an Opinion of Counsel which is a Bond Counsel.

"Opinion of Counsel" means a written opinion of counsel (which may be counsel for the Authority) addressed to the Authority and the Borrower. If and to the extent required by the Indenture, which opinion satisfies any applicable requirements of the Indenture.

"Optional Redemption Account" means the account by that name within the Bond Fund established pursuant to the Indenture.

"Outstanding," when used as of any particular time with reference to Bonds, (subject to the provisions of the Indenture) 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 Indenture; and (c) Bonds with respect to which all liability of the Authority has been discharged to the extent provided in, and pursuant to the requirements of, the Indenture.

"Parity Debt" means (i) the indebtedness of the Borrower in connection with the Bonds; and (ii) any other indebtedness now existing or hereafter incurred by the Borrower which the Borrower proposes to secure by a pledge of its general revenues and any other applicable agreements by which the Borrower is bound, if so designated by the Borrower, and, in connection with the issuance of an additional series of bonds authorized and issued by the Authority. *"Parity Debt"* includes Additional Agreements as described in the Loan Agreement.

"Permitted Encumbrances" means, as of any particular time, (i) liens, charges and encumbrances, if any, listed on the policy of title insurance delivered on the Closing Date by a Borrower, if any; (ii) liens for ad valorem taxes and special assessments not then delinquent; (iii) the Loan Agreement, the Indenture, the Deeds of Trust, any loan agreements, indentures or deeds of trust or other collateral, security or other agreements related to Parity Debt then outstanding, and any financing statements naming the Authority or the Borrower as the debtor and naming the Authority or the Trustee as the secured party filed to perfect the security interest granted or to be granted by any thereof, (iv) utility, access and other easements and rights of way, restrictions and exceptions that will not materially interfere with or impair the operations being conducted in connection with a Project (or, if no operations are being conducted therein, the operations for which a Project was designed or last modified), (v) such minor defects, irregularities, encumbrances, easements, rights of way and clouds on title as normally exist with respect to properties similar in character to a respective Project and as do not in the aggregate materially impair the property affected thereby for the purpose for which it was acquired or is held, (vi) zoning laws and similar restrictions and liens arising in connection with worker's compensation, unemployment insurance, taxes, assessments, statutory obligations or liens, social security legislation, undetermined liens and charges incidental to construction, or other similar charges arising in the ordinary course of operation and not overdue or, if overdue, being contested in good faith and such other liens and charges at the time required by law as a condition precedent to the transactions or activities of a Borrower or the exercise of any privileges or licenses necessary to a Borrower, and (vii) or such other lien or encumbrance as permitted by the written consent of the Authority.

"Permitted Investments" means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held hereunder and then proposed to be invested therein:

(1) Government Obligations;

(2) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities shall constitute Investment Securities only if they have been stripped by the agency itself); U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures-U.S. government guaranteed debentures, U.S. public housing notes and bonds-U.S. government guaranteed public housing notes and bonds), Government National Mortgage Association (GNMA-guaranteed mortgage-backed bonds, GNMA-guaranteed pass-through obligations), and Federal Housing Administration Debentures;

(3) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities shall constitute Investment Securities only if they have been stripped by the agency itself: Federal Home Loan Bank System (Senior debt obligations)), Federal Home Loan Mortgage Corporation ("FHLMC") (Participation Certificates, Senior debt obligations), Federal National Mortgage Association ("FNMA") (Mortgage-backed securities and senior debt obligations), Student Loan Marketing Association (Senior debt obligations), Resolution Funding Corp. (obligations) or Farm Credit System (Consolidated system wide bonds and notes);

(4) bonds or notes issued by any state or municipality which are rated by S&P and Moody's in one of the two highest rating categories assigned by such agencies;

(5) repurchase agreements with either a primary dealer on the reporting dealer list of the Federal Reserve or any bank, which, in either case, is rated "A" or better by S&P and Moody's, provided that (a) the term of such repurchase agreement is not greater than thirty (30) days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) 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 public funds;

(6) investment agreements, including guaranteed investment contracts ("GICs") forward purchase agreements and reserve fund put agreements with banks or other financial institutions rated, or guaranteed by institutions rated, or with senior unsecured debt rated, by S&P and Moody's, in one of the two highest rating categories assigned by such agencies;

(7) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, including such funds for which the Trustee or an affiliate provides investment advice or other services;

(8) certificates of deposit secured at all times by collateral described in (1) and/or (2) above, issued by commercial banks, savings and loan associations or mutual savings banks relating to collateral held by a third party, and in which collateral the Trustee on behalf of the Bondholders has a perfected first security interest;

(9) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(10) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(11) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or, better by Moody's and "A-1" or "A" or better by S&P;

(12) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended;

(13) obligations of a bank or other financial institution rated at least "Aa3" by the Rating Agency; and

(14) any other investments for which each Rating Agency then rating the Bonds confirms that such investment will not adversely affect its ratings of the Bonds.

"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.

"Pledged Property" means that certain real property described in each Deed of Trust, according to the respective priorities, if any, thereunder.

"Principal Office" means the corporate trust office of the Trustee designated in writing to the Authority, which initially is located in Costa Mesa, California at the address set forth in the Indenture.

"Prior Bonds" or "Series 2001 Bonds" means the California Educational Facilities Authority Revenue Bonds, Series 2001 (California College of the Arts).

"Project" means the projects described as such in the Loan Agreement.

"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 Moody's 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 fund by that name established pursuant to the Indenture.

"Record Date" means, with respect to any Interest Payment Date for the Bonds, whether or not a Business Day, the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

"Refunded Bonds" means, the Prior Bonds to be refunded in accordance with the Escrow Agreement.

"Reportable Event" means a reportable event as defined in Section 4043(b) of ERISA (other than a reportable event for which the notice required thereunder has been waived).

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

"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 Loan Agreement and amounts received for or on deposit in the Rebate Fund or Escrow Fund), 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 money in any fund or account established pursuant to the Indenture, and also including the proceeds of any collateral provided by the Borrower to secure its obligations under the Loan Agreement.

"S&P" means Standard & Poor's Ratings Services, or its successors and assigns.

"Securities Depository" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attn – Call Notification Department, Fax (212) 855-7232; or to such other addresses and/or such other securities depositories as the Authority may designate to the Trustee in writing.

"Special Record Date" means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on Bonds.

"State" means the State of California.

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

"Tax Certificate" means the Tax Certificate between the Authority and the Borrower, dated the date of issuance of the Bonds, as the same may be amended or supplemented in accordance with its terms.

"Trustee" means Wilmington Trust, 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.

"WASC" means the Western Association of Schools and Colleges or its successor.

THE INDENTURE

Pledge and Assignment

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein and, subject to the rights of the Holders of the Bonds, there are pledged to secure the payment of the principal of and premium, if any, and interest thereon in accordance with their terms and the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds but excluding Additional Payments paid by the Borrower pursuant to the Loan Agreement and any amounts paid by the Borrower pursuant to the Loan Agreement) held in any fund or account established pursuant to the Indenture other than the Rebate Fund. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act

The Authority transfers in trust, grants a security interest in, and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other amounts pledged in the Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for the right to receive any fees and expenses payable to the Authority; the right to receive any indemnification; the right to receive any notices, certificates and reports; and the express right to give approvals, consents or waivers; and the right to access and inspect the premises and records of the Borrower). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall (subject to the provisions of the Indenture) take all steps, actions and proceedings following any Event of Default reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority assigned to the Trustee and all of the obligations of the Borrower under the Loan Agreement.

All Revenues 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 below.

There is also thereby pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, the Gross Revenues and the Deeds of Trust (subject to the ratable sharing of such Gross Revenues and the Deeds of Trust with holders of Parity Debt as specified in the Loan Agreement). Such pledge of Gross Revenues and the Deeds of Trust may be, in accordance with the Loan Agreement, subject to release upon the satisfaction of certain conditions.

If the Trustee has not received any payment required to be made by the Borrower under the Agreement to pay principal, or redemption price of or interest on the Bonds by the due date, the Trustee shall immediately notify the Borrower and the Authority of such insufficiency by telephone or telecopy and confirm such notification by written notice. Failure by the Trustee to give such notice, or the insufficiency of any such notice, shall not affect the payment obligations of the Borrower under the Loan Agreement, including without limitation the timing thereof.

The Bonds shall not constitute a debt or liability of the State or of any political subdivision thereof, other than the Authority, which shall only be obligated to pay the Bonds solely from the Revenues and funds under the Indenture provided therefor. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

Validity of Bonds

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

Funds and Accounts

The proceeds received by the Authority from the sale of the Bonds shall be deposited with the Trustee which shall deposit such amounts as set forth under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

Bond Fund. The Trustee will deposit into the Bond Fund (to the extent the Indenture does not provide for deposit into another fund or account) all Revenues received from or for the account of the Borrower. Moneys in the Bond Fund and any earnings thereon will be applied by the Trustee in the following order of priority: (i) to pay interest on (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and principal of the Bonds as they shall become due and payable and (ii) to the redemption of Bonds maturing on June 1, 2030 in the principal amounts and on the mandatory sinking fund payment dates set forth in the Indenture.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other Fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain the accounts required by the Tax Certificate if so directed in writing by the Authority or the Borrower. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America. Neither the Authority, nor the Borrower nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority or the Borrower and shall have no liability or responsibility to enforce compliance by the Authority or the Borrower with the terms of the Tax Certificate.

Upon receipt of and pursuant to a Request of the Borrower, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Borrower or from available investment earnings on amounts held in the account within the Bond Fund if and to the extent required, so that the balance of the

Rebate Fund after such deposit shall equal the Rebate Requirement (as that term is defined in the Tax Certificate). Computations of the Rebate Requirement shall be furnished by the Borrower in accordance with the Tax Certificate and the Loan Agreement. The Trustee may rely conclusively upon the determination, calculations and certifications required by this paragraph. The Trustee shall have no responsibility to independently make any calculation or determination or to review such calculations.

Notwithstanding any other provision of the Indenture, including the defeasance provisions thereof, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements under this caption and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Without limiting the generality of the foregoing, the Authority agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds. The Authority specifically covenants to pay, or cause to be paid, the Rebate Requirement to the United States at the times and in the amounts determined above, as described in the Tax Certificate. The Trustee agrees to comply with all written instructions of the Authority or the Borrower which such party states in writing are given in accordance with the Tax Certificate.

Notwithstanding any provision above, if the Borrower shall provide to the Authority and the Trustee an Opinion of Bond Counsel to the effect that any action required under the Indenture or the Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Authority and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Bond Reserve Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Bond Reserve Fund." The Trustee is granted a security interest in the Bond Reserve Fund for the benefit of the Holders from time to time of the bonds.

If the Borrower does not make its Base Loan Payment at the time such payment is due, the Trustee will apply amounts in the Bond Reserve Fund, if any, for the payment of the principal of and interest on the Bonds, but only when moneys in the Bond Fund are insufficient to pay such principal and interest on the Bonds. Funds in the Bond Reserve Fund may be applied for uses specified in the Indenture, including transfer to the account of the Borrower in the Rebate Fund, paying or redeeming all the Bonds (together with any other moneys available therefor) and transfer of amounts in excess of the Bond Reserve Requirement and making the final Base Loan Payment of the Borrower. See "SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS - Other Amounts Held by the Trustee Under the Indenture."

However, funds in the Bond Reserve Fund may not be used to pay or redeem all of the Bonds or to pay the final Base Loan Payment, if the Borrower is then in default with respect to its Base Loan Payments or Additional Payments.

If at any time the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Requirement due to a transfer to the Bond Fund to make up any deficiency therein, the Trustee shall promptly notify the Borrower of such deficiency, and, in accordance with the Loan Agreement, the Borrower shall transfer to the Trustee, the amount of such deficiency. The Trustee shall notify the Authority and the Borrower immediately of any such transfer. The Trustee shall determine the value of the investments credited to the Bond Reserve Fund no less frequently than semiannually (on or before May 1 and November 1 of each year), at the market value thereof. If such value is less than the Bond Reserve Requirement, the Trustee shall immediately notify the Authority and the Borrower of the amount of the deficiency, and the Borrower shall (in accordance with the Loan Agreement) make payments to the Trustee sufficient to cure such deficiency no later than the immediately succeeding semiannual valuation date. Any amount in the Bond Reserve Fund in excess of the Bond Reserve Requirement may be transferred to the Bond Fund. In making any valuations of investments, the Trustee may utilize and rely upon such pricing or valuation services as may be available to it, including those within its regular accounting system.

Investment of Moneys in Funds

Except as otherwise provided in the defeasance provisions of the Indenture, any moneys in any of the funds and accounts established by the Trustee pursuant to the Indenture shall be invested by the Trustee solely in such Permitted Investments as are specified in a Request of the Borrower. If the Borrower does not file such a Request with the Trustee, the Trustee shall invest to the extent practicable in investments described in paragraph (7) of the definition of the term "Permitted Investments" and otherwise in whatever investment it then generally uses for overnight investments.

Except as otherwise provided in written instructions of the Borrower which the Borrower states in writing are given in accordance with the Tax Certificate, all interest, profits and other income received from the investment of moneys (aside from amounts on deposit in the Rebate Fund which shall remain on deposit in the Rebate Fund except as set forth in the Indenture) shall be deposited in the Bond Fund.

Subject to the defeasance provisions of the Indenture, investments in any and all funds and accounts established pursuant to the Indenture (other than the Rebate Fund) may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions therein for transfer to or holding in a particular fund amounts received or held by the Trustee under the Indenture, provided that the Trustee shall at all times account for such investments strictly in accordance with the particular funds to which they are credited and otherwise as provided in the Indenture. The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment. The Trustee may sell or present for redemption, any securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such securities are credited, and neither the Authority nor Trustee shall be liable or responsible for any loss resulting from such investment.

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.

Certain Covenants

Punctual Payment. The Authority shall punctually pay, but only out of Revenues, pledged funds, the principal of, premium, if any, interest to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided therein and in the Bonds, according to the true intent and meaning thereof.

Extension or Funding of Claims for Interest. 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.

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

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.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts and in accordance with the customary standards of the industry for such books of record and account, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Loan Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, the Borrower and any Bondholder, or their respective agents or representatives duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable circumstances.

The Trustee shall file and furnish to the Authority and the Borrower monthly, a complete financial statement (which need not be audited) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of the Bonds) in any of the funds and accounts pursuant to the Indenture for the preceding month.

Tax Covenants. The Authority 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 Authority covenants that it will comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth therein. This covenant shall survive the payment in full or the defeasance of the Bonds.

In the event that at any time the Authority is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority, upon the direction of the Borrower, shall so instruct the Trustee in a Request of the Authority accompanied by a supporting Opinion of Bond Counsel, and the Trustee shall take such action as may be directed in accordance with such instructions.

Notwithstanding any of the foregoing provisions, if the Authority shall provide to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under the foregoing provisions 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 Authority and the Trustee may conclusively rely on such opinion in complying with the requirements of the foregoing provisions and the Tax Certificate, and the covenants thereunder shall be deemed to be modified to that extent.

Other Covenants; Amendment of the Loan Agreement. Subject to the provisions of the Indenture, the Trustee shall promptly collect all amounts due from the Borrower pursuant to the Loan Agreement and diligently enforce and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority under the Loan Agreement and assigned to it pursuant to the Indenture.

The Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent if but only if (1) there has been delivered an Opinion of Bond Counsel described in the Indenture; provided that, if an Event of Default described in the Indenture has occurred and is continuing, the Trustee rather than the Authority shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel), or (2) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent in writing to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount of Base Loan Payments to be made to the Authority or the Trustee by the Borrower pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

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.

Further Assurances. Whenever and so often as requested by the Trustee, the Authority shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the 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.

Continuing Disclosure. Pursuant to the Loan Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5), and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Securities and Exchange Commission Rule 15c2-12. The Trustee, acting as dissemination agent, covenants and agrees that, subject to the provisions of the Indenture, it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and the Loan Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Borrower or the Trustee, acting as dissemination agent, to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee, at the written request of the Participating Underwriter (as such term is defined in the Continuing Disclosure Agreement) or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expenses of its counsel and agents and additional fees and charges of the Trustee) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under the Loan Agreement or, as to any Bondholder or Beneficial Owner, to cause the Trustee to comply with its obligations under the Indenture. For purposes of this paragraph, "Beneficial Owner" means any person which (1) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (2) is treated as the owner of any Bonds for federal income tax purposes. The Authority shall have no continuing disclosure obligations.

Events of Default; Remedies on Default

Events of Default; Acceleration; Waiver of Default. If one or more of the following events ("Events of Default") shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of the principal of, or premium (if any) on, any Bond as the same shall become due and payable (whether at maturity, by proceedings for redemption, by declaration or otherwise);

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

(c) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default shall have continued 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 by the Trustee, or to the Authority and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; or

(d) if a Loan Default Event has occurred and is continuing;

then and in each and every such case during the continuance of such Event of Default, unless the principal of all the Bonds shall have already become due and payable, the Trustee may and, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. If an Event of Default shall occur, the Trustee may take such additional steps as advisable under the Indenture, including exercising such remedies as may be available under the Deeds of Trust, the Loan Agreement and in respect of the Borrower's pledge of Gross Revenues.

Institution of Legal Proceedings by Trustee. If one or more Events of Default shall happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Act or under the Loan Agreement or 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 pursuant to the Indenture in respect of the Bonds shall be applied in the following order, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal of, or premium, if any, 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 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 all other expenses and liabilities incurred, and for advances made pursuant to the provisions of the Indenture.

Second - In case the principal of none of the Bonds shall have become due and remains unpaid, to the payment of interest in default on the Bonds, such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference.

Third - In case the principal of any of the Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of interest in default in the order of maturity thereof, and then to the payment of the principal of all Bonds then due and unpaid and the premium thereon, if any; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference.

Fourth - To the Bond Reserve Fund in an amount which, together with funds in that Fund, equals the Bond Reserve Fund Requirement.

Fifth - To the Bond Fund, an amount sufficient to redeem all the Bonds and pay all other amounts due and owing from the Borrower pursuant to the Loan Agreement.

Such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and past due interest to be paid on such date shall cease to accrue.

Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any Holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Holders of Bonds 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 and the Trustee, and the Holders of the Bonds, severally and respectively, shall be restored to their former positions and rights under the Indenture in respect to the trust estate; and all remedies, rights and powers of the Authority, the Trustee and the Holders of the Bonds shall continue as though no such proceedings had been taken.

Remedies Cumulative. No remedy conferred upon or reserved to the Trustee or to any Holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity.

Trustee Appointed Agent for Bondholders. The Trustee is appointed the agent and attorney in fact 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 some action, by judicial proceedings or otherwise, pursuant to its duties thereunder, whether upon its own discretion or upon the request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, 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, 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 Holders of at least a majority in aggregate principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Notwithstanding anything in the Indenture, any Deed of Trust or the Loan Agreement to the contrary, the Trustee shall not be required to enter, take possession of, or take any other action whatsoever with respect to the Pledged Property and the Deeds of Trust unless the Trustee is satisfied that the Trustee will not be subject to any liability under any local, state or federal environmental laws or regulations of any kind whatsoever or from any circumstances present at the Pledged Property.

If the foregoing condition is not satisfied and the Trustee is not willing to waive such condition and initiate foreclosure proceedings, then the Trustee shall take such actions as are reasonably necessary or appropriate in order to facilitate the appointment of a co-trustee, being a person or entity designated by the Holders of a majority in principal amount of the Bonds then Outstanding and to assign to such person or entity (subject, however, to the trusts created pursuant to the Indenture) the beneficial interest under any Deed of Trust which secures the obligations under the Loan Agreement, for the limited purpose of conducting a foreclosure of such Deed of Trust and receiving and holding any title to real property obtained as a result of such foreclosure.

Limitation on Bondholders' Right to Sue.

(a) Except as provided in (b) below, no Holder of any 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 (1) such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default thereunder; (2) 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 before granted or to institute such action, suit or proceeding in its own name; (3) said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Holders of a majority in aggregate principal amount of all the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are thereby 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 of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Holders of the Outstanding Bonds.

(b) The right of any Holder of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond out of Revenues and the funds pledged in 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 or any provisions of the Indenture.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default under the Indenture, and after the curing of all Events of Default under the Indenture which may have occurred, 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 for the following:

(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.

(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.

(d) 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 Loan Agreements shall not be construed as a duty or obligation under the Indenture.

(e) Any Trustee appointed under the provisions of the Indenture shall negotiate in good faith and enter into an intercreditor agreement with the Borrower and others, as necessary, to secure or give effect to a parity Gross Revenue pledge or other lien on real property collateral. Such intercreditor agreement shall contain terms that do not materially, adversely affect the security for the Bonds and the covenants under the Loan Agreement (provided that the grant of such parity or other priority security interest in accordance with the requirements of the Loan Agreement shall not, in itself, be deemed to have such effect) and the Trustee may accept an Opinion of Bond Counsel to such effect as evidence thereof.

Right of Trustee to Rely upon Documents, Etc. Except as otherwise provided in the Indenture:

(a) The Trustee may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, direction, demand, election or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any notice, request, direction, election, order or demand of the Authority mentioned in the Indenture shall be deemed to be sufficiently evidenced by an instrument signed in the name of the Authority by an Authorized Authority Representative, and any resolution of the Authority shall be evidenced to the Trustee by a certified resolution;

(c) The Trustee may consult with counsel of its selection (who may include its own counsel or counsel for the Authority or Bond Counsel) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel;

(d) Whenever in the administration of the trusts of the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) 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 or any Loan Default Event or any other default under any document related to the Bonds unless it shall have actual knowledge of such Event of Default;

(g) Before taking any action under the provisions of the Indenture relating to events of default, the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur under the Indenture;

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

Moneys Received by Trustee to Be Held in Trust. Subject to the provisions of the Indenture relating to defeasance, all moneys received by the Trustee shall, until used or applied as provided in the Indenture, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or as otherwise provided therein. Except to the extent

provided otherwise therein, any interest allowed on any such moneys shall be deposited in the fund to which such moneys are credited.

Trustee Not Responsible for Recitals. The Trustee assumes no responsibility for the correctness of the recitals contained in the Indenture and in the Bonds except for the Certificate of Authentication thereon. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of the Bonds. The Trustee shall not be accountable for the use or application by the Authority of any of the Bonds authenticated or delivered under the Indenture or of the proceeds of such Bonds except to the extent specifically provided in the Indenture.

Right of Trustee to Acquire Bonds. The Trustee, and its officers and directors, may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the Authority in the manner and to the same extent and with like effect as though it were not Trustee.

Compensation and Indemnification of Trustee. The Trustee shall be entitled to reasonable compensation for all services rendered by the Trustee in the execution of the trusts created and in the exercise and performance of any of the powers and duties under the Indenture of the Trustee, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Loan Agreement requires the Borrower to pay or reimburse the Trustee, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of the Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. If any property, other than cash, shall at any time be held by the Trustee subject to the Indenture as security for the Bonds, the Trustee, if and to the extent authorized by a receivership, bankruptcy or other court of competent jurisdiction or by the instrument subjecting such property to the provisions of the Indenture as such security for the Bonds, shall be entitled (but not required) to make advances for the purpose of preserving such property or of discharging tax liens or other prior liens or encumbrances thereon. The Loan Agreement requires the Borrower to provide certain indemnification to the Trustee. Notwithstanding the foregoing, prior to seeking indemnity the Trustee shall make timely payments of principal of and interest on the Bonds with moneys on deposit in the Bond Fund as provided therein, and shall effect the redemption of Bonds and accelerate the payment of principal on the Bonds without seeking indemnification from the Borrower or any Bondholder.

When the Trustee incurs expenses or renders services in connection with an Event of Default or a Loan Default Event, such expenses (including the reasonable charges and expenses of its counsel and agents) and the compensation for such services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law. The provisions of the Indenture shall survive the termination of the Indenture and the resignation or removal of the Trustee.

Qualifications of Trustee. There shall at all times be a trustee under the Indenture which shall be a corporation or banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), subject to supervision or examination by federal or state authority. 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 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, 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. The Trustee may at any time resign by giving thirty (30) days written notice to the Authority and the Borrower, 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 each Rating Agency. Upon receiving such notice of resignation, the Authority, with the advice and consent of the Borrowers shall promptly appoint a successor Trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within forty-five (45) days after the giving of such notice of resignation by the

resigning Trustee, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, or any Bondholder who has been a bona fide Holder for at least six 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.

In case at any time either of the following shall occur:

(a) the Trustee shall cease to be eligible and shall fail to resign after written request therefor by the Authority or by any Bondholder who has been a bona fide Holder for at least six months, or

(b) 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, appoint a successor Trustee by an instrument in writing, or any Bondholder who has been a bona fide Holder for at least six 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.

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 appoint a successor Trustee, by an instrument or concurrent instruments in writing signed by the Authority or such Bondholders, as the case may be.

Any resignation or removal of the Trustee, and appointment of a successor Trustee, shall become effective only upon acceptance of appointment by the successor Trustee.

Acceptance of Trust by Successor Trustee. Any successor Trustee appointed shall execute, acknowledge and deliver to the Authority, the Borrower and to its predecessor Trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Indenture, with like effect as if originally named as Trustee therein; but, nevertheless, on the 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 therein expressed, 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.

No successor Trustee shall accept appointment unless at the time of such acceptance successor trustee shall be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee, the successor Trustee shall give the Bondholders and the Rating Agency notice of the succession of such Trustee to the trusts under the Indenture.

Tax Certificate. The Trustee covenants and agrees that it will comply with all written instructions of the Borrower given in accordance with the Tax Certificate and will take any and all action as may be necessary in accordance with such written instructions. With respect to the Tax Certificate, the Trustee is not required to act without direction from the Borrower. The Trustee acknowledges receipt of the Tax

Certificate and acknowledges that the provisions of the Tax Certificate are incorporated by reference as provided in the Indenture. The Trustee shall not be accountable for the use by the Borrower of the proceeds of the Bonds.

Parity Debt. Notwithstanding any provision of the Indenture to the contrary, the Trustee shall hold (i) the Gross Revenues of the Borrower in trust pro rata for the benefit of the owners of the Bonds and any other Parity Debt of the Borrower, and (ii) the Pledged Property of such Borrower in trust for all such owners in the priorities as set forth in the Loan Agreement. If there shall be one or more trustees maintained as the trustee with respect to the Bonds and other Parity Debt of the Borrower, the Trustee shall enter into an intercreditor agreement, satisfactory to the Borrower and the Authority and in accordance with the Indenture, with such other trustee(s) to achieve the same effect.

Authorizations with Respect to Financing Statements, etc. The Trustee may at any time and shall from time to time file in any filing office in any UCC jurisdiction any initial financing statements and amendments thereto that (i) indicate the Bondholders' interests in applicable Gross Revenues and in the Pledged Property subject to the Deeds of Trust, and (ii) contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including (A) whether the applicable Borrower is an organization, the type of organization and any organization identification number issued to the Borrower, and (B) in the case of a financing statement filed as a fixture filing or indicating any Gross Revenues or Deed of Trust as extracted collateral or timber to be cut, a sufficient description of the real property to which such Gross Revenues or Deed of Trust relates. In accordance with the Loan Agreement, the Borrower will furnish any such information to the Trustee promptly upon request. Further, in accordance with the Loan Agreement, the Trustee is authorized, to the extent permitted by applicable law, to file any such financing statement, amendment or continuation statement, without the signatures of the Borrower.

Further Assurances; Pledge of Instruments. At any time and from time to time, upon the written request of the Trustee, and at the sole expense of the Borrower, in accordance with the Loan Agreement, the Borrower shall execute and deliver any and all such further instruments and documents and take such further action as the Trustee may reasonably deem desirable to obtain the full benefits of the Loan Agreement and of the rights and powers therein granted, including, (a) using its best efforts to secure all consents and approvals necessary or appropriate for the grant of a security interest to the Trustee in any contract or license held by the Borrower or in which the Borrower has any rights not heretofore assigned, (b) filing any financing statements, amendments or continuation statements under the UCC with respect to the security interests granted thereby and by the Loan Agreement, (c) transferring, if applicable, Gross Revenues or Deeds of Trust to the Trustee's possession (if a security interest can be perfected and free from an adverse claim only by possession), (d) placing the interest of the Trustee as lienholder on the certificate of title (or other evidence of ownership) of any vehicle owned by the Borrower or in or with respect to which the Borrower holds a beneficial interest, (e) using its best efforts to obtain waivers of Liens from landlords and mortgagees as required pursuant to the Loan Agreement, and (f) using its best efforts to assist the Trustee in obtaining control under the UCC with respect to Gross Revenues consisting of Deposit Accounts, Investment Property, Letter of Credit Rights and Electronic Chattel Paper. The Borrower, in accordance with the Loan Agreement, authorizes the Trustee, to the extent permitted by applicable law, to file any such financing statement, amendment or continuation statement (including consignment filings) without the signatures of the Borrower.

Modification of Indenture

Modification Without Consent of Bondholders. Subject to the conditions and restrictions in the Indenture, the Authority and the Trustee, from time to time and at any time, may enter into an Indenture or Supplemental Indentures, which indenture or indentures thereafter shall form a part hereof, including, without limitation, for one or more of the following purposes, provided that the Authority and the Trustee shall have received the written consent of the Borrower and an Opinion of Bond Counsel to the effect that such amendment or modification is authorized or permitted by the Indenture, the Act and other applicable law and complies with their respective terms, will not cause interest on the Bonds to be included in the gross income of the Holder thereof for federal income tax purposes and that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds:

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

(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 in regard to such matters or questions arising under the Indenture as the Authority may deem necessary or desirable and not inconsistent with the Indenture;

(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, as amended, 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, as amended, or similar federal statute;

(d) in connection with an amendment of the Loan Agreement for the purpose of conforming the terms, conditions and covenants of the Indenture to the corresponding or related provisions of such amended Loan Agreement;

(e) to change the Loan Agreement in accordance with the provisions of the Loan Agreement and of the Tax Certificate; or

(f) any other purpose, other than those purposes specified in the Indenture.

Any Supplemental Indenture authorized by the Indenture may be executed by the Authority and the Trustee without the consent of the Holders of any of the Bonds at the time Outstanding, notwithstanding any of the other provisions of the Indenture, but 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.

Modification With Consent of Bondholders. With the written consent of the Borrower and the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, the Authority and the Trustee may from time to time and at any time, with an Opinion of Bond Counsel to the effect that such amendment or modification will not cause interest on the Bonds to be included in the gross income of the Holder thereof for federal income tax purposes, enter into an Indenture or Supplemental 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; provided, however, that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bonds 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 or (2) reduce the aforesaid percentage of Holders of Bonds whose consent is required for the execution of such Supplemental Indentures or extend the time of payment or permit the creation of any lien on the Revenues or the funds pledged therein prior to or on a parity with the lien of the Indenture or deprive the Holders of the Bonds of the lien created by the Indenture upon the Revenues or the funds pledged therein, without the consent of the Borrower and the Holders of all the Bonds then Outstanding. Upon receipt by the Trustee of a Certificate

of the Authority authorizing the execution of any such Supplemental Indenture, and upon the filing with the Trustee of evidence of the consent of the Borrower or the Bondholders, as aforesaid, the Trustee shall join with the Authority in the execution of such Supplemental Indenture unless such Supplemental Indenture 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.

It shall not be necessary for the consent of the Borrower or the Bondholders to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, the Trustee shall cause to be mailed a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Borrower and the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee. 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.

The Trustee shall mail an executed copy of such Supplemental Indenture and any amendment of the Loan Agreement to the Borrower and each Rating Agency then rating any of the Bonds promptly after execution by the Authority, the Trustee, and in the case of the Loan Agreement, the Borrower.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture, the Indenture shall be and shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Holders of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be part of the terms and conditions of the Indenture for any and all purposes.

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;

and if all other sums payable under the Indenture, including Additional Payments shall be paid and discharged, 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 Borrower, the right to call the Bonds for optional redemption prior to maturity shall continue to apply to such Bonds (or portions thereof). Thereupon the Trustee shall, upon Written Request of the Authority, and upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel, stating that in the opinion of the signer 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 each Rating Agency. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee and the Authority to

charge and be reimbursed by the Borrower for any expenditures which they may thereafter incur in connection therewith.

Discharge of Liability of Particular Bonds. Any Bond, or any portion thereof such that the portion that is not considered paid in accordance with the Indenture 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 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) lawful money of the United States of America sufficient to make such payment or (2) nonprepayable, noncallable Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without reinvestment, the availability of sufficient moneys, to make such payment, (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 in the Indenture provided 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 and the Authority 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 (by the terms of the Indenture or a Written Request of the Authority) to apply such moneys and/or Government Obligations to the payment of the principal 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 money and/or Government Obligations; and (f) the Authority and the Trustee shall have received an Accountant's Certificate verifying that the moneys and Government Obligations so deposited, together with the interest earnings thereon (without reinvestment) will be sufficient to pay when due the principal 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.

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. 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 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 Borrowers, the Authority and the Trustee, in respect of the amount 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

Liability of Authority Limited to Revenues. The Borrower shall be solely responsible for the payment of the Bonds. Neither the State nor the Authority shall be obligated to pay the Bonds or the interest or premium if any, thereon except from Revenues provided by the Borrower, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof shall be pledged to the

payment of the principal of, or premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

Waiver of Personal Liability. No member, officer, agent or employee of the Authority, of the State or any department, board or agency of the State shall be individually or personally liable for the payment of the principal of, or premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; 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.

THE LOAN AGREEMENT

Certain provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Loan Agreement.

Payment of Bonds

The Borrower covenants and agrees to pay or cause to be paid to the Trustee, for the account of the Authority, all sums necessary for the payment of the debt service on the Borrower's Bonds, as follows (the "Base Loan Payments"):

(a) (1) By 10:30 a.m., Pacific time, on the day which is five Business Days prior to each Interest Payment Date and principal 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 the Loan Agreement, a sum equal to the aggregate amount payable on such date as principal (whether at maturity, by redemption or by acceleration as provided in the Indenture) of and premium, if any, and interest on the Bonds payable on the next interest payment date.

(2) Any amount at the time held by the Trustee in the Bond Fund for the payment of debt service on the Bonds shall be credited against the aforesaid Base Loan Payments then required to be met by the Borrower, to the extent such amount is in excess of the amount required for payment of (i) any Bonds theretofore matured or called for redemption and (ii) interest accrued to the date of redemption or maturity of any Bonds, in all cases where such Bonds have not been presented for payment.

(3) Any amount at the time held by the Trustee in any special fund established in connection with any refunding which amount is available and designated for payment of debt service on the Bonds on such Interest Payment Date may also, at the election of the Borrower, be credited against such Base Loan Payments.

(b) If on any Interest Payment Date or principal payment date the balance in the Bond Fund is insufficient or unavailable to make required payments of principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture), premium, if any, and interest due on the Bonds on such date, the Borrower shall forthwith pay any such deficiency to the Trustee for deposit in the Bond Fund. If amounts on deposit in the Bond Reserve Fund are drawn upon in accordance with the Indenture or the amount on deposit therein is found to be less than the Bond Reserve Requirement when valued pursuant to the Indenture, the Borrower shall pay to the Trustee for deposit in the Bond Reserve Fund such amounts as may be necessary to make up any deficiency in the amounts and at the times specified in the Indenture.

(c) The Borrower acknowledges that the Trustee shall give notice:

(1) to the Borrower in accordance with the Indenture at least ten Business Days before each Interest Payment Date of the amount, if any, credited or to be credited to the Bond Fund by such next Interest Payment Date and the amount of the Base Loan Payment then due from the Borrower; provided, however, that any failure by the Trustee to so notify the Borrower shall not affect the Borrower's obligation to make any Base Loan Payment in a timely manner; and

(2) to the Borrower and the Authority in accordance with the Indenture if the Borrower fails to make any payment required under the Loan Agreement by the due date, such notice to be given by telephone or facsimile 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"):

(a) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated thereby (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;

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

(c) Annual fees and reasonable expenses of the Authority or any agency of the State selected by the Authority to act on its behalf in connection with the Loan Agreement, the Bonds, the Indenture, the Deeds of Trust, the Escrow Agreement or any other documents contemplated thereby, including any and all expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds, or in connection with the supervision and inspection of the Borrower and its operations, or otherwise in connection with the administration of the Loan Agreement, the Bonds, the Deeds of Trust, the Escrow Agreement, or the Indenture; and

(d) Such amounts as may be necessary to satisfy the rebate requirements in accordance with the Tax Certificate.

Unconditional Obligation

The obligations of the Borrower to make or cause to be made the Base Loan Payments and Additional Payments and to perform and observe the other agreements on its part contained in the Loan Agreement shall be absolute and unconditional general obligations of the Borrower, payable from the gross revenues of the Borrower or any other legally available source of funds, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Authority or the Trustee, and during the term of the Loan Agreement, the Borrower shall pay absolutely the Base Loan Payments and Additional Payments and all other payments required under the Loan Agreement, free of any deductions, and without abatement, diminution or setoff. Until such time as the principal of and premium, if any, and interest on all Bonds shall have been fully paid (or provision for the payment thereof shall have been made as provided in the Indenture), the Borrower (i) will not suspend or discontinue any Base Loan Payments or Additional Payments, (ii) will perform and observe all of its other agreements contained in the Loan Agreement with respect to the Bonds, the Facilities and the Project; and (iii) will not terminate the Loan Agreement for any cause, including, without limiting the

generality of the foregoing, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of all or any part of the Project or the Facilities, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. The Loan Agreement shall be deemed and construed to be a "net contract," and the Borrower shall pay absolutely net the Base Loan Payments, Additional Payments and all other payments required under the Loan Agreement, free of any deductions, without abatement, diminution or set off other than those expressly provided in the Loan Agreement.

Prepayments

The Borrower may at any time prepay all or any part of the Base Loan Payments payable under the Loan Agreement, 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 Optional Redemption Account within the Bond 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 in accordance with the Indenture, used for the redemption of Outstanding Bonds of such maturities 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 of the Indenture and the notice provisions of the Indenture. Notwithstanding any such prepayment, the Borrower shall not be relieved of its obligations under the Loan 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 defeasance provisions of the Indenture).

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 Bond Fund established pursuant to the Indenture, 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 pursuant to a Request of the Borrower.

In the event any portion of the Pledged Property is (i) taken from the Borrower by eminent domain, or (ii) damaged or destroyed, the Borrower shall transfer to the Trustee for deposit in the Bond Fund, and the Trustee shall apply, the Borrower's allocable share of the proceeds of any condemnation award, or insurance received as a result of such taking or casualty, to the repayment of Base Loan Payments and to the redemption of Bonds as provided in the Indenture; provided, that, if the Borrower is not in default in the payment of any Base Loan Payments or Additional Payments, the Borrower need not transfer to the Trustee, and the Trustee need not apply, the amount of any such proceeds if (A) the Borrower delivers a Certificate of the Borrower to the Trustee to the effect that (1) the proceeds of such insurance or condemnation award, together with other moneys on hand and available to the Borrower for such purpose are sufficient to repair or replace the damaged, destroyed or condemned portion of the Pledged Property, (2) the Borrower will apply such moneys promptly to the replacement or repair of such portion of the Pledged Property and (3) during the period prior to completion of such repair or replacement, the Borrower's ability to generate Gross Revenues will not be materially adversely affected or (b) all of the following conditions are met:

(a) The Borrower obtains an appraisal showing that the value of the Pledged Property then subject to each Deed of Trust after such condemnation or casualty is at least 100% of the aggregate Outstanding principal amount of the aggregate Outstanding principal amount of the Bonds and any Parity Debt, less the amount credited to any permitted reserve;

(b) The Borrower obtains an Opinion of Bond Counsel, addressed to the Trustee and the Authority, to the effect that the failure to redeem the Bonds or any other Parity Debt and the acquisition of such assets will not, in and of themselves, adversely affect the tax-exempt status of interest on the Bonds; and

(c) The Borrower delivers a Certificate of the Borrower to the Trustee and the Authority indicating that the loss of the portion of the Facilities damaged, destroyed or condemned will not materially adversely affect the operations or financial condition of the Borrower.

Investments

The Borrower, by a Request of the Borrower, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the Indenture, subject to the limitations set forth in the Indenture. The Borrower covenants that it will not direct the Trustee to make any investments, and that the Borrower itself will not make any investments, of the proceeds of the Bonds or any other funds in any way pledged to the security of or reasonably expected to be used to pay the Bonds, that would cause any of the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 103(b)(2) of the Code. The Borrower shall not purchase any obligations of the Authority, pursuant to an arrangement, formal or informal, in an amount related to the amount of the Loan made to the Borrower under the Loan Agreement. Nothing in this paragraph shall prohibit the Borrower from receiving Bonds by gift, bequest or devise or from purchasing Bonds in the secondary market other than pursuant to an arrangement related to the Loan made pursuant to the Loan Agreement.

No Liability of the State or the Authority.

The Borrower shall be solely responsible for the payment of the Bonds. Neither the State nor the Authority shall be obligated to pay the Bonds or the interest or premium thereon except from Revenues provided by the Borrower, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof shall be pledged to the payment of the principal of, the premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. Neither the members of the Authority nor any officer, agent or employee thereof nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

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

The Borrower covenants and agrees that, so long as any of the Bonds are Outstanding, it will maintain its existence as a nonprofit public benefit corporation qualified to do business in the State 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 the Loan Agreement, 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 Borrower is the surviving, resulting or transferee corporation, as the case may be; or if the Borrower is not the surviving, resulting or transferee corporation, as the case may be, the surviving, resulting or transferee corporation (i) qualifies as a "participating college" under the Act; (ii) assumes in writing all of the obligations of the Borrower under the Loan Agreement; (iii) is not, after such transaction, otherwise in default under any provision of the Loan Agreement; and (v) 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.

(2) The Trustee and the Authority shall have received a Certificate and 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.

(3) Another entity may also agree to become a co-obligor and jointly and severally liable with the Borrower (without the necessity of merger, consolidation or transfer of assets) under the Loan Agreement if the foregoing provisions are satisfied. In such event, references in the Loan Agreement to indebtedness of the Borrower shall apply to the combined indebtedness of the Borrower and such other

entity, references to the financial condition or results of operation of the Borrower shall apply to the combined financial condition and results of operation of the Borrower and such other entity, and the Borrower and such other entity shall be considered to be the Borrower for all purposes of the Loan Agreement.

Insurance

So long as any Bonds remain Outstanding, the Borrower will maintain or cause to be maintained with respect to the Facilities, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by private colleges and universities located in the State of a nature similar to that of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance. The insurance shall include (to the extent commercially available and economically practicable in the Borrower's discretion) earthquake and flood insurance in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds, subject to reasonable deductibles. The Borrower shall at all times also maintain worker's compensation insurance as required by the laws of the State. The Borrower shall provide evidence of its insurance coverage to the Authority upon request.

Financial Statements of the Borrower and Reporting of Other Information

The Borrower will furnish the following to the Authority, so long as any Bonds remain Outstanding:

(a) its financial statements as of the end of each of its fiscal years and for the year ended on such date, reported on as to fairness of presentation and conformity with generally accepted accounting principles by an independent public accountant selected by the Borrower, as soon as accepted by its Board of Trustees or the Finance Committee thereof, but in any event within 150 days after the end thereof, and to the Trustee copies of its audited financial statements as the Trustee shall reasonably request;

(b) on such date as the audited financial statements are furnished pursuant to paragraph (a), a Certificate of the Borrower;

(c) as soon as possible and in any event within 30 days after the Borrower knows or has reason to know the PBGC (as that term is defined in the Loan Agreement) or the Borrower has instituted or will institute proceedings under Title IV of ERISA to terminate any ERISA Plan, a certificate of the chief financial officer of the Borrower setting forth details as to such Reportable Event and the action which the Borrower proposes to take with respect thereto, together with a copy of any notice of such Reportable Event which may be required to be filed with the PBGC, or any notice delivered by the PBGC evidencing its intent to institute such proceedings or any notice to the PBGC that any ERISA Plan is to be terminated, as the case may be. For all purposes of this covenant, the Borrower will be deemed to have all knowledge or knowledge of all facts attributable to the ERISA Plan administrator under such Title. The Borrower will furnish the Authority (or cause the ERISA Plan administrator to furnish the Authority) with the annual report for each ERISA Plan covered by Title IV and filed with PBGC not later than 10 days after such report has been filed with the PBGC, to the extent the Borrower is required to file such report;

(d) a copy of any notice from a rating agency to the effect that the rating of any of the unsecured debt of the Borrower will be downgraded or withdrawn;

(e) promptly upon the request of the Authority or the Trustee, such other information regarding the financial position, results of operations, business or prospects of the Borrower as such party may reasonably request from time to time; and

(f) if the Borrower prepares quarterly financial statements, its unaudited financial statements within 45 days of the end of each quarter, to the Authority, but only upon the request of the Authority.

Right of Access to and Inspections of the Facilities

The Borrower agrees that during the term of the Loan Agreement, and, to the extent within its control, for so long as the Borrower owns or operates the Facilities, the Authority and the Trustee and the duly authorized agents of any of them shall have the right (but not the duty) at all reasonable times during normal business hours to enter upon the site of the Facilities to examine and inspect the Facilities; provided, however, that this right is subject to federal and State laws and regulations applicable to the site of the Facilities; and provided further that the Borrower reserves the right to restrict access to the Facilities in accordance with reasonably adopted procedures relating to safety and security. The rights of access and inspection thereby reserved to the Authority and the Trustee, and their respective authorized agents may be exercised only after the party seeking such access shall have given at least one week advance notice and executed release of liability (which release shall not limit any of the Borrower's obligations under the Loan Agreement) or confidentiality agreements if requested by the Borrower in the form then currently used by the Borrower.

Tax Covenants

It is the intention of the parties to the Loan Agreement that interest on the Bonds shall be and remain tax-exempt, and to that end the covenants and agreements of the Authority and the Borrower in the Loan Agreement and the Tax Certificate are for the benefit of the Trustee, the Authority and each and every person who at any time will be a Holder of the Bonds.

Each of the Borrower and the Authority covenants and agrees that it will not directly or indirectly use or permit the use of any proceeds of the Bonds or other funds, or take or omit to take any action that will cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. Each of the Borrower and the Authority further covenants and agrees that it will not direct the Trustee to invest any funds held by it under the Indenture or the Loan Agreement, in such manner as would, or enter into or allow any related person to enter into any arrangement (formal or informal) that would, cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code. To such ends with respect to the Bonds, the Authority and the Borrower will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the Authority or the Borrower is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Loan Agreement or the Indenture, the Authority or the Borrower shall so notify the Trustee in writing.

Without limiting the generality of the foregoing, the Borrower and the Authority agree that the Borrower will pay from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full or defeasance of the Bonds. The Borrower specifically covenants to calculate or cause to be calculated and to pay or cause to be paid for and on behalf of the Authority to the United States at the times and in the amounts determined under the Indenture and the Rebate Requirement as described in the Tax Certificate.

The Authority certifies, represents and agrees that it has not taken, and will not take, any action which will cause interest paid on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code; and the Borrower certifies and represents that it has not taken or, to the extent within its control, permitted to be taken, and the Borrower covenants and agrees that it will not take or, to the extent within its control, permit to be taken any action which will cause the interest on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes pursuant to the provisions of Article XIII of the Tax Reform Act of 1986; provided that neither the Borrower nor the Authority shall have violated these covenants if the interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the financed facilities or a "related person" within the meaning of Section 147(a) of the Code; and provided, further, that none of the covenants and agreements in the Loan Agreement contained shall require either the Borrower or the Authority to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Borrower acknowledges having read the Indenture and agrees to perform all duties imposed on it by the Indenture,

the Loan Agreement and the Tax Certificate. Insofar as the Indenture and the Tax Certificate impose duties and responsibilities on the Borrower, they are specifically incorporated in the Loan Agreement by reference.

Notwithstanding any provision of the Loan Agreement and of the Indenture, if the Borrower shall provide to the Authority and the Trustee an Opinion of Bond Counsel that any specified action required under the Loan Agreement, the Indenture or the Tax Certificate 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 any such requirements, and the covenants under the Loan Agreement shall be deemed to be modified to that extent.

Other Covenants of the Borrower

The Borrower covenants as follows so long as any Bonds are Outstanding:

Maintenance, Operation and Use of the Project and the Facilities. The Borrower will use commercially reasonable 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 adversely affect the tax-exempt status of interest on the Bonds.

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 in connection with any part of the program of any school or department of divinity and will honor all valid restrictions on the uses to which the Project may be subject so long as the Project is owned by the Borrower or any distributee upon dissolution or any voluntary grantee of the Borrower. This covenant shall survive the payment in full of the Bonds.

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 will otherwise meet the covenants and obligations contained in the Loan Agreement and honor all valid restrictions on the uses to which the Facilities may be subject, so long as any Bonds are Outstanding, and the Facilities will be owned or operated by the Borrower or any distributee upon dissolution or any voluntary grantee of the Borrower.

Compliance with Laws. The Borrower agrees that it will at all times comply with, or cause to be complied with, all laws, statutes, rules, regulations, orders and directions of any governmental authority having jurisdiction over the Borrower or its business and it will not commit any violation of any such law, statute, rule, regulation, order, or direction except, in each case, where such noncompliance would not materially and adversely affect the Project and the Bonds, and except where contested in good faith and by proper proceedings.

ERISA. 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 Section 17 hereof 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 ERISA Plan subject to Title IV of ERISA 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 the Loan Agreement.

The Borrower shall:

(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 Loan 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 any time with any provision of the Loan Agreement; and

(c) notify the Trustee and 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 subject to Title IV of ERISA and, in any event, at least five days prior to any notification of such material Reportable Event given to the PBGC 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 to the contrary in the Loan Agreement, 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 the above paragraph, 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.

Taxes, Assessments, Other Governmental Charges and Utility Charges. For so long as the Facilities are in operation, the Borrower agrees that as between the Authority and the Borrower, the Borrower will pay or cause to be paid during the term of the Loan Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Facilities or any part thereof, including any taxes levied against the Facilities, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Facilities and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Facilities, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower, to the extent described above, shall be obligated under the Loan Agreement to pay only such installments as are required to be paid during the term of the Loan Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Facilities or any part thereof will be subject to loss or forfeiture.

Notice of Event of Default. The Borrower will furnish, as soon as practicable and in any event within ten days after it has knowledge thereof, to the Authority and the Trustee notice of any event which constitutes, or which with the giving of notice or the passage of time or both would constitute, an event of default under the Loan Agreement, which notice shall set forth the nature of such event and the action which the Borrower proposes to take with respect thereto.

Deeds of Trust. The Borrower covenants to execute and deliver the Deeds of Trust on the date of the initial issuance of the Bonds, as security for its obligations to the Authority under the Loan

Agreement. During the term of the Loan Agreement, the Borrower shall not sell or otherwise encumber or alienate the Pledged Property, except for Permitted Encumbrances, without the prior written consent of the Authority or except as otherwise permitted in the Loan Agreement or in the Deeds of Trust.

Continuing Disclosure. So long as any of the Bonds are Outstanding, the Borrower covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Loan Agreement and the Trustee shall have no right to accelerate any of the installments of the Base Loan Payments or principal and interest on the Borrower's Bonds as a result thereof; however, the Trustee at the written request of Wedbush Securities Inc., or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds shall (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expense of its counsel and agents and additional fees and charges of the Trustee) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with such obligations. For purposes of this paragraph, "Beneficial Owner" means any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Qualification in California. The Borrower agrees that throughout the term of the Loan Agreement it, or any successor or assignee as permitted by the Loan Agreement, will be qualified to do business in the State.

Accreditation. The Borrower will maintain its accreditation by WASC, or its respective successors, as bodies that accredit schools like the Borrower or, if none, such other accredited body or bodies as are permitted for by the Act and the regulations promulgated thereunder at such time. The Borrower covenants to provide to the Authority, within 30 days of receipt thereof, copies of any action letter sent to the Borrower by each such accrediting body following its review of the report of each team visiting the Borrower's campus, which action letter apprises the Borrower that such accrediting body is issuing a warning to the Borrower or placing the Borrower on probation.

Compliance with the Provisions of the Act and the United States and California Constitution Relating to Religion. The Borrower covenants that it will not restrict any entry on racial grounds. 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 of all terms of the Act and the Constitution and laws of the United States and the State. This covenant shall survive the payment in full or the defeasance of the Bonds.

Enrollment. The Borrower covenants to maintain, so long as any Bonds are Outstanding, a full-time equivalent enrollment in each academic year of not less than 900 (combined graduate and undergraduate students). For purposes of this covenant, the term "full-time equivalent enrollment" shall be the full-time equivalent enrollment for accounting and other purposes of the Borrower in accordance with the then generally accepted practices for colleges and universities.

Liquidity. The Borrower covenants that the ratio of the market value of Liquid Assets to Long-Term Indebtedness at fiscal year-end will not be less than .15 times as evidenced by its audited financial statements.

For purposes of this covenant, the term "Long-Term Indebtedness" shall mean the following:

(1) all indebtedness and other obligations of the Borrower for borrowed money or for the payment of rent pursuant to any lease of or agreement to lease real property having an original term of more than one year, if such lease or agreement is required to be capitalized in accordance with generally accepted accounting principles;

(2) all indebtedness and other obligations of the sort generally described in clause (1) of this definition of all other persons the payment or collection of which the Borrower has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or in respect of which such person is liable contingently or otherwise, including, without limitation, liable by way of an agreement to purchase, to provide funds for payment, to supply funds to or otherwise invest in such other person, or otherwise to assure a creditor against loss; and

(3) all indebtedness and other obligations of the sort generally described in clause (1) of this definition of all other persons (or for which the holder of such indebtedness has a then existing right, contingent or otherwise) to be secured by any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance upon or in property owned by the Borrower, whether or not the Borrower has assumed or become liable for the payment of such indebtedness or obligation;

provided that the term "Long-Term Indebtedness" shall not include:

(1) indebtedness having an original stated maturity less than or equal to one year and not renewable or extendable at the option of the debtor for a term greater than one year beyond the date of original issuance or incurrence; provided, that if such Indebtedness is so extendable or renewable at the option of the debtor, it nonetheless shall not be "Long-Term Indebtedness" if it is required by the applicable governing documents that such Indebtedness not be outstanding for a period of at least 30 consecutive calendar days in each fiscal or calendar year; and

(2) student loan funds notes payable.

For purposes of this covenant, the term "Liquid Assets" means cash, cash equivalents (unrestricted), stocks, bonds, debentures and other debt obligations or equity instruments which are regularly traded on a nationally recognized exchange, including, but not limited to, the New York Stock Exchange, the American Stock Exchange, Over-the Counter and NASDAQ, or interests in funds which invest only in the foregoing; provided that the term "Liquid Assets" shall not include any permanently restricted assets.

Debt Service Coverage. The Borrower covenants that the ratio of its Revenues at fiscal year-end to the total principal, interest or other payments with respect to its Long-Term Indebtedness (as defined above) in any one year shall be equal to or greater than 1.10 times.

For purposes of this covenant, the term "Revenues" shall mean the excess of Unrestricted Revenues over Expenses, plus interest expense and plus depreciation as determined by reference to generally accepted accounting principles for colleges and universities, but excluding in any event any gains or losses on any extinguishment of debt.

The Borrower further covenants and agrees that if this computation indicates that the Debt Service Coverage Ratio for such Fiscal Year shall be less than the required amount, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Borrower or the methods of operation of the Borrower which will result in producing the required Debt Service Coverage Ratio in the next Fiscal Year. Copies of the recommendations of the Management Consultant shall be filed with the Trustee and the Authority. The Borrower shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of its Board of Trustees that such recommendations, in whole or in part, are in the best interests of the Borrower, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations. If the Borrower determines not to comply with such recommendations, it shall file with the Trustee and Authority a certified copy of a resolution of the Board of Trustees of the Borrower determining not to comply with such recommendations and stating in reasonable detail the reasons therefor. In the event that the Borrower shall fail to comply with the recommendations of the Management Consultant, subject to the applicable requirements or restrictions imposed by law and to the determination of the Board of Trustees that such recommendations are not in the best interests of the Borrower, the Authority may or may direct the Trustee to, in addition to the rights and remedies elsewhere set forth the Loan Agreement, institute and prosecute an action or proceeding in any court or

before any board or commission having jurisdiction to compel the Borrower to comply with the recommendations and requirements of this subsection. If the Borrower complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Borrower will be considered to have complied with the covenants in the Loan Agreement for such Fiscal Year notwithstanding that the Debt Service Coverage Ratio shall be less than the amount required under this Section; provided, that this sentence shall not be construed as in any way excusing the Borrower from taking any action or performing any duty required under the Loan Agreement or be construed as constituting a waiver of any other Loan Default Event.

Gross Revenue Pledge. The Borrower agrees that, so long as any of the Bonds remain Outstanding or any Additional Payments remain unpaid, the Gross Revenues of the Borrower shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Borrower shall establish and maintain, subject to the provisions of the following paragraph, in an account or accounts at such banking institution or institutions as the Borrower shall from time to time designate, in writing to the Authority and the Trustee for such purpose (called the "Depository Bank(s)"). Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Borrower pledges, and to the extent permitted by law grants, a security interest to the Authority (which the Authority has assigned to the Trustee and the trustees of other issues of bonds of the Authority issued in connection with Additional Agreements for the benefit of the Bondholders) in the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Base Loan Payments, Additional Payments and Additional Agreement Payments and the performance by the Borrower of its other obligations under the Loan Agreement and each Additional Agreement. The Borrower shall execute and cause to be filed Uniform Commercial Code financing statements, shall execute and obtain from each Depository Bank a control agreement with respect to the security interest granted under the Loan Agreement and shall execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Trustee or the trustees of other issues of bonds of the Authority issued in connection with Additional Agreements or the Authority in order to perfect or maintain as perfected such security interest or give public notice thereof. If at any time when there are any of its Bonds Outstanding, the Borrower shall establish a new depository account with a Depository Bank constituting a part of the Gross Revenue Fund, the Borrower covenants and agrees to notify the Trustee thereof and to cooperate with the Trustee in effecting a lien on such account, including, without limitation, by means of executing the necessary UCC-1 financing statements, control agreements and any notices and acknowledgments with respect thereto.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Borrower at any time for any lawful purpose, except as provided in the Loan Agreement. If the Borrower is delinquent for more than one Business Day in the payment or required prepayment of any Base Loan Payment or any Additional Agreement Payment, then the Trustee shall notify the Borrower and the Depository Bank(s) of such delinquency, and, unless such Base Loan Payment or Additional Agreement Payment is paid within 10 days after receipt of such notice, the Borrower shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the Authority. The Gross Revenue Fund shall remain in the name and to the credit of the Trustee, until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all Base Loan Payments and Additional Agreement Payments in default and until all other events of default under the Loan Agreement or any Additional Agreement shall have been made good or cured to its satisfaction or provision deemed by it to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Borrower. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw or cause to be used and withdrawn from time to time amounts in said fund, to make Base Loan Payments, Additional Agreement Payments, Additional Payments as defined in the Loan Agreement or in any Additional Agreement, and other payments required of the Borrower under the Loan Agreement or any Additional Agreement, as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment thereof, ratably, according to the amounts due, without any discrimination or preference. During any period when the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Borrower shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) said trustee so directs for the payment of current or past due operating expenses of the Borrower; provided,

however, that the Borrower shall be entitled to direct the disbursement to Borrower of any amounts in the Gross Revenue Fund which do not constitute Gross Revenues. The Borrower shall execute and deliver all instruments as may be required to implement this provision. The Borrower further agrees that a failure to comply with the terms of this provision shall cause irreparable harm to the Authority and the holders of the Bonds, and shall entitle the Authority, with or without notice to the Borrower, to take immediate action to compel the specific performance of the obligations of the Borrower as provided in this provision. Notwithstanding the assignment by the Authority of its security interest in the Gross Revenues to the Trustee and the trustees of other issues of bonds of the Authority issued in connection with Additional Agreements, the Authority shall be the agent of the Trustee and such other trustees to determine or cause to be determined and to direct or cause to be directed the application of the amounts in the Gross Revenue Fund to the payment of Base Loan Payments, Additional Agreement Payments, Additional Payments under the Loan Agreement or in any Additional Agreement, and other payments required of the Borrower under the Loan Agreement or any Additional Agreement and may not be removed from such position without the unanimous written consent of the Trustee and such other trustees. The Trustee shall be entitled to take immediate action to compel the specific performance of the obligations set out in the Loan Agreement with respect to the pledge of Gross Revenues and the Gross Revenue Fund, and such provisions may not be waived, amended or otherwise modified by the Authority without the prior written consent of the Trustee and the trustees of other issues of bonds of the Authority issued in connection with Additional Agreements.

The Borrower covenants and agrees that it will not encumber any part of the Gross Revenues except to secure Additional Agreements.

Limitation on Additional Debt. The Borrower covenants and agrees that it will not create, incur, assume or otherwise become or remain obligated in respect of, or permit to be outstanding, any Debt, unless: (i) the Debt Service Coverage Ratio calculated for the most recent preceding fiscal year of the Borrower, including the debt service for any proposed additional Debt, is equal to or greater than 125%; and (ii) the ratio of Borrower Maximum Annual Debt Service, including the Borrower Maximum Annual Debt Service on any proposed additional Debt, to Gross Revenues, shall be equal to or less than 10%.

For purposes of this covenant, the following terms shall have the meaning set forth in the Loan Agreement:

“Borrower Maximum Annual Debt Service” shall mean, for any fiscal year of the Borrower, the maximum sum obtained by totaling the following: (i) the total amount of principal coming due on the Borrower’s Debt in that fiscal year, including scheduled amortization of principal, sinking fund payments, or other redemption, plus (ii) interest coming due on the Borrower’s Debt in that fiscal year. For purposes of this calculation variable rate Debt shall be assumed to bear interest at a rate equal to the greater of the average interest rate borne by that Debt for the previous twelve consecutive calendar months plus 2%, or 5% per annum.

“Debt” means (i) indebtedness for borrowed money or for the deferred purchase price of property or services; (ii) obligations as lessee under leases which are or should be, in accordance with generally accepted accounting principles, recorded as capital leases, except those leases that have expired during that fiscal year and are paid in full, and (iii) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (i) or (ii) above.

“Debt Service Coverage Ratio” shall mean, for any period, the ratio whose denominator is the Borrower’s Debt scheduled to be paid during that period and whose numerator is the Borrower’s Gross Revenues for that period minus all expenses for that period other than interest, taxes (if any), depreciation and amortization, all as measured in accordance with generally accepted accounting principles but excluding in any event any gains or losses on any extinguishment of debt (and multiplied times 100, to be expressed as a percent).

Borrower's Outstanding Parity Debt.

"Additional Agreement" shall mean any agreement between the Authority and the Borrower providing for the lending of proceeds of bonds of the Authority to the Borrower provided that, until such time as the Series 2001 Bonds are paid or defeased in accordance with their terms, upon issuance, any such bonds of the Authority shall be rated not less than "Baa3" by Moody's Investors Service. Additional Agreements constitute Parity Debt as that term is used in the Indenture. As of September 1, 2012, in addition to the Loan Agreement, the Additional Agreements outstanding include the Loan Agreement dated as of August 1, 2001, as amended, between the Borrower and the Authority, the Loan Agreement dated as of May 1, 2005, as amended, between the Borrower and the Authority and the Loan Agreement dated as of February 1, 2007, as amended, between the Borrower and the Authority (together, the "Outstanding Additional Agreements").

"Additional Agreement Payments" shall mean any Base Loan Payments under any Additional Agreement.

Deeds of Trust and Additional Deeds of Trust. With respect to the encumbrance of the Borrower's real property in favor of the Borrower's Bonds, the Borrower agrees to execute and deliver one or more Deeds of Trust with respect to the real property described in the Loan Agreement, as security for its obligations of repayment to the Authority.

At the time of incurrence of any Parity Debt, the Borrower may request from the Authority consent that such Parity Debt be secured by the real property subject to any Deed of Trust on a basis *pari passu* with the Borrower's Bonds. The Authority shall not unreasonably withhold such consent so long as it is provided with evidence (satisfactory to the Authority in its sole discretion) that the appraised value of the real property is at least the amount of the total debt to be secured by such real property. Upon receipt of such consent from the Authority, the parties agree to obtain the substitution and replacement of the Deeds of Trust in favor of one or more deeds of trust to be given by the Borrower in favor of the trustee, as assignee of the Authority, for the benefit of the holders of the Borrower's Bonds, of any previous Parity Debt so secured, and of such Parity Debt or any combination thereof. Any deed of trust substituting or replacing any existing deed of trust shall contain a provision substantially in the form set forth below. Nothing in the Loan Agreement shall be construed to require any substitution or change in the existing Deeds of Trust except at the time of issuance of any such Parity Debt.

The Borrower and the Authority each thereby covenant that for so long as one single trustee shall be maintained as the trustee with respect to the Borrower's Bonds, and any other parity debt, the Gross Revenues shall be held in trust for all such owners pro rata as set forth in the Loan Agreement. If there shall be one or more trustees maintained as the trustee with respect to the Borrower's Bonds, and other Parity Debt, the Trustee shall enter into an intercreditor agreement, satisfactory to the Borrower and the Authority, with such other trustee(s) to achieve the same effect.

Events of Default

Any one of the following which occurs and is continuing shall constitute an "Event of Default" under the Loan Agreement and a Loan Default Event under the Indenture:

(a) The Borrower fails to make any Base Loan Payment or Additional Payment by its due date and, in the case of a failure to make any Additional Payment, such failure continues for two 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 the Loan Agreement other than as referred to in paragraph (a) above for a period of thirty days after written notice specifying such failure and requesting that it be remedied is given to the Borrower by the Authority or the Trustee; 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; or

(c) The Borrower fails to make any payments with respect to Parity Debt by its due date and, in the case of a failure to make any Additional Payment with respect to Parity Debt, such failure continues for two Business Days after such due date; or

(d) The Borrower fails to observe and perform any covenant, condition or agreement on its part to be observed or performed under any loan or similar agreement with respect to Parity Debt other than as referred to in paragraph (c) above for a period of thirty days after written notice specifying such failure and requesting that it be remedied is given to the Borrower by the Authority or the Trustee; provided, however, if the failure stated in the notice is correctable but cannot be corrected within the applicable period and such failure does not result in acceleration of the subject Parity Debt, 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; or

(e) Any of the representations or warranties of the Borrower made in the Loan 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 the Loan Agreement or the issuance of the Bonds was false or incorrect in any material respect when made; or

(f) There is an unexcused default by the Borrower under any agreement or instrument to which it is a party relating to the borrowing of money either (1) in failing to pay any installment of principal or interest in an aggregate amount of \$250,000 or more, which default shall not have been waived or excused within 90 days after the Borrower received notice of such default or (2) as a result of which indebtedness in an amount of \$1,000,000 or more shall have been accelerated and declared to be due and payable prior to its date of maturity; or

(g) 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 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 60 days; or the Borrower makes a general assignment for the benefit of creditors; or

(h) The occurrence of an "event of default" as defined in a Deed of Trust, if any; or

(i) Failure of Borrower to maintain or replenish the amount in its respective Bond Reserve Account to the Borrower's Bond Reserve Requirement.

The provisions of subsection (b) are subject to the limitation that the Borrower shall not be deemed in default with respect to any covenant, condition or agreement to be observed or performed by the Borrower under the Loan Agreement, other than a covenant or agreement to make any payment required to be made by the Borrower thereunder, if and so long as the Borrower is unable to carry out its agreements under the Loan Agreement by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances of the Borrower shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (c), (f) or (g) above.

Remedies on 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 Loan Agreement shall have happened and be continuing, the Authority or the Trustee may take any one or more of the following remedial steps:

(a) The Authority or the Trustee may, at its option, declare all installments of Base Loan Payments payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The Authority or the Trustee may exercise such other remedies that may be available under a Deed of Trust or in respect of the Borrower's pledge of Gross Revenues.

(c) 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 Loan 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 the Loan 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 the Loan 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 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 the Loan 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, it shall not be necessary to give any notice, other than such notice as may be expressly required. The Trustee shall be deemed a third party beneficiary of all covenants and conditions in the Loan Agreement.

The provisions of subsection (a) of this section, however, are subject to the condition that if, at any time after the Base Loan Payments 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 Loan Agreement, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all such Bonds, with interest on such overdue installments of principal as provided therein, and the reasonable fees and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee may, on behalf of the Holders of all the Bonds, rescind and annul such declaration 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.

In case the Trustee or the Authority shall have proceeded to enforce its rights under the Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the

Borrower, the Trustee and the Authority shall be restored respectively to their several positions and rights thereunder, and all rights, remedies and powers of the Borrower, the Trustee and the Authority shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Authority, the Trustee or the Borrower shall not be disturbed by reason of this provision).

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for any property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to the Loan Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its reasonable charges and expenses to the extent permitted by the Indenture. Any receiver, assignee or trustee in bankruptcy or reorganization is authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for reasonable compensation and expenses, including reasonable expenses and fees of counsel incurred by it up to the date of such distribution.

Expenses; Indemnification

The Borrower will pay the reasonable expenses of the Authority and the Trustee, including, but not limited to, Costs of Issuance and all other expenses, including reasonable attorney's fees, reasonably incurred by the Authority and any agency selected by the Authority to act on its behalf (including, without limitation, the Attorney General of the State) and the Trustee by reason of the execution of the Loan Agreement or the offer, sale or delivery of the Bonds and will hold the Authority and the Trustee free and harmless of and from any claims of any kind for such or similar fees and expenses.

In the event the Borrower should default under any of the provisions of the Loan Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under the Loan Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower therein contained, 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.

(c) The Borrower agrees to indemnify and hold harmless the Authority and the Trustee and the officers, directors, employees and agents of each (each an "Authority Indemnified Party" or a "Trustee Indemnified Party") from and against any and all losses, claims, damages, liabilities or expenses of every conceivable kind, character and nature whatsoever, including, but not limited to, losses, claims, damages, liabilities or expenses arising out of, resulting from or in any way connected with (1) the Project or (2) the sale of any Bonds and the carrying out of any of the transactions contemplated by or in connection with the Bonds, the Official Statement (other than the information therein under the headings "THE AUTHORITY" and "LITIGATION" (solely as it relates to the Authority), the Indenture, the Tax Certificate, the Continuing Disclosure Agreement, the Bond Purchase Agreement, the Tax Certificate, the Escrow Agreement, any Deed of Trust or the Loan Agreement, which shall include, but not be limited to the Trustee's acceptance and administration of the trust under the Indenture or the exercise or performance of any of its powers or duties thereunder; provided that such indemnification pursuant to this Section shall not apply to losses, claims, damages, liabilities or expenses resulting because of the negligence or willful misconduct of the Trustee or any Trustee Indemnified Party, or because of the gross negligence or willful misconduct of the Authority or any Authority Indemnified Party. The Borrower further agrees, to the extent permitted by law, to pay or to reimburse such Indemnified Parties for any and all reasonable costs, reasonable attorney's fees, reasonable liabilities or reasonable expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions (other than losses, claims, damages, liabilities, expenses, attorney or other fees, costs or actions resulting because of or relating to the negligence or willful misconduct of the Trustee or any Trustee Indemnified Party, or the gross negligence or willful misconduct of the Authority or any Authority Indemnified Party).

Promptly after receipt by an Indemnified Party of notice of the commencement of any action, such Indemnified Party shall, if a claim in respect thereof is to be made against the Borrower under this Section, notify the Borrower in writing of the commencement thereof. In case any such action shall be brought against any Indemnified Party, and such Indemnified Party shall notify the Borrower of the commencement thereof, the Borrower shall be entitled to participate in and, to the extent that it wishes, to assume the defense thereof, with counsel reasonably satisfactory to such Indemnified Party, and after notice from the Borrower to such Indemnified Party of its election so to assume the defense thereof, the Borrower shall not be liable to such Indemnified Party under this Section for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof other than reasonable costs of any investigation; provided, however, that if (1) the named parties to any action (including any impleaded parties) include the Indemnified Party and the Borrower, and the Indemnified Party reasonably concludes that representation of such Indemnified Party and the Borrower by the same counsel would be inappropriate (whether or not such representation by the same counsel has been proposed) under applicable standards of professional conduct due to actual or potential differing interests between them or (2) the Attorney General has notified the Borrower that it will be assuming the defense of the Authority or any Authority Indemnified Party, the Indemnified Party shall have the right to select separate counsel to assume such legal defense and to otherwise participate in the defense of such action on behalf of the Indemnified Party at the Borrower's expense; provided, further, however, that the Borrower shall not, in connection with any one such action or separate but substantially similar or related actions arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys at any point in time for the Indemnified Party. The Borrower shall not be liable for any settlement of any such action effected without its prior written consent, but if settled with the prior written consent of the Borrower or if there is a final judgment for the plaintiff in any such action for which indemnity is given, the Borrower will indemnify and hold such Indemnified Party harmless from and against any loss or liability by reason of such settlement or judgment to the extent such settlement or judgment is not a result of the gross negligence or willful misconduct of an Authority Indemnified Party or the negligence or willful misconduct of an Trustee Indemnified Party, as the case may be.

THE DEEDS OF TRUST

The Deeds of Trust to be delivered by the Borrower contains various covenants and security provisions, certain of which are briefly summarized below. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of each Deed of Trust.

In order to secure further its obligations under the Loan Agreement, the Borrower will enter into one or more Deeds of Trust, which will be recorded immediately preceding or simultaneously with the delivery of the Bonds. Each Deed of Trust is made by the Borrower, as trustor, to the title insurance company which is the trustee thereunder (the "Deed of Trust Trustee"), in favor of the Authority, as beneficiary, whose interest is assigned by the Authority to the Trustee (the "Beneficiary"). Each Deed of Trust creates a lien upon certain portions of the Borrower's campus or real property assets together with all improvements thereon, subject to Permitted Encumbrances. Each Deed of Trust also contains an absolute and present assignment of rents to the Beneficiary, but provides the Borrower with a conditional permission to collect and use such rents until the occurrence of an event of default thereunder.

Securing Parity Debt

Under the terms of each Deed of Trust, the lien on the Mortgaged Property is provided for the ratable benefit of the Secured Obligations Holders, which include (i) the parties secured under the Indenture for the Bonds, and (ii) the holders of each designation of any Parity Debt now or hereafter existing.

Under each Deed of Trust, "Parity Debt" means indebtedness now existing or hereafter incurred by the Borrower which constitutes permitted indebtedness pursuant to the Loan Agreement and any other applicable agreements by which the Borrower is bound, if designated in writing by the Borrower and the Authority to be secured by the Mortgaged Property on a parity basis pursuant to the applicable Deed of Trust. Such Parity Debt shall be entitled to share in the security of the applicable Deed of Trust upon the delivery to Beneficiary of a copy of such written designation of Parity Debt signed by the Authority and the Borrower.

Releases, Extensions, Modifications and Additional Security

Each Deed of Trust also provides that, without affecting the liability of any person, including the Borrower (other than any person released pursuant thereto), for the payment of the indebtedness secured thereby, and without affecting the lien of each Deed of Trust for the full amount of the indebtedness remaining unpaid upon any property not reconveyed pursuant thereto, Beneficiary and Trustee are respectively authorized and empowered as follows: Beneficiary may, at any time and from time to time, either before or after the expiration of the Loan Agreement, and without notice: (a) accept additional security therefor of any kind, and (b) release any property, real or personal, securing the indebtedness subject to the provisions regarding Substitution of Property in each Deed of Trust. Trustee may, without liability therefor and without notice, at any time and from time to time so long as the lien or charge hereof shall subsist, but only upon the written request of Beneficiary and presentation of the Deeds of Trust: (a) consent to the making of any map or plat of the Land, (b) join in granting any easement thereon or in creating any covenants restricting use or occupancy thereof, (c) reconvey, without warranty, any part of the Mortgaged Property subject to the provisions regarding Substitution of Property in the Deeds of Trust, and (d) join in any extension agreement or in any agreement subordinating the lien or charge thereof.

Substitution of Property

Each Deed of Trust contains provisions under which the Mortgaged Property (or future property substituted for the Mortgaged Property) may be released from such Deed of Trust upon substitution of other real property for all or a portion of the Mortgaged Property, provided: (i) no Event of Default shall have occurred and be continuing under the Loan Agreement, any Parity Debt or Deed of Trust; (ii) the fair market value of the substitute property must be at least equal to the then outstanding principal balance of the Bonds and any Parity Debt; (iii) the substitute mortgaged property must constitute real property or one or more legal parcels in compliance with the California Subdivision Map Act, with permanent legal access to public streets and has adequate parking required under local ordinances; (iv) the new property will be subject only to the lien of the Deed of Trust and to no other lien except Permitted Encumbrances as defined in the Indenture; (v) environmental reviews of the substitute property are completed to the satisfaction of the Beneficiary; (vi) the Borrower pays all costs and expenses of such substitutions; and (vii) the Beneficiary consents to such substitution, which consent shall not be unreasonably withheld.

In lieu of real property, the net proceeds of the sale of Mortgaged Property may be used as a substitute for the Mortgaged Property. The determination of the "fair market value" of the substitute property will be made by an appraiser selected under the procedures set forth in such Deed of Trust. In addition, in order to substitute new property for existing Mortgaged Property under the Deed of Trust, the Borrower must provide title insurance in an amount equal to the amount of the outstanding principal amount of the Bonds and any Parity Debt.

Events of Default

Under the terms of each Deed of Trust, each of the following constitutes an event of default:

(a) If an Event of Default shall occur and be continuing under the Loan Agreement or under any Loan Agreement evidencing Parity Debt, which is not otherwise an Event of Default under such Deed of Trust;

(b) If Borrower shall breach, or be in default of, any of the covenants or provisions contained in the Deed of Trust for a period of 30 days (or such longer period which may be reasonably necessary to cure such default, where Borrower has commenced the cure of such default within such 30 day period and thereafter diligently prosecutes such cure to completion) after written notice specifying such failure and requesting that it be remedied is given to Borrower by the Authority or by the Indenture Trustee or by the holders of Parity Debt, or to the Authority and Indenture Trustee, with a copy sent to Borrower, by the requisite percentage of Bondholders as required by the Indenture;

(c) The assignment by the Borrower of, or any interest in, proceeds of the Loan Agreement or any advance made under the Loan Agreement, other than in accordance with the Loan Agreement;

(d) If the holder of any junior, subordinated or senior mortgage, deed of trust or other lien on the Mortgaged Property, or any part thereof (without implying Beneficiary's consent to any junior, subordinated or senior mortgage, deed of trust or other lien) institutes foreclosure or other proceedings for the enforcement of its remedies thereunder.

Rights and Remedies

Upon the occurrence and continuance of an Event of Default under a Deed of Trust, the Trustee, as assignee of the Authority, shall have the following rights and remedies among others:

(a) Beneficiary shall not be obligated to make any advances under the Loan Agreement and it may enter into and upon the Mortgaged Property and use, operate, manage and control the Mortgaged Property;

(b) Declare the entire unpaid balance of the indebtedness secured by the Deed of Trust immediately due and payable by delivery to the Deed of Trust Trustee a written declaration of default and may also make a demand for sale and written notice of default and of the election to cause the Mortgaged Property to be sold;

(c) After lapse of such time as may be required by law and notice of sale having been given as required by law, Deed of Trustee shall sell the Mortgaged Property at public auction to the highest bidder; and

(d) Exercise any or all rights and remedies provided in the Loan Agreement, the Deed of Trust, in equity or at law.

Distribution of Proceeds

The Deed of Trust Trustee, after making such sale, and upon receipt of the purchase price, shall make, execute and deliver to the purchaser or purchasers its deed or deeds conveying the Mortgaged Property so sold, and shall use the proceeds of sale thereof to pay: FIRSTLY, the costs and expenses of such sale, together with the reasonable expenses of Beneficiary, including the Deed of Trust Trustee's fees and cost of evidence of title in connection with sale and revenue stamps on such Trustee's deed; SECONDLY, on a parity basis, ratably according to the outstanding balances thereof, any other moneys owed by the Borrower under the Loan Agreements then in effect, for application ratably according to the interests of the Secured Obligations Holders and in accordance with the Loan Agreement; THIRDLY, in an amount sufficient, as determined in the sole and absolute discretion of Beneficiary, acting in good faith, to satisfy actual or contingent sums owing pursuant to the Deed of Trust ("Impound Sum"), and, if not actually incurred, to be held by Beneficiary (not in trust, without the accrual of interest thereon and without the obligation to segregate such funds) for a period of seven years from the date of foreclosure, thereafter to be returned to the person or persons legally entitled thereto, upon satisfactory proof of such right; and LASTLY, the balance or surplus, if any, of such proceeds of sale to the person or persons legally entitled thereto, upon satisfactory proof of such right.

The term "Loan Agreements" means, collectively (as the same may be amended from time to time): (i) the Loan Agreement, and (ii) each loan agreement (or similar instrument) relating to any Parity Debt now or hereafter existing.

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and delivered on [Closing Date], by and between CALIFORNIA COLLEGE OF THE ARTS (the "Borrower"), and WILMINGTON TRUST, N.A. (the "Dissemination Agent"), in connection with the delivery of \$11,465,000 California Educational Facilities Authority Revenue Bonds (California College of the Arts), Series 2012 (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of October 1, 2012 (the "Indenture"), by between the California Educational Facilities Authority (the "Issuer") and Wilmington Trust, N.A., as trustee (the "Trustee").

The proceeds of the Bonds are to be used to refinance certain capital improvements for the Borrower and, in particular, to refund, on a current basis, a portion of the Authority's Revenue Bonds (California College of Arts and Crafts), Series 2001, issued for the benefit of the Borrower, (b) fund a reserve fund for the Bonds, and (c) pay a portion of the costs of issuance of the Bonds.

The Borrower and the Dissemination Agent covenant and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this the Disclosure Agreement, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this the Disclosure Agreement:

"*Annual Report*" shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections 3 and 4 of this the Disclosure Agreement.

"*Beneficial Owner*" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean Wilmington Trust, N.A., or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Borrower a written acceptance of such designation. In the absence of such a designation, the Borrower shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"*Listed Events*" shall mean any of the events listed in Section 5(a) or 5(b) of this the Disclosure Agreement.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Borrower for the benefit of the owners and Beneficial Owners of the Bonds and in

order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The Borrower shall, or shall cause the Dissemination Agent to, not later than 150 days after the end of the Borrower's fiscal year (which currently ends on April 30), commencing with the report for the 2011-12 fiscal year, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this the Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this the Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the Borrower's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than six months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (c)) of this Section 3 for providing the Annual Report to EMMA, the Borrower shall provide the Annual Report to the Dissemination Agent (if other than the Borrower). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Borrower.

(d) *Report of Non-Compliance.* If the Borrower is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the Borrower shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Borrower is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3 the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the Borrower, file a report with the Borrower certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this the Disclosure Agreement, stating the dates they were so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the Borrower (or, if consolidated statements are prepared for the Borrower and related entities, such consolidated financial statements) for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the Borrower's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the Borrower, the Annual Report shall also include the following information for the most recent academic or fiscal year, as appropriate, in the form as it appeared in the Official Statement for the Bonds:

- (a) Board of Trustees;
- (b) Principal Executive Officers and Senior Staff;
- (c) Student Applications and Matriculations;
- (d) Financial Aid;
- (e) Enrollment and Degrees; and
- (f) Comprehensive Fees.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Borrower or related public entities, which are available to the public on EMMA. The Borrower shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the Borrower shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The Borrower shall, or shall cause the Dissemination (if not the Borrower) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Defeasances.
- (vi) Rating changes.
- (vii) Tender offers.
- (viii) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (ix) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(b) *Material Reportable Events.* The Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Non-payment related defaults.
- (ii) Modifications to rights of security holders.
- (iii) Bond calls.
- (iv) The release, substitution, or sale of property securing repayment of the securities.
- (v) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (vi) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* Whenever the Borrower obtains knowledge of the occurrence of a Listed Event, the Borrower shall, or shall cause the Dissemination Agent (if not the Borrower) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this the Disclosure Agreement shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Borrower's obligations under this the Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this the Disclosure Agreement and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Borrower, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this the Disclosure Agreement. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the Borrower. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this the Disclosure Agreement and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Borrower shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the Borrower.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the Borrower for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Borrower from time to time and all expenses; legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Borrower, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the Borrower or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the Borrower. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the Borrower to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the Borrower under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this the Disclosure Agreement, the Borrower may amend this the Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Borrower that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this the Disclosure Agreement may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a

change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bondholders in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners.

If this the Disclosure Agreement is amended or any provision of this the Disclosure Agreement is waived, the Borrower shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this the Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this the Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this the Disclosure Agreement. If the Borrower chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this the Disclosure Agreement, the Borrower shall have no obligation under this the Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Borrower to comply with any provision of this the Disclosure Agreement, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under this the Disclosure Agreement. The sole remedy under this the Disclosure Agreement in the event of any failure of the Borrower to comply with this the Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this the Disclosure Agreement, and no implied covenants or obligations shall be read into this the Disclosure Agreement against the Dissemination Agent, and the Borrower agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the Borrower under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This the Disclosure Agreement shall inure solely to the benefit of the Borrower, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the parties hereto have executed this Continuing Disclosure Agreement as of the date first above written.

CALIFORNIA COLLEGE OF THE ARTS

By _____
Authorized Officer

WILMINGTON TRUST, N.A., as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: California Educational Facilities Authority
Name of Obligor: California College of the Arts
Name of Bond Issue: California Educational Facilities Authority Revenue Bonds (California College of the Arts), Series 2012
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that California College of the Arts (the "Obligor") has not provided an Annual Report with respect to the above-named Bond Issue as required by the Continuing Disclosure Agreement dated [Closing Date], furnished by the Obligor in connection with the Bond Issue. The Obligor anticipates that the Annual Report will be filed by _____.

Dated: _____

WILMINGTON TRUST, N.A., as Dissemination Agent

By _____
Title _____

cc: Trustee

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SUMMARY AND APPROVALS

DATE: OCTOBER 23, 2014
APPLICANT: THE CALIFORNIA COLLEGE OF THE ARTS
AMOUNT: UP TO \$26 MILLION OF TAX-EXEMPT OBLIGATIONS
PURPOSE: REFINANCING OF SERIES 2005 & 2007 CEFA BONDS
PRIMARY ACTIVITY: HIGHER EDUCATION
LEGAL STRUCTURE: 501(C)(3) CORPORATION

Background:

The California College of the Arts (the "College"), founded in 1907, has been distinguished by its recognition of the craft art forms as fine arts and for its interdisciplinary approaches to the fields of art, architecture, and design. In design, "West Coast Imagery" is largely the product of designers associated with the College for the last two decades. In architecture, the College has created a new American architecture school, accredited by the National Architectural Accrediting Board. The College maintains fully two campuses located in Oakland and San Francisco, California. The curriculum is designed to educate artists, not just to train specialists; thus, the College also has extensive requirements in humanities and sciences.

The College is located on two campuses, one in Oakland and the other in San Francisco. The Oakland campus is comprised of 17 buildings totaling approximately 200,000 square feet of space on 4.4 acres. The Oakland campus houses the majority of departments in Fine Arts, the Humanities and Sciences (including Writing and Literature, Visual Studies), as well as the First Year Program. Fine Arts departments include: Sculpture, Jewelry/Metal Arts, Glass, Photography, Animation, Drawing and Painting, Ceramics, Printmaking, and Textiles.

The Oakland campus provides housing for approximately 260 students. 185 students are housed on-campus. An additional 75 students are provided housing in 20,000 square feet owned by the college near campus. The college has leased space adjacent to the Oakland campus for an expanded student exhibition program and student counseling offices.

The San Francisco campus is comprised of 6 buildings totaling approximately 250,000 gross square feet. In 2011, the college acquired 102,000 square foot lot adjacent to the main building on the San Francisco campus. This acquisition brings the college's total land holdings in San Francisco to 6.6 acres.

The College's accreditation was reaffirmed in June 2009 by the Western Association of Schools and Colleges. The College is also accredited by the National Association of Schools of Art and Design (NASAD), the National Architectural Accrediting Board (NAAB), and the Council for Interior Design (CIDA).

The College is seeking up to \$26 million in a tax-exempt nonprofit loan (the "Obligation") from First Republic Bank (the "Lender") to refund the series 2005 & 2007 California Educational Facilities Authority bonds. The refunding is being done solely for debt service savings due to a substantially lower interest rate.

The Borrower's application was submitted to CSCDA on June 25, 2014. This is the colleges first financing with CSCDA.

Attachment 1

Benefits:

- Approximately 86% of all students at the College receive some form of financial aid. Total Financial assistance to College students for the current academic year is estimated to be in excess of \$20 million.
- The College has a 403(b) Tax Sheltered Annuity (TSA) and a Salary Reduction Annuity (SRA) Plan for its employees. Plan Participants direct how their contributions and balances are to be invested and reinvested. There are various methods by which benefits may be distributed under the Plan. Employees contribute to the Salary Reduction Annuity (SRA) through written salary reduction agreements. The College's employer contribution is presently 5% of annual compensation as defined under the Plan. In fiscal year 2013, College employer contributions to the Plan totaled \$752,000.

TEFRA Information:

A TEFRA hearing was held by the City & County of San Francisco on October 3, 2014 & was approved. The approval of the financing by the Board of Supervisors of the City /County of San Francisco is a condition precedent to the approval of the financing by CSCDA. A TEFRA hearing was held by the County of Alameda on October 14, 2014 and received unanimous approval.

Finance Team:

- Tax / Lender Counsel: Hawkins Delafield & Wood LLP, San Francisco
- Authority Counsel: Orrick, Herrington & Sutcliffe, LLP, Sacramento
- Lender: First Republic Bank, San Francisco

Financing Structure:

The unrated Obligation will mature in no more than 30 years and bear a fixed interest rate of 3.50% for the refunding of the 2005 bonds. The unrated Obligation will mature in no more than 30 years and bear a fixed interest rate of 3.00% for the refunding of the 2007 bonds. The savings due to the lower interest rate of the 2005 bonds is estimated at \$3.7 million and of the 2007 bonds at \$300,000. The Obligation will be privately placed with First Republic Bank and may be transferred only to qualified institutional buyers. The proposed issuance is in accordance with CSCDA's issuance guidelines.

Estimated Sources and Uses for 2005 bonds:

Sources:	
Par Amount	\$18,295,000.00
DSR Funds	<u>\$1,482,556.26</u>
Total Sources:	<u>\$19,777,556.26</u>
Uses:	
Bank Origination Fee Draw	\$68,606.25
Costs of Issuance Draw	\$245,000.00
Redemption Current Refunding Fund	\$18,998,375.00
Interest payment on 2005 Bond	\$463,375.00
Rounding Amount	<u>\$2,200.01</u>
Total Uses:	<u>\$19,777,556.26</u>

Estimated Sources and Uses for 2007 bonds:

Sources:	
Par Amount	\$6,680,000.00
Total Sources:	<u>\$6,680,000.00</u>
Uses:	

Bank Origination Fee Draw	\$25,050.00
Costs of Issuance	\$50,000.00
Deposit to Current Refunding Fund	\$6,601,000.00
Rounding Amount	<u>\$3,950.00</u>
Total Uses:	<u>\$6,680,000.00</u>

Executive Director Review and Recommendation:

The Executive Director has reviewed the California College of the Arts transaction and based on the overall Project public benefit and finance related considerations detailed on Attachment 1 and compliance with CSCDA's general and issuance policies, the Executive Director recommends that the Commission approve of the Resolution as submitted to the Commission, which:

1. Approves the granting of the Obligation;
2. Approves all necessary actions and documents in connection with the financing; and
3. Authorizes any member of the Commission or Authorized Signatory to sign all necessary documents.

Attachments:

1. Original application

Print Form

Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Cohen

Subject:

Issuance of Tax-Exempt Obligation – California College of the Arts—Not to Exceed \$26,000,000

The text is listed below or attached:

Attached

Signature of Sponsoring Supervisor: *Matia Cohen*

For Clerk's Use Only:

