

NEW ISSUE

S&P RATINGS*: Series A Certificates: A
Series B Certificates: BBB-

In the opinion of Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other things, compliance with certain covenants, the interest component of the Installment Payments made by the City under the Installment Purchase Agreement and received by the Owners of the Certificates is excluded from gross income for federal tax purposes and is exempt from State of California personal income taxes. In the opinion of Special Counsel, the interest component of the Installment Payments made by the City under the Installment Purchase Agreement and received by such Owners of Certificates is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Special Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding other tax consequences related to the ownership or disposition of the Certificates or the accrual or receipt of the interest component of the Installment Payments made by the City under the Installment Purchase Agreement. See "TAX MATTERS" herein.

\$47,000,000

**REVENUE CERTIFICATES OF PARTICIPATION
(BRETHREN HILLCREST HOMES),
SERIES 2003A (INSURED) AND SERIES 2003B**

**Evidencing Undivided Ownership Interests of the Owners Thereof in
Installment Payments to be Paid by the City of La Verne, California,
from Purchase Payments to be Received from Brethren Hillcrest Homes**



Dated: January 1, 2003

Due: February 15, as shown below

**\$29,000,000
Revenue Certificates of Participation,
Series 2003A (Insured)**

**\$18,000,000
Revenue Certificates of Participation,
Series 2003B**

\$735,000 3.125% Serial Certificates due February 15, 2007 at 99.065%, CUSIP 505194CX6
\$755,000 3.500% Serial Certificates due February 15, 2008 at 98.982%, CUSIP 505194CY4
\$785,000 3.750% Serial Certificates due February 15, 2009 at 98.814%, CUSIP 505194CZ1
\$815,000 4.000% Serial Certificates due February 15, 2010 at 98.839%, CUSIP 505194DA5
\$845,000 4.250% Serial Certificates due February 15, 2011 at 99.117%, CUSIP 505194DB3
\$880,000 4.350% Serial Certificates due February 15, 2012 at 99.032%, CUSIP 505194DC1
\$24,185,000 5.600% Term Certificates due February 15, 2033 at 99.250%, CUSIP 505194DD9

\$18,000,000 6.625% Term Certificates due
February 15, 2025 at 99.132%, CUSIP 505194DE7

(Plus accrued interest from January 1, 2003)

The Revenue Certificates of Participation (Brethren Hillcrest Homes), Series 2003A (Insured) (the "Series A Certificates"), and Revenue Certificates of Participation (Brethren Hillcrest Homes), Series 2003B (the "Series B Certificates," and together with the Series A Certificates the "Certificates"), will be delivered in fully registered form only. Ownership interests in the Certificates may be purchased only in denominations of \$5,000 or any integral multiple of \$5,000. Interest with respect to the Certificates is payable semiannually on February 15 and August 15 of each year, commencing August 15, 2003. The principal of and premium, if any, on the Certificates, payable at maturity or upon prepayment, will be payable by the Trustee, initially BNY Western Trust Company, Los Angeles, California. The Certificates, when executed and delivered, will be registered in the name of Cede & Co., as Certificate Owner and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of beneficial interests in the Certificates will be made in book-entry-only form. Accordingly, principal of and interest on the Certificates will be paid by the Trustee directly to DTC as the Certificate Owner thereof. See "THE CERTIFICATES - Book-Entry System" herein. **The Certificates are subject to optional, mandatory and extraordinary prepayment prior to their respective principal payment dates as described herein.**

The City shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the City for all or any portion of the Installment Payments. Neither the Certificates nor the obligation of the City to make the Installment Payments constitute a debt or liability of the City or the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. Neither the faith and credit of the State of California, nor any political subdivision thereof, nor the City is pledged to the payment of the installment payments or otherwise to the payment of the principal, prepayment premium, if any, or interest with respect to the Certificates. The obligations of the City under the Installment Purchase Agreement, including its obligation to make Installment Payments, will be limited obligations of the City payable solely from Purchase Payments paid by Brethren Hillcrest Homes to the City pursuant to an Installment Sale Agreement described herein (except to the extent paid out of moneys attributable to proceeds of the Certificates, investment income, insurance or condemnation proceeds or other Revenues described herein) and not from any other fund or source.

As further provided herein, payment of the scheduled principal and interest on the Series A Certificates (but not the Series B Certificates) will be insured by a bond insurance policy to be issued simultaneously with the delivery of the Series A Certificates by ACA Financial Guaranty Corporation ("ACA"). See "BOND INSURANCE FOR THE SERIES A CERTIFICATES" herein.



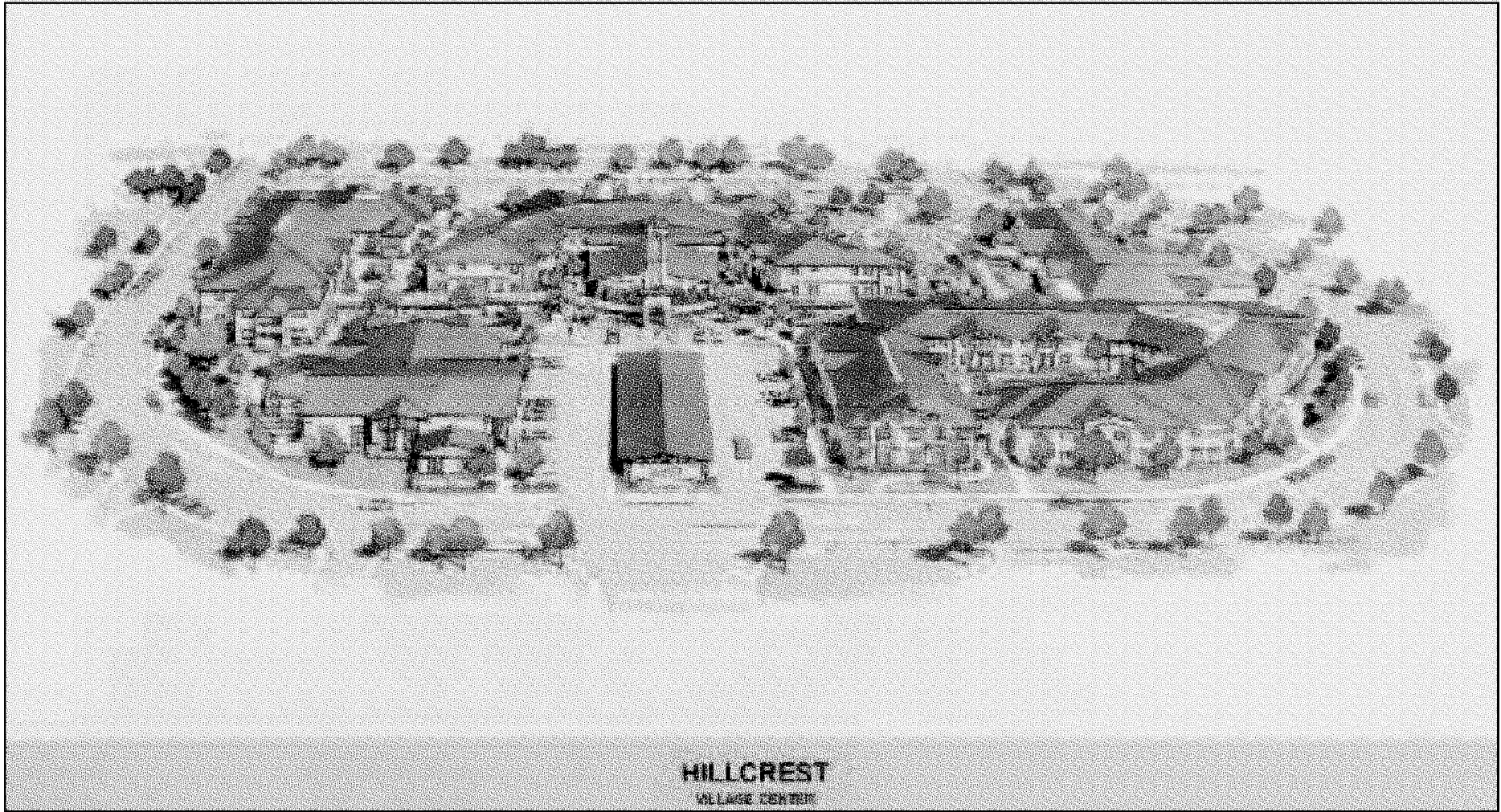
This cover page contains certain information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. This Official Statement speaks only as of its date and the information contained herein is subject to change.

The Certificates are offered when, as and if executed and delivered by the City and received by the Underwriter, subject to prior sale and to the approval of legality by Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California, Special Counsel, and the approval of certain legal matters for Brethren Hillcrest Homes by its counsel, Michael D. Smith, Esq., Claremont, California, and for the Underwriter by its counsel, Michael Best & Friedrich LLP, Madison, Wisconsin. It is expected that the Certificates will be available for delivery on or about January 7, 2003.

CAIN BROTHERS

December 20, 2002

* For an explanation of the ratings, see "RATINGS" herein.



HILLCREST
VILLAGE CENTER

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized by the City of La Verne, California (the "City"), Brethren Hillcrest Homes (the "Corporation") or by Cain Brothers & Company, LLC (the "Underwriter") to give any information or to make any representation other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

Statements contained in this Official Statement which involve time estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The City has supplied the information set forth herein under "THE CITY" and "ABSENCE OF MATERIAL LITIGATION - The City" herein but is not responsible for any other information contained in this Official Statement. All other information set forth herein has been obtained from the Corporation, ACA and other sources (other than the City) that are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and is not to be construed as a representation by, the City or the Underwriter. 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 City or the Corporation since the date hereof.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING ACA FINANCIAL GUARANTY CORPORATION CONTAINED UNDER "BOND INSURANCE FOR THE SERIES A CERTIFICATES" HEREIN, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY ACA, AND ACA MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES A CERTIFICATES; OR (III) THE TAX-EXEMPT STATUS OF THE INTEREST ON THE SERIES A CERTIFICATES.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, 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" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in "RISK FACTORS" herein and in APPENDIX A - "THE CORPORATION AND THE PROJECT."

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

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SUMMARY STATEMENT

The information set forth in this Summary Statement is subject in all respects to more complete information set forth elsewhere in this Official Statement, including the Appendices hereto, which should be read in its entirety. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise to use it without this entire Official Statement. For the definitions of certain words and terms used in this Summary Statement which are not otherwise defined, see "SUMMARY OF PRINCIPAL DOCUMENTS - DEFINITIONS OF CERTAIN TERMS" in APPENDIX E hereto.

The Certificates

This Official Statement presents certain information with respect to the offering of \$47,000,000 aggregate principal amount of the Revenue Certificates of Participation (Brethren Hillcrest Homes) (the "Certificates"), consisting of \$29,000,000 Revenue Certificates of Participation, Series 2003A (Insured) (the "Series A Certificates"), and \$18,000,000 Revenue Certificates of Participation, Series 2003B (the "Series B Certificates"), evidencing undivided ownership interests of the registered owners thereof (the "Owners" or "Certificate Owners") in the right to receive certain installment payments (the "Installment Payments") to be paid by the City of La Verne, California (the "City"), from Purchase Payments to be received from Brethren Hillcrest Homes (the "Corporation"). The obligation of the City to make Installment Payments is a limited obligation of the City payable solely from Revenues, as defined herein, consisting primarily of payments to be made by the Corporation to the City under the Installment Sale Agreement described herein. See "THE CERTIFICATES" herein. The Certificates are executed and delivered pursuant to the Trust Agreement, dated as of January 1, 2003 (the "Trust Agreement"), among the City, the Corporation and BNY Western Trust Company, as Trustee (the "Trustee").

Brethren Hillcrest Homes

The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of California and it is an organization described in Section 501(c)(3) of the Internal Revenue Code, as amended. The Corporation owns and operates a continuing care retirement facility located in La Verne, California.

Purpose

The proceeds of the Certificates will be used for the purpose of (i) funding and reimbursing the Corporation for expenditures relating to the construction, expansion and equipping of the Facilities (the "Project"); (ii) paying the premiums on the Bond Insurance Policy insuring the Series A Certificates; (iii) funding a Reserve Fund for the Certificates; (iv) funding capitalized interest payments during construction and up to six months after completion; and (v) paying certain costs of issuance of the Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF FINANCING" herein.

Security

General. The obligation of the City to make the Installment Payments in connection with the purchase of certain real property and the facilities located thereon owned and operated by the Corporation in La Verne, County of Los Angeles, California (the “Real Property”), pursuant to the Installment Purchase Agreement, dated as of January 1, 2003 (the “Purchase Agreement”), by and between the City and the Corporation, will be a limited obligation of the City payable solely from purchase payments to be made by the Corporation to the City pursuant to the Installment Sale Agreement, dated as of January 1, 2003 (the “Sale Agreement”), by and between the City and the Corporation (except to the extent paid out of moneys attributable to proceeds of the Certificates, investment income, insurance or condemnation proceeds or other Revenues described herein). Under the Sale Agreement, the City will reconvey the Real Property to the Corporation. See “SECURITY FOR THE CERTIFICATES - Installment Payments and Purchase Payments; Assignment to the Trustee” herein.

Reserve Fund. The Certificates are secured by a Reserve Fund (the “Reserve Fund”) established under the Trust Agreement. The Reserve Fund initially will be funded with certain of the proceeds of the Certificates in an amount equal to the maximum amount of principal and interest due with respect to the Certificates in any Certificate Year (“Maximum Annual Certificate Service”). See “SECURITY FOR THE CERTIFICATES - Reserve Fund” herein.

Deed of Trust. Under a certain Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of January 1, 2003 (the “Deed of Trust”), the Corporation will grant to the trustee under the Deed of Trust, for the benefit of the Trustee on behalf of the Certificate Owners and holders of Parity Debt, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances, to secure the obligations of the Corporation under the Sale Agreement, the Purchase Agreement, the Trust Agreement and the Deed of Trust. See “SECURITY FOR THE CERTIFICATES - Deed of Trust” herein. See “SECURITY FOR THE CERTIFICATES - Deed of Trust” herein.

Bond Insurance for the Series A Certificates. Payment of the scheduled principal and interest on the Series A Certificates (but not the Series B Certificates) will be insured by a bond insurance policy to be issued simultaneously with the delivery of the Series A Certificates by ACA Financial Guaranty Corporation. See “BOND INSURANCE FOR THE SERIES A CERTIFICATES” herein.

Certain Covenants of the Corporation

Under the Sale Agreement, the Corporation will be required to comply with the following covenants:

Debt Service Coverage Ratio. The Corporation is required under the Sale Agreement to achieve a Debt Service Coverage Ratio of 1.30 for each Fiscal Year beginning with the Fiscal Year ending June 30, 2006 (the “Rate Covenant”). If such requirement is not met, however, the Corporation shall retain a Consultant to make recommendations. So long as the Corporation retains a Consultant and follows the Consultant’s recommendations to the extent permitted by law, the Debt Service Coverage Ratio requirement will be deemed to have been met so long as

the Corporation shall maintain a Debt Service Coverage Ratio of at least 1.00 for the applicable Fiscal Year. See “SUMMARY OF PRINCIPAL DOCUMENTS - SALE AGREEMENT - Rate Covenant” in APPENDIX E hereto.

Liquidity Covenant. The Corporation is required under the Sale Agreement to maintain unrestricted cash and unrestricted marketable securities in an amount equal to at least 90 Days Cash on Hand as of June 30, 2003, equal to at least 120 Days Cash on Hand as of June 30, 2004, and equal to at least 150 Days Cash on Hand as of June 30, 2005 and each June 30 and December 31 thereafter. If such requirement is not met, the Corporation shall retain a Consultant to make recommendations. So long as the Corporation retains a Consultant and follows the Consultant’s recommendations to the extent permitted by law, the liquidity covenant requirement will be deemed to have been met (the “Liquidity Covenant”). See “SUMMARY OF PRINCIPAL DOCUMENTS - SALE AGREEMENT - Liquidity Covenant” in APPENDIX E hereto.

Construction Monitor. At all times prior to the delivery to the Trustee of a certificate of the Corporation with respect to the completion of the Project pursuant to the Trust Agreement, the Corporation shall cause a Construction Monitor to be retained. See APPENDIX A - “THE PROJECT - Construction Monitor.”

Financial Feasibility Study

The Corporation has retained Vicenti, Lloyd & Stutzman LLP, independent certified public accountants, to prepare a Financial Feasibility Study (the “Financial Feasibility Study”) which is INCLUDED AS APPENDIX D TO THIS OFFICIAL STATEMENT AND SHOULD BE READ IN ITS ENTIRETY. The financial forecast of management of the Corporation contained therein, including the portion of the forecast relating to the ability of the Corporation to generate revenues from the operation of the Facilities which are, together with the proceeds of the Certificates, sufficient to meet the debt service requirements of the Certificates during the forecast period of ten Fiscal Years ending June 30, 2003 through 2013, is based on certain assumptions discussed in the Financial Feasibility Study and the report of Vicenti, Lloyd & Stutzman LLP included in APPENDIX D. Certain of management’s assumptions may not materialize, and unforeseen events and circumstances may occur subsequent to the date of the Financial Feasibility Study. Therefore, there will usually be differences between the forecasted and actual results, and those differences may be material. The assumptions of management of the Corporation upon which the financial forecast is based are set forth in the Financial Feasibility Study and should be evaluated carefully to understand their implications.

The table below shows information excerpted from the Financial Feasibility Study:

DAYS CASH ON HAND AND DEBT SERVICE COVERAGE RATIO

	Forecasted 6/30/2006*	Forecasted 6/30/2007
Days Cash on Hand		
Cash	\$23,043,523	\$24,923,129
Cash-endowed restricted	143,639	143,639
Investments-restricted	890,649	890,649
Restricted cash and investments	8,195,903	8,195,903
Total Cash, Excluding Bond Proceeds	<u>\$32,273,714</u>	<u>\$34,153,320</u>
Total Annual Operating Expenses	\$16,688,330	\$17,673,701
Less depreciation/amortization	(2,699,437)	(2,766,104)
Net Annual Operating Expenses	<u>\$13,988,893</u>	<u>\$14,907,597</u>
Daily Expenses (Net Annual Operating Expenses divided by 365)	\$38,326	\$40,843
Days Cash on Hand:	842	836
Debt Service Coverage Ratio (based on Maximum Annual Debt Service)		
Decrease in unrestricted net assets	\$ (247,424)	\$ (282,969)
Plus interest expense	2,270,998	2,723,871
Plus depreciation and amortization	2,699,437	2,766,104
Less amortization of entrance fees	(2,581,512)	(2,725,422)
Net receipts of entrance fees	4,619,830	3,865,507
Income available for debt service	<u>\$6,761,329</u>	<u>\$6,347,091</u>
Maximum Annual Debt Service (MADS)	\$3,469,000	\$3,469,000
Debt Service Coverage Ratio:	1.95	1.83

*The fiscal year ending June 30, 2006 is the first fully stabilized fiscal year for which the Project is expected to be fully utilized.

The foregoing forecasted ratios must be read in the context of the entire Financial Feasibility Study, which is set forth in APPENDIX D. There can be no assurance that such forecast will be achieved or that any forecasted results will continue beyond the forecast period.

Market Feasibility Study

A Market Feasibility Study is included in this Official Statement in its entirety as APPENDIX C. The Market Feasibility Study was completed by New Life Management & Development, Inc., which specializes in the development, marketing and management of retirement communities. See APPENDIX A - "THE CORPORATION AND THE PROJECT - Market Area and Competition" and APPENDIX C - "MARKET FEASIBILITY STUDY."

Risk Factors and Investment Considerations

AN INVESTMENT IN THE CERTIFICATES INVOLVES A CERTAIN DEGREE OF RISK. EACH POTENTIAL OWNER IS ADVISED TO READ "RISK FACTORS" HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE CERTIFICATES. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. Among other things, since the Certificates are payable from the revenues of the Corporation and other moneys pledged to such payment, careful evaluation should be made of certain factors that may adversely affect the ability of the Corporation to generate sufficient revenues to pay expenses of operation, including the principal of, premium, if any, and interest on the Certificates. See "RISK FACTORS" herein.

The Principal Documents

THE EXECUTED COPIES OF THE TRUST AGREEMENT, PURCHASE AGREEMENT, SALE AGREEMENT AND THE OTHER PRINCIPAL DOCUMENTS MAY CONTAIN CERTAIN CHANGES FROM THE DESCRIPTIONS AND SUMMARIES THEREOF WHICH ARE ATTACHED TO THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS OF THE CERTIFICATES SHOULD EXAMINE THE DESCRIPTIONS AND SUMMARIES CONTAINED IN THE FINAL OFFICIAL STATEMENT BEFORE MAKING ANY INVESTMENT DECISIONS.

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OFFICIAL STATEMENT

\$47,000,000

**REVENUE CERTIFICATES OF PARTICIPATION
(BRETHREN HILLCREST HOMES),
SERIES 2003A (INSURED) AND SERIES 2003B**

**Evidencing Undivided Ownership Interests of the Owners Thereof in
Installment Payments to be Paid by the City of La Verne, California,
from Purchase Payments to be Received from Brethren Hillcrest Homes**

Consisting of:

\$29,000,000
Revenue Certificates of Participation,
Series 2003A (Insured)

\$18,000,000
Revenue Certificates of Participation,
Series 2003B

INTRODUCTION

This Introduction is only a brief description of certain of the hereinafter described and defined Certificates, Trust Agreement, Purchase Agreement, Sale Agreement and Deed of Trust (collectively, the “Documents”) and a brief summary of the Official Statement; and a full review should be made of the entire Official Statement, including the Appendices hereto, the Documents and any other documents referred to herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of provisions of the laws of the State of California or any other documents referred to herein do not purport to be complete and such references are qualified in their entirety by references to the complete provisions contained elsewhere in this Official Statement. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Sale Agreement. See “SUMMARY OF PRINCIPAL DOCUMENTS - DEFINITIONS OF CERTAIN TERMS” in APPENDIX E hereto for definitions of certain words and terms used but not otherwise defined herein.

General

This Official Statement presents certain information with respect to the offering of the \$47,000,000 aggregate principal amount of the Revenue Certificates of Participation (Brethren Hillcrest Homes) (the “Certificates”), consisting of \$29,000,000 Revenue Certificates of Participation, Series 2003A (Insured) (the “Series A Certificates”), and \$18,000,000 Revenue Certificates of Participation, Series 2003B (the “Series B Certificates”), evidencing undivided ownership interests of the registered owners thereof (the “Owners” or “Certificate Owners”), in the right to receive certain installment payments (the “Installment Payments”) to be paid by the City of La Verne, California (the “City”), from Purchase Payments to be received from Brethren Hillcrest Homes, a California nonprofit public benefit corporation (the “Corporation”). See “THE CERTIFICATES” herein.

The Certificates are executed and delivered pursuant to the Trust Agreement, dated as of January 1, 2003 (the “Trust Agreement”), among the City, the Corporation and BNY Western Trust Company, as Trustee (the “Trustee”).

Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and information furnished by the Corporation pursuant to a Continuing Disclosure Agreement are intended to be made available through one or more repositories.

Brethren Hillcrest Homes

The Corporation is a California nonprofit public benefit corporation. The Corporation has received a determination from the Internal Revenue Service that it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation is exempt from federal income taxation under Section 501(a) and is not a private foundation as described in Section 509(a) (a “501(c)(3) organization”).

The Corporation was incorporated in 1947. It owns and operates a multilevel retirement facility located in La Verne, California. See APPENDIX A, “THE CORPORATION AND THE PROJECT,” for more information about the Corporation.

Security

The obligation of the City to make the Installment Payments in connection with the purchase of certain real property and the facilities located thereon owned and operated by the Corporation in La Verne, California (the “Real Property”), pursuant to the Installment Purchase Agreement, dated as of January 1, 2003 (the “Purchase Agreement”), by and between the City and the Corporation, is a limited obligation of the City. The obligation is payable solely from certain revenues (the “Revenues”), consisting primarily of purchase payments to be made by the Corporation to the City in connection with the purchase of the Real Property pursuant to the Installment Sale Agreement, dated as of January 1, 2003 (the “Sale Agreement”), by and between the City and the Corporation. Under the Sale Agreement, the City will reconvey the Real Property to the Corporation. See “SECURITY FOR THE CERTIFICATES - Installment Payments and Purchase Payments; Assignment to the Trustee” herein. Pursuant to the Sale Agreement, the Corporation pledges all of its Gross Revenues and amounts on deposit in the funds established under the Trust Agreement (except the Rebate Fund) to the Trustee for application to the Revenue Fund established under the Trust Agreement. See “SECURITY FOR THE CERTIFICATES - Pledge Under the Sale Agreement; Pledge of Gross Revenues” herein.

The Certificates are also secured by a Reserve Fund (the “Reserve Fund”), established under the Trust Agreement. The Reserve Fund initially will be funded with certain of the proceeds of the Certificates in an amount equal to the maximum amount of principal and interest due with respect to the Certificates in any Certificate Year (“Maximum Annual Certificate Service”). See “SECURITY FOR THE CERTIFICATES - Reserve Fund” herein.

Under a certain Deed of Trust, dated as of January 1, 2003 (the “Deed of Trust”), the Corporation will grant to the trustee under the Deed of Trust, for the benefit of the Trustee and holders of Parity Debt, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances, to secure the obligations of the Corporation under the Sale Agreement and the Deed of Trust. See “SECURITY FOR THE CERTIFICATES - Deed of Trust” herein.

Concurrently with the execution and delivery of the Series A Certificates, ACA Financial Guaranty Corporation (“ACA”) will issue a bond insurance policy (the “Bond Insurance Policy”) insuring payment of the principal and interest on the Series A Certificates (but not the Series B Certificates) at the stated dates of payment thereof. See “BOND INSURANCE FOR THE SERIES A CERTIFICATES” and “RISK FACTORS - Bond Insurance” herein. A specimen form of the Bond Insurance Policy appears as APPENDIX G hereto.

Purpose

The proceeds of the Certificates will be used for the purpose of (i) funding and reimbursing the Corporation for expenditures relating to the construction, expansion and equipping of the Facilities (the “Project”); (ii) paying the premiums on the Bond Insurance Policy insuring the Series A Certificates; (iii) funding a Reserve Fund for the Certificates; (iv) funding capitalized interest payments during construction and up to six months after completion; and (v) paying certain costs of issuance of the Certificates. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF FINANCING” herein.

Prepayment

The Certificates are subject to prepayment, on or after February 15, 2013, at the option of the City, as directed by the Corporation, in whole or in part in Authorized Denominations, upon notice by the Corporation to the Trustee of the prepayment date, at the applicable prepayment price set forth herein under “THE CERTIFICATES - Prepayment - Optional Prepayment” herein plus accrued interest thereon to the date of prepayment. The Certificates are subject to prepayment, in whole or in part at any time, from proceeds of property or title insurance or condemnation awards, at a prepayment price equal to 100% of the principal amount thereof together with accrued interest to the prepayment date, without a premium (see “THE CERTIFICATES - Prepayment - Extraordinary Prepayment” herein). The Certificates are subject to mandatory sinking fund prepayment at a prepayment price equal to 100% of the principal amount thereof together with accrued interest to the prepayment date, without a premium, on the dates and in the amounts set forth herein (see “THE CERTIFICATES - Prepayment - Mandatory Sinking Fund Prepayment” and “ANNUAL DEBT SERVICE REQUIREMENTS” herein).

Registration; Denominations

The Certificates will be executed and delivered in fully registered form. Ownership interests in the Certificates maybe purchased in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). See “THE CERTIFICATES - Description” herein.

Tax-Exempt Status

In the opinion of Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California (“Special Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other things, compliance with certain covenants, the interest component of the Installment Payments made by the City under the Purchase Agreement and received by the Owners of the Certificates is excluded from gross income for federal tax purposes and is exempt from State of California personal income taxes. In the opinion of Special Counsel, the interest component of the Installment Payments made by the City under the Purchase Agreement and received by such Owners of the Certificates is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Special Counsel observes it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. In addition, the difference between the initial public offering price of certain maturities of the Installment Payments evidenced by the Certificates (assuming such initial public offering price is the first price at which such maturity is sold to the public) and the amount payable at the maturity thereof constitutes original issue discount, and the amount of original issue discount that accrues to the Owners of such Installment Payments evidenced by the Certificates is excluded from the gross income of such Owners for federal income tax purposes, is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes (but is included in adjusted current earnings in calculating corporate alternative minimum taxable income), and is exempt from State of California personal income taxes. Special Counsel expresses no opinion regarding other tax consequences related to the ownership or disposition of the Certificates or the accrual or receipt of the interest component (including original issue discount) of the Installment Payments made by the City under the Purchase Agreement. See “TAX MATTERS” herein and APPENDIX F - “PROPOSED FORM OF OPINION OF SPECIAL COUNSEL” hereto.

Delivery

The Certificates are offered when, as and if received by the Underwriter, subject to prior sale and to the approval of legality by Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California, Special Counsel. Certain legal matters will be passed upon for the City by its legal counsel; for the Corporation by its counsel, Michael D. Smith, Esq., Claremont, California; and for the Underwriter by its counsel, Michael Best & Friedrich LLP, Madison, Wisconsin. It is expected that the Certificates will be available for delivery in San Francisco, California, on or about January 7, 2003.

Certain Information Related to this Official Statement

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 City or the Corporation since the date hereof.

All financial and other information presented in this Official Statement have been provided by the Corporation, except for information expressly attributed to other sources. The

presentation of such information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Corporation. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Pursuant to the Certificate Purchase Agreement from the Underwriter, as approved by the City and the Corporation, the Official Statement (and any amendment or supplement thereto) will be made available through at least one “nationally recognized municipal securities information repository” (within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended) upon receipt of the Official Statement (and any such amendments or supplements thereto) from the City.

The summaries of and references to the Certificates, the Trust Agreement, the Purchase Agreement, the Sale Agreement, the Deed of Trust and other documents which appear in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the originals thereof summaries of which are included in APPENDIX E hereto.

THE CITY

The City of La Verne, California (the “City”), is a municipal corporation duly organized and existing pursuant to the laws of the State of California.

THE CITY SHALL NOT BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE CITY FOR ALL OR ANY PORTION OF THE INSTALLMENT PAYMENTS. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE THE INSTALLMENT PAYMENTS CONSTITUTE A DEBT OR LIABILITY OF THE CITY, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA NOR THE FAITH AND CREDIT OF THE CITY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OTHERWISE TO THE PAYMENT OF THE PRINCIPAL, PREPAYMENT PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE CERTIFICATES.

THE CERTIFICATES

Description

The Certificates will be delivered in fully registered form only. The Certificates will be executed and delivered in the aggregate principal amount of \$47,000,000 and will be dated as of January 1, 2003. Ownership interests in the Certificates will be in Authorized Denominations. The Certificates will bear interest payable semiannually on February 15 and August 15 of each year (each a “Payment Date”), commencing August 15, 2003. The Certificates will mature (subject to the rights of prior prepayment discussed below) on February 15 in each of the years and in the respective principal components, and will bear interest at the rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the cover page of this Official Statement.

Book-Entry-Only System

THE INFORMATION UNDER THIS SUBHEADING IS BASED UPON INFORMATION FURNISHED BY DTC. NEITHER THE CITY, THE TRUSTEE NOR THE UNDERWRITER MAKES ANY REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates will be executed and delivered 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 certificate will be executed and delivered for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all securities 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 the Certificates

with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts the Certificates 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.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Certificates 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 on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants to Indirect Participants or by Direct or Indirect 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 Direct or Indirect Participants and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and the disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The City, at the Corporation's request, may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City, the Corporation and the Underwriter believe to be

reliable, but the City, the Corporation and the Underwriter take no responsibility for the accuracy thereof.

Prepayment

Extraordinary Prepayment. The Certificates are subject to prepayment prior to their respective stated maturity dates, as a whole or in part on any date, by lot within a maturity, at the option of the City (which shall be exercised as directed by the Corporation) from proceeds of property or title insurance or condemnation awards received with respect to the Facilities applied to the prepayment of the Certificates pursuant to the Trust Agreement and the Sale Agreement, at the principal amount and interest accrued to the date fixed for prepayment with respect thereto, without a premium. See “SUMMARY OF PRINCIPAL DOCUMENTS - SALE AGREEMENT - Prepayment” in APPENDIX E hereto.

Optional Prepayment. The Certificates maturing prior to February 15, 2013 are not subject to optional prepayment. The Certificates maturing after February 15, 2013 are subject to prepayment prior to their stated Certificate Payment Date, as a whole or in part, in such maturities as are designated by the Corporation (or if the Corporation fails to designate such maturities, in inverse order of maturity) and by lot within a maturity, on any date on or after February 15, 2013, at the option of the City (which shall be exercised as directed by the Corporation), from moneys derived from optional prepayments of Installment Payments by the City and deposited in the Optional Prepayment Account established under the Trust Agreement or from any other source of available funds. The Certificates are subject to such prepayment at the following Prepayment Prices (expressed as a percentage of the principal amount of Certificates called for prepayment), plus accrued interest with respect thereto to the date fixed for prepayment:

<u>Prepayment Period</u> <u>(Dates Inclusive)</u>	<u>Prepayment Price</u>
February 15, 2013 through February 14, 2014	101.0%
February 15, 2014 through February 14, 2015	100.5%
February 15, 2015 and thereafter	100.0%

If less than all of the Certificates are to be prepaid, the Trustee shall prepay Certificates across all maturities in amounts in proportion to the relationship borne by the outstanding amount of each maturity to the total amount to be applied to prepayment.

Mandatory Sinking Fund Prepayment. The Series A Certificates maturing on February 15, 2033, and the Series B Certificates maturing on February 15, 2025, are subject to mandatory sinking fund prepayment, in part, by lot, from Mandatory Sinking Account Payments deposited in the Sinking Account pursuant to the Trust Agreement, at a prepayment price equal to 100% of the principal amount thereof, together with accrued interest to the prepayment date, without a premium, on the dates and in the respective principal amounts set forth below:

Term Series A Certificates Due February 15, 2033

<u>Date</u> <u>(February 15)</u>	<u>Principal</u> <u>Amount</u>
2025	\$ 75,000
2026	2,115,000
2027	2,235,000
2028	2,360,000
2029	2,490,000
2030	2,630,000
2031	2,780,000
2032	2,935,000
2033*	6,565,000

*Maturity

Term Series B Certificates Due February 15, 2025

<u>Date</u> <u>(February 15)</u>	<u>Principal</u> <u>Amount</u>
2013	\$ 920,000
2014	980,000
2015	1,045,000
2016	1,115,000
2017	1,190,000
2018	1,270,000
2019	1,350,000
2020	1,440,000
2021	1,535,000
2022	1,640,000
2023	1,745,000
2024	1,860,000
2025*	1,910,000

*Maturity

Notice and Effect of Prepayment. Notice of prepayment will be mailed by first-class mail, first-class postage prepaid, not less than 30 days nor more than 60 days prior to the prepayment date to the Owners of the Certificates designated for prepayment. Notice of prepayment having been duly given, the Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of said Certificates will have no rights in respect thereof except to receive payment of said prepayment price and accrued interest thereon. Prepayment shall be made in such a manner as to assure that all Certificates remain in Authorized Denominations.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending February 15, the amounts required to be made available for the payment of principal due with respect to the Certificates, at the principal payment date or by mandatory prepayment, for the payment of interest with respect to the Certificates and for the total payments with respect to the Certificates:

<u>Year Ending February 15</u>	<u>Principal and Mandatory Sinking Account Payments</u>		<u>Interest Components</u>		<u>Total Payments</u>
	<u>Series A</u>	<u>Series B</u>	<u>Series A</u>	<u>Series B</u>	
2004			\$1,728,203.99	\$1,338,250.00	\$3,066,453.99
2005			1,539,983.76	1,192,500.00	2,732,483.76
2006			1,539,983.76	1,192,500.00	2,732,483.76
2007	\$ 735,000.00		1,539,983.76	1,192,500.00	3,467,483.76
2008	755,000.00		1,517,015.00	1,192,500.00	3,464,515.00
2009	785,000.00		1,490,590.00	1,192,500.00	3,468,090.00
2010	815,000.00		1,461,152.50	1,192,500.00	3,468,652.50
2011	845,000.00		1,428,552.50	1,192,500.00	3,466,052.50
2012	880,000.00		1,392,640.00	1,192,500.00	3,465,140.00
2013		\$ 920,000.00	1,354,360.00	1,192,500.00	3,466,860.00
2014		980,000.00	1,354,360.00	1,131,550.00	3,465,910.00
2015		1,045,000.00	1,354,360.00	1,066,625.00	3,465,985.00
2016		1,115,000.00	1,354,360.00	997,393.76	3,466,753.76
2017		1,190,000.00	1,354,360.00	923,525.00	3,467,885.00
2018		1,270,000.00	1,354,360.00	844,687.50	3,469,047.50
2019		1,350,000.00	1,354,360.00	760,550.00	3,464,910.00
2020		1,440,000.00	1,354,360.00	671,112.50	3,465,472.50
2021		1,535,000.00	1,354,360.00	575,712.50	3,465,072.50
2022		1,640,000.00	1,354,360.00	474,018.76	3,468,378.76
2023		1,745,000.00	1,354,360.00	365,368.76	3,464,728.76
2024		1,860,000.00	1,354,360.00	249,762.50	3,464,122.50
2025	75,000.00	1,910,000.00	1,354,360.00	126,537.50	3,465,897.50
2026	2,115,000.00		1,350,160.00		3,465,160.00
2027	2,235,000.00		1,231,720.00		3,466,720.00
2028	2,360,000.00		1,106,560.00		3,466,560.00
2029	2,490,000.00		974,400.00		3,464,400.00
2030	2,630,000.00		834,960.00		3,464,960.00
2031	2,780,000.00		687,680.00		3,467,680.00
2032	2,935,000.00		532,000.00		3,467,000.00
2033	<u>6,565,000.00</u>	<u> </u>	<u>367,640.00</u>	<u> </u>	<u>6,932,640.00</u>
Totals	\$29,000,000.00	\$18,000,000.00	\$38,329,905.27	\$20,257,593.78	\$105,587,499.05

SECURITY FOR THE CERTIFICATES

Installment Payments and Purchase Payments; Assignment to the Trustee

Under the Purchase Agreement and subject to the conditions therein, the City will purchase the Real Property from the Corporation. Under the Sale Agreement, the City will reconvey the Real Property to the Corporation. Each Certificate represents a proportionate interest in Installment Payments to be made by the City under the Purchase Agreement. The

City's obligation under the Purchase Agreement, including its obligations to make Installment Payments, is a limited obligation of the City and is payable solely from Revenues, consisting primarily of Purchase Payments received by the City or its assignees pursuant to the Sale Agreement. The obligation of the City to make Installment Payments is limited exclusively to payments and moneys and other assets received by the Trustee on behalf of the City pursuant to the Sale Agreement, and the City is not directly, indirectly or morally obligated to make Installment Payments from any other moneys or assets of the City. Payments made by the Corporation under the Sale Agreement are required to be in amounts sufficient to enable the City to pay, when due, the Installment Payments.

Under the Sale Agreement, the Corporation is obligated to make Purchase Payments in an amount equal to the Installment Payments (and, thus, the principal, prepayment premium, if any, and interest components of the Certificates). Substantially all of the City's rights under the Sale Agreement and the Corporation's rights under the Purchase Agreement have been assigned to the Trustee for the benefit of the Owners of the Certificates.

The City shall be obligated to pay the Installment Payments or the principal, premium, if any, or interest with respect to the Certificates, only from Revenues received by the City (consisting of Purchase Payments made by the Corporation to the City under the Sale Agreement), and the faith and credit of the City are not pledged to the payment of the Installment Payments or the payment of the principal, premium, if any, or interest with respect to the Certificates.

Pledge Under the Sale Agreement; Pledge of Gross Revenues

Under the Trust Agreement, the City and the Corporation appoint the Trustee to hold and disburse moneys paid pursuant to the Purchase Agreement and the Sale Agreement, to execute, deliver and administer the Certificates, to apply and disburse Installment Payments to the Owners of the Certificates and to perform certain other duties. The Trustee in turn accepts such appointment under the terms of the Trust Agreement.

In order to secure the payment of the principal and interest components and a prepayment premium, if any, of the Certificates, under the Trust Agreement there is pledged to the Trustee all of the Revenues and any other amounts (including proceeds of the sale of the Certificates) held in any fund established pursuant to the Trust Agreement, excepting moneys in the Rebate Fund, Supplemental Payments and certain other payments made by the Corporation under the Sale Agreement relating to expenses and indemnification of the City.

The Sale Agreement provides that the Corporation shall, so long as any of the Certificates are outstanding or any Supplemental Payments remain unpaid, deposit all of the Gross Revenues (other than interest income) with a depository bank or banks (the "Depository Bank") in funds designated collectively as the "Gross Revenue Fund," and shall pledge and grant a security interest (to the extent permitted by law) to the Trustee in the Gross Revenue Fund and the Gross Revenues to secure the payment of the Purchase Payments and the Supplemental Payments, the performance of the other obligations of the Corporation under the Sale Agreement and the payment and performance of all obligations of the Corporation under any Parity Debt. The Corporation will execute a Control Agreement and file UCC financing statements in order to

perfect such security interest. Amounts deposited in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided in the Sale Agreement. If the Corporation is delinquent for more than five days in the payment of any Purchase Payment, or if there is any delinquency in any Supplemental Payment or payment with respect to Parity Debt known to the Trustee, the Trustee will notify the Corporation and the Depository Bank, and unless such Purchase Payment, Supplemental Payment or payment with respect to Parity Debt is paid within ten days after receipt of such notice, the Sale Agreement provides that, pursuant to the Control Agreement, the Trustee will exercise exclusive control over the Gross Revenue Fund, but only with the consent of ACA. The Sale Agreement provides that the Gross Revenue Fund will remain under the exclusive control of the Trustee until the amounts on deposit are sufficient to pay in full, or have been used to pay in full, all Purchase Payments, Supplemental Payments and payments with respect to Parity Debt then in default and until all other Sale Agreement Defaults and events of default with respect to Parity Debt known to the Trustee shall have been cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) will be returned to the control of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, subject to the limitations described in the following paragraph, the Corporation will not be entitled to use or withdraw any of the Gross Revenues from the Gross Revenue Fund unless and to the extent that the Trustee, so directs for the payment of current or past due operating expenses of the Corporation.

Notwithstanding the foregoing, under the Sale Agreement, the Corporation may pledge or grant security interests in its accounts receivable, which interests may be superior to the interests granted the Trustee to secure Short-Term Indebtedness provided that the aggregate principal amount of such Indebtedness does not at the time of issuance or incurrence exceed 5% of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available.

The foregoing pledge of Gross Revenues will be perfected to the extent that such security interest can be perfected by executing a Control Agreement and by filing or notice under the Uniform Commercial Code of the State and may, in several instances, be subordinated to the interest and claims of others. Some examples of cases of subordination or 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 Trust Agreement or the pledge of Gross Revenues, and (vi) rights of third parties, and in some instances the Corporation, in Gross Revenues constituting cash or instruments and not in the possession of the Trustee or the Depository Bank. 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, federal, county and State payments and other revenues derived from governmental programs) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund.

Reserve Fund

A Reserve Fund will be established under the Trust Agreement for the benefit of the Owners of the Certificates. An amount equal to the Maximum Annual Certificate Service (the “Reserve Requirement”), will be deposited in the Reserve Fund on the date of execution and delivery of the Certificates. The Trust Agreement requires the Corporation to make up any deficiencies resulting from withdrawals therefrom within twelve months of such withdrawal and any deficiencies due to changes in the valuation of the Investment Securities deposited therein within 120 days of such change in valuation. See “SUMMARY OF PRINCIPAL DOCUMENTS - TRUST AGREEMENT - Application of Reserve Fund” in APPENDIX E hereto.

Deed of Trust

Pursuant to the Deed of Trust, the Corporation will grant to the Trustee, for the benefit of the Owners of the Certificates and holders of Parity Debt, a first lien on and security interest in the Facilities, including the Real Property (excluding an 8.9-acre parcel), subject to Permitted Encumbrances and subject to the right of the Corporation to remove certain property from the lien and security interest of the Deed of Trust, as security for the performance of the Corporation’s obligations under the Sale Agreement and the Deed of Trust. An ALTA title insurance policy on the Facilities in an amount not less than the aggregate principal amount of the outstanding Certificates will be delivered at the time of execution and delivery of the Certificates. See “SUMMARY OF PRINCIPAL DOCUMENTS - DEED OF TRUST” in APPENDIX E hereto.

Bond Insurance for the Series A Certificates

Concurrently with the execution and delivery of the Series A Certificates, ACA Financial Guaranty Corporation (“ACA”) will issue a bond insurance policy (the “Bond Insurance Policy”) insuring payment of the principal of and interest on the Series A Certificates at the stated dates of payment thereof. See “BOND INSURANCE FOR THE SERIES A CERTIFICATES” and “RISK FACTORS - Bond Insurance” herein. A specimen form of the Bond Insurance Policy appears as APPENDIX G hereto.

Parity Debt

The Corporation may incur Parity Debt and, in certain limited amounts, other forms of indebtedness. See “SUMMARY OF PRINCIPAL DOCUMENTS - SALE AGREEMENT - Limitation on Indebtedness” in APPENDIX E hereto.

Limited Obligation of the City

THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS UNDER THE PURCHASE AGREEMENT IS A LIMITED OBLIGATION OF THE CITY, PAYABLE SOLELY FROM REVENUES (CONSISTING PRIMARILY OF PURCHASE PAYMENTS MADE BY THE CORPORATION TO THE CITY UNDER THE SALE AGREEMENT). THE CITY SHALL NOT BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR

ASSETS OF THE CITY FOR ALL OR ANY PORTION OF THE INSTALLMENT PAYMENTS. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE THE INSTALLMENT PAYMENTS CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. THE FAITH AND CREDIT OF THE CITY ARE NOT PLEDGED TO THE PAYMENT OF THE PRINCIPAL, PREPAYMENT PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE CERTIFICATES.

Additional Information

Copies of all documents referred to herein may be obtained upon written request directed during the offering period to the Underwriter, Cain Brothers & Company, LLC, 452 Fifth Avenue, 25th Floor, New York, New York 10018, Attention: Sales Desk; and thereafter to the Trustee, BNY Western Trust Company, 700 South Flower Street, Suite 500, Los Angeles, California 90017, Attention: Corporate Trust Department.

BOND INSURANCE FOR THE SERIES A CERTIFICATES

The following information relates only to the Series A Certificates. The Bond Insurance Policy is not available to pay any amounts due with respect to the Series B Certificates.

The following information has been furnished by ACA for use in this Official Statement. Reference is made to APPENDIX G for a specimen policy. No representation is made by the City, the Corporation or the Underwriter as to the accuracy, completeness or adequacy of the information or as to absence of material adverse changes in that information or in the condition of ACA subsequent to the date hereof.

Payment Pursuant to the Bond Insurance Policy

ACA has made a commitment to issue the Bond Insurance Policy relating to the Series A Certificates effective as of the date of execution and delivery of the Series A Certificates. Under the terms of the Bond Insurance Policy, ACA unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Trustee or paying agent (as designated in the documentation providing for the execution and delivery of and securing the Series A Certificates) for the Series A Certificates, for the benefit of any Series A Certificate Owner or, at the election of ACA, directly to such Series A Certificate Owner, that portion of the principal of and interest on the Series A Certificates which shall become “Due for Payment” but shall be unpaid by reason of “Nonpayment by the City” (as such terms are defined in the Bond Insurance Policy). ACA will make such payments to or for the benefit of each Series A Certificate Owner on the later of the day on which such principal and interest becomes Due for Payment or within one Business Day following the Business Day on which ACA shall have received Notice of Nonpayment (as such terms are defined in the Bond Insurance Policy). The Bond Insurance Policy is non-cancelable for any reason.

The Bond Insurance Policy will insure an amount equal to (i) the principal of (either at the stated maturity or pursuant to a mandatory sinking fund payment) and interest on, the Series A Certificates as such payments shall become Due for Payment but shall not be so paid by

reason of Nonpayment by the City (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Series A Certificate Owner pursuant to a final non-appealable order of a court of competent jurisdiction that such payment constitutes an avoidable preference to such Series A Certificate Owner within the meaning of any applicable bankruptcy law (a “Preference”).

The Bond Insurance Policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Series A Certificate. The Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series A Certificates upon tender by an Owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Series A Certificates resulting from the insolvency, negligence or any other act or omission of the Trustee or paying agent for the Series A Certificates.

Upon receipt of telephonic or electronic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by ACA from the Trustee or paying agent or any Series A Certificate Owner the payment of an insured amount for which is then due, that such required payment has not been made, ACA on the due date of such payment or within one Business Day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with the Trustee or paying agent, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series A Certificates or presentment of such other proof of ownership of the Series A Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series A Certificates as are paid by ACA, and appropriate instruments to effect the appointment of ACA as agent for such Series A Certificate Owners in any legal proceeding related to payment of insured amounts on the Series A Certificates, such instruments being in a form satisfactory to ACA, ACA shall disburse to such Series A Certificate Owners or the paying agent payment of the insured amounts due on such Series A Certificates, less any amount held by the paying agent for the payment of such insured amounts and legally available therefor.

ACA’s Rights Under the Documents

Pursuant to the Trust Agreement, for the Series A Certificates ACA has certain rights to consents and notices and to control certain procedures, including, without limitation, the right to control proceedings, without the consent of Series A Certificate Owners, following an event of default under the Trust Agreement. In addition, amendments may not be made to the Trust Agreement, the Purchase Agreement or the Sale Agreement without the consent of ACA. Reference is made to the provisions of the Trust Agreement for a more complete description of ACA’s rights thereunder.

In the event that ACA were to become insolvent, any claims arising under the Bond Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

ACA Financial Guaranty Corporation

ACA is domiciled in the State of Maryland and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands of the United States and the Territory of Guam. State laws regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by ACA, changes in control and transactions among affiliates. Additionally, ACA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of September 30, 2002, ACA had, on an unaudited basis, admitted assets of \$258.1 million, total liabilities of \$150.5 million, and total capital and surplus of \$107.6 million, as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information about ACA, see the selected financial and statistical information for ACA Financial Guaranty Corporation at <http://www.aca.com/financials/index.html>. Copies of ACA's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from ACA. The address of ACA is 140 Broadway, 47th Floor, New York, New York 10005. The telephone number of ACA is (888) 427-2833.

Fitch Ratings and Standard & Poor's Ratings Services rate the financial strength of ACA "A". Each rating of ACA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of ACA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold the Series A Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series A Certificates. ACA does not guarantee the market price of the Series A Certificates, nor does it guarantee that the ratings on the Series A Certificates will not be revised or withdrawn.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING ACA CONTAINED UNDER THE CAPTION "BOND INSURANCE FOR THE SERIES A CERTIFICATES" HEREIN, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY ACA, AND ACA MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES A CERTIFICATES; OR (III) THE TAX-EXEMPT STATUS OF THE INTEREST ON THE SERIES A CERTIFICATES.

PLAN OF FINANCING

The proceeds of the Certificates will be used for the purpose of (i) funding and reimbursing the Corporation for expenditures relating to the construction, expansion and

equipping of the Facilities (the “Project”); (ii) paying the premiums on the Bond Insurance Policy insuring the Series A Certificates; (iii) funding a Reserve Fund for the Certificates; (iv) funding capitalized interest payments during construction and up to six months after completion; and (v) paying certain costs of issuance of the Certificates. See APPENDIX A, “THE CORPORATION AND THE PROJECT.”

The Corporation expects to enter into one or more interest rate basis swaps, with up to the aggregate par amount of the Certificates as the aggregate “notional amount,” in January of 2003.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Certificates and other sources of funds, (excluding accrued interest), will be applied as set forth in the following table.

Estimated Sources of Funds

Certificates	\$47,000,000
Equity Contribution	2,804,459
Accrued Interest	45,541
Original Issue Discount	<u>(386,938)</u>
Total Sources of Funds	\$49,463,062

Estimated Uses of Funds

Project Costs	\$37,914,945
Deposit to Reserve Fund (1)	3,469,047
Capitalized and Funded Interest (2)	6,030,593
Accrued Interest	45,541
Costs of Issuance (3)	<u>2,002,936</u>
Total Uses of Funds	\$49,463,062

- (1) Equal to the Reserve Requirement.
- (2) Capitalized and funded interest for approximately 33 months, net of anticipated interest earnings on the Project Fund.
- (3) Includes Underwriter’s discount, bond insurance premium, and legal, printing, accounting and other costs of issuance.

CONTINUING DISCLOSURE REQUIREMENT

The City has determined that no financial or operating data concerning the City is material to an evaluation of the offering of the Certificates or to any decision to purchase, hold or sell the Certificates, and the City will not provide any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to Owners of the Certificates as described below, and the City shall have no liability to the Owners of the Certificates or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission.

The Corporation has covenanted for the benefit of Owners to provide certain financial information relating to it by not later than 45 days after the close of each calendar quarter

(“Quarterly Reports”) and not later than 120 days after the close of the Corporation’s fiscal year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events set forth in the hereinafter described Rule, if material. The Quarterly Reports and Annual Report will be filed by the Trustee, as dissemination agent, on behalf of the Corporation with each Nationally Recognized Municipal Securities Information Repository (and with the State Information Repository, if one is established). The notices of material events will be filed by the Trustee on behalf of the Corporation with each Nationally Recognized Municipal Securities Information Repository. The financial data that will be provided are financial statements of the Corporation for the prior fiscal year, beginning with the fiscal year ending June 30, 2003, together with an opinion from an independent auditor. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “Rule”) promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

The Corporation and the Trustee may amend the Disclosure Agreement and any provision of the Disclosure Agreement may be waived, if the amendment or waiver is supported by an opinion of a counsel expert in federal securities laws acceptable to the Corporation and the Trustee to the effect that such amendment or waiver would not, in and of itself, cause the undertakings in the Disclosure Agreement to violate or be inconsistent with SEC Rule 15c2-12 in effect at the time of the amendment or waiver.

Any failure to comply with the continuing disclosure requirements described above shall not, however, constitute an Event of Default under the Trust Agreement or the Purchase Agreement, Sale Agreement or Deed of Trust. Under the Continuing Disclosure Agreement a Owner’s sole remedy for such failure is to seek an order for specific performance.

RISK FACTORS

In General

An investment in the Certificates involves certain risks, including the risk of nonpayment of interest, principal or Purchase Price due to Certificate Owners and the risk that the Certificates will be redeemed or purchased prior to maturity. The Certificates are special limited obligations of the City, payable solely from Revenues pledged under the Trust Agreement. The risk of nonpayment or that the Certificates will be redeemed or purchased prior to maturity is affected by the following factors, among others, which should be considered by prospective investors, along with other information presented in this Official Statement, in judging the suitability of an investment in the Certificates.

Investment Income

A portion of the Corporation’s operating budget is derived from income earned on investments. While the Corporation believes that those investments are being managed prudently and has adopted policies designed to ensure the prudent management of those investments in the future, there can be no assurance that unforeseen developments in the securities markets will not have an adverse effect on the market value of those investments and the income generated from them.

Completion of the Project

There can be no assurances given that the Project will be completed, or that it can be completed for the cost and within the time as set forth in this Official Statement. Failure to complete the Project, or to complete it in a timely fashion at the estimated cost, or the failure to enroll residents for the Project once completed, could adversely affect the ability of the Corporation to generate sufficient revenues to continue its current and planned operations and to make payments with respect to the Certificates.

Unrelated Business Taxation

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

Failure to Achieve Sufficient Occupancy and to Maintain Turnover or Occupancy; Uncertainty of Revenues

The ability of the Corporation to generate sufficient revenues depends in large part upon the ability of the Corporation to attract sufficient numbers of residents to its Facilities in order to achieve and then to maintain substantial occupancy throughout the term of the Certificates. The ability of the Corporation to achieve and then to maintain substantial occupancy depends to some extent on factors outside its control. The success of the Corporation's Facilities is dependent on numerous factors including (but not limited to): the maintenance of high future occupancy levels at the Facilities by eligible residents who will be able to pay the fees charged, the capabilities of the management of the Facilities, the availability of alternative housing opportunities in the general area and future economic and other conditions which are unpredictable, including the availability of Medicare and Medicaid. See "RISK FACTORS - Federal Reimbursement and Regulatory Issues" herein. Any of these factors may affect Revenues and Installment Payments on the Certificates. No representation or assurance can be made that revenues will be realized by the Facilities in amounts sufficient to make the required payments on the Certificates.

Existing Operations and Competition and Possible Increased Competition

The revenues and expenses associated with the operation of the Corporation's existing residential facilities will be affected by future events and conditions relating generally to, among other things, government regulations, third-party reimbursement programs, demand for services, the ability of the Corporation to provide the services required by residents, economic developments in the affected service areas, competition, rates and costs. The Project is subject to substantial competition from facilities providing similar or comparable services. Such competition likely will inhibit the extent to which the Corporation will be able to raise charges and maintain or increase admissions. There can be no assurance that additional competing facilities will not be constructed in the future.

Sales of Homes

Prospective residents of facilities of the Corporation may encounter difficulty in selling their current homes due to national and local economic conditions impairing the sale of residential real estate and, therefore, may not have sufficient assets to pay entrance fees and monthly fees.

Feasibility of the Facilities

The Market Feasibility Study and Financial Feasibility Study are based on certain assumptions significant to the operation of the Facilities as described therein, and sets forth information as of the date thereof. Some assumed events and circumstances inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of the forecasts. Therefore, even if the assumptions are achieved and maintained, the actual results achieved during the period may vary from the forecasted results and the variations may be material.

Neither the City, the Underwriter, the Trustee, nor any counsel rendering approving or other opinions with respect to the transactions described herein, have verified the assumptions and conclusions contained in the Market Feasibility Study and Financial Feasibility Study. Prospective investors are advised to read the Market Feasibility Study and Financial Feasibility Study in their entirety, including all notes, assumptions and supplementary information set forth therein.

THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE, AND NO REPRESENTATION CAN BE MADE THAT THE FORECASTS IN THE MARKET FEASIBILITY STUDY AND FINANCIAL FEASIBILITY STUDY WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY UNCONTROLLABLE FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES, EMPLOYEE RELATIONS, TAXES, GOVERNMENTAL CONTROLS, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, LIMITED INCOME OF THE ELDERLY, CHANGES IN THE ELDER LIVING AND HEALTH CARE INDUSTRIES AND GENERAL ECONOMIC CONDITIONS.

Uncertainty of Revenues

The ability of the Corporation to generate sufficient revenues in order to pay debt service with respect to the Certificates depends upon the Corporation attracting a sufficient number of residents to the Facilities in order to achieve and then to maintain substantial occupancy for as long as the Certificates are outstanding. The ability to attract these residents could be adversely affected by, among other factors, competition from other similar facilities, by changes in the demand for assisted living services and by future economic and other conditions which are unpredictable, including regulatory matters. See "Regulatory Matters" below.

Construction Risks

The Corporation has projected that construction of Phase I will be completed, and that Phase I will be ready for occupancy in substantial part, during January of 2004; and that construction of Phase II will be completed, and that Phase II will be ready for occupancy in substantial part, during March of 2005. Under the stipulated sum construction contract for the Facilities (see APPENDIX A - "THE CORPORATION AND THE PROJECT"), the general contractor is required to substantially complete construction of Phase I not later than 430 days from the date of commencement of construction, subject to certain limited extensions. Construction of Phase I is expected to commence on or about January 20, 2003; and construction of Phase II is expected to commence on or about February 23, 2004. Whether or not the Facilities will be completed on schedule depends upon a large number of factors, many of which may be beyond the control of the Corporation. These include, but are not limited to, adverse weather, strikes, delays in the delivery of or shortages of materials, delays in the issuance of required building permits, environmental restrictions or similar unknown or unforeseeable contingencies. Further, although construction work will be inspected periodically by the Facilities architect, there can be no assurance that the Facilities will conform to construction specifications or state or local regulations. The occurrence of any of the foregoing could result in increases in construction costs or considerable delays in, or complete impossibility of, completion of the Facilities, resulting in a failure to achieve anticipated operating results. Construction costs could exceed the amounts originally forecast due to a number of factors. The Corporation has no funds, other than proceeds of the Certificates, available to cover any increased construction costs.

Uncertainty of Health Care Legislation

The health care industry is facing various challenges, including the need to deal with governmental reimbursement programs that do not necessarily pay facilities for the full costs of providing services. These reimbursement programs affect the Corporation as the operator of a skilled nursing facility. In addition, both skilled nursing facilities and assisted living facilities have been the subject of adverse attention from governmental regulatory agencies, consumer attorneys, and the press for alleged substandard care resulting in injuries to residents. In certain circumstances, consumer attorneys will use the laws designed to prevent elder abuse as a means of obtaining large settlements or judgments from facilities whose residents have suffered injury. This has led to periodic discussions at both the federal and state levels regarding possible reform legislation.

Congress and state legislatures can be expected to continue to consider alternative payment methodologies, and to try to deal with perceptions about the quality of care at retirement facilities. Changes in the law, new interpretations of existing laws, and changes in payment methodology may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business, and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of legislative efforts cannot be predicted and may impact the Corporation. Any future action by the federal government with respect to Medicare or Medicaid, or by the states with respect to Medicaid, which limits or reduces the total amount of funds available for such programs, limits or reduces the amount of reimbursement for items

and services rendered, or limits the ability of the Corporation to maintain or increase the level of services provided to patients, could negatively affect the revenues of the Corporation.

The management of the Corporation believes that the issue of adequate governmental reimbursement for health care, including skilled nursing services, will continue. These will likely result in reimbursement rates for certain services that are lower than the cost of providing the services. The management of the Corporation cannot predict whether any health care reform proposals will be adopted and cannot give any assurances that the proposals, if adopted, will not have a material adverse effect on the Corporation's financial condition.

Federal Reimbursement and Regulatory Issues

Medicare. The Balanced Budget Act of 1997 amended the Social Security Act to provide for the implementation of a per diem prospective payment system ("PPS") for skilled nursing facilities ("SNFs"), covering all costs (routine, ancillary, and capital) for covered SNF services furnished to Medicare beneficiaries under the Medicare program, effective for cost report periods beginning on or after July 1, 1998. Under the PPS, SNFs are paid through a prospective, case-mix adjusted per diem payment rate applicable to all covered SNF services. The federal payment rates are adjusted by the hospital wage index to account for geographic variations in wages. The federal rate also incorporates adjustments to account for facility case-mix, using a classification system that accounts for the relative resource utilization of different patient types. This classification system, RUG-III, utilizes beneficiary assessment data from the Minimum Data Set ("MDS") completed by SNFs to assign beneficiaries to one of 44 groups.

The Act requires the Secretary of the United States Department of Health and Human Services ("DHHS") to establish a SNF market basket index that reflects changes over time in the price of an appropriate mix of goods and services included in the covered SNF services. The SNF market basket index is used to update the federal rates on an annual basis.

Medicaid. Medicaid is a program of medical assistance, funded jointly by the federal government and individual states, for certain indigent, uninsured and underinsured individuals. Under Medicaid, the federal government provides grants and funds to states with medical assistance programs that are consistent with federal standards. To qualify for federal funding, a state must submit to the Secretary of DHHS and have provided a plan for medical assistance that contains a comprehensive statement describing the nature and scope of the state's Medicaid program. The state plan is required to establish, among other things, a scheme for reimbursing health care providers for the medical services provided to needy individuals.

California has elected to take advantage of the federal funding offered by the Medicaid Act and participate in the program, which it refers to as "Medi-Cal." Currently, the California Medi-Cal program reimburses long-term care providers, including SNFs, through the use of a prospective per diem rate-setting system which covers all routine services, excluding ancillary services. The per diem payment rate is based on a prospective median rate determined for each category of facility, based on the historical costs for each facility updated for inflation.

In 2001, the California legislature enacted AB 1075, a law which directed the California Department of Health Services to devise a new Medi-Cal long-term care reimbursement

methodology that more effectively assures individual access to appropriate long-term care services. The Department is directed to consider an appropriate acuity classification system, facility-specific case mix factors, and geographic and regional differences in the costs of operating facilities and providing resident care. The Department is directed to implement a facility-specific rate-setting system no later than August 1, 2003, subject to federal approval.

State Reimbursement and Regulatory Issues

Regulatory Matters – General. Health facilities are subject to regulation by state, local and other regulatory or accrediting agencies created to oversee planning and development of health care resources and services, the governmental and private agencies that administer the Medicaid program and other federal, state and local governmental agencies. Renewal and continuance of certain licenses, certifications and accreditations issued by these agencies are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the management of the Corporation. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could be the cause of loss or reduction in a facility's scope of licensure, certification or accreditation or could reduce payments received. In certain instances, failure to comply with the guidelines promulgated by such agencies can result in penalties to the facility (including fines or loss of licensure, certification, accreditation or eligibility for certain reimbursement programs).

Regulatory Compliance - the Corporation. State licensing requirements are subject to change, and there can be no assurance that the Corporation will be able to maintain all licenses needed to operate in its current manner or that it will not incur substantial costs in doing so. Failure to comply with state licensing or certification requirements could result in the loss by the Corporation of the right to conduct all or a portion of its business, or of the right to receive payment from Medicare or Medicaid. Further, the Corporation's facilities are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for continued licensing under state law.

From time to time, the Corporation may receive notices from federal or state regulatory agencies relating to alleged deficiencies for failure to comply with components of the licensure regulations. While the Corporation will endeavor to comply with all applicable regulatory requirements, it may become subject from time to time to various sanctions and penalties resulting from deficiencies alleged by federal or state survey agencies. While a state or federal agency might threaten to revoke licensure or reimbursement rights in certain instances, management believes that the Corporation will not suffer any material adverse effect as a result of any such threats. There can be no assurance, however, that the Corporation will not be subject to sanctions and penalties in the future as a result of such actions.

State Anti-Kickback and Physician Self-Referral Prohibitions. States, including California, also have anti-kickback statutes and physician self-referral prohibitions similar to the federal laws described below. Violations of these laws may result in civil and criminal penalties. Management of the Corporation believes that it is presently in material compliance with these state laws. In light of the broad language and interpretations of these laws, however, there can be no assurances that the Corporation will not be found to have violated these state laws, and, if so,

that any sanction imposed would not have a material adverse effect on the operations of the Corporation's facilities or the financial condition of the Corporation.

Liability Insurance Crisis

The senior care and housing industry, and in particular the nursing industry, is facing a crisis in which liability insurance is becoming increasingly expensive and at times unavailable. Premium increases ranging from 200% to 400% in a single year have been reported by some providers. This problem is most acute in the State of Florida, which recently enacted a nursing facility tort reform law, and Texas. The problem is also spreading to California facilities, which are confronted with fewer choices of insurers, more restrictive insurance provisions, higher deductibles and significantly higher premiums.

The insurance crisis has been attributed to a number of factors, including, most notably, an epidemic increase in elder abuse litigation and other forms of resident litigation against facilities. Plaintiffs in elder abuse actions have access to various enhanced remedies, such as attorneys' fees, post-death pain and suffering, and punitive damages in certain circumstances. As a result, simple negligence cases are increasingly recharacterized as elder abuse cases. Congressional reports on abuse and increased enforcement activities by State regulatory agencies have also contributed to this phenomenon.

There is a risk that the Corporation will be subject to increases in liability insurance premiums, decreases in liability insurance coverage, and/or unavailability of liability insurance.

The management of the Corporation is aware of only three entities providing workers' compensation coverage. Workers' compensation coverage premiums quoted to the Corporation reflect increases of 100% over the Corporation's existing premiums. The Corporation is exploring entering into a self-insurance pool with other, similar entities, to be called the "GuardianComp, Inc. Group Workers' Compensation Self-Insurance Program." Such an arrangement would spread the workers' compensation risk among the other participants in the pool, but might also expose the Corporation to its pro-rata share of workers' compensation claims from the other participants. If other workers' compensation coverage cannot be obtained at competitive rates, then the Corporation may participate in the State of California's State Workmen's Compensation Fund, which carries no rating from any rating agency or entity.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was enacted on August 21, 1996. HIPAA adds two prohibited practices, the commission of which may lead to civil monetary penalties: (1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate, i.e., upcoding, and (2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to \$10,000 for each item or service involved.

Management of the Corporation does not expect that the prohibited practices provisions of HIPAA will affect the Corporation in a material respect. HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by

encouraging the electronic exchange of information and the use of standardized formats for health care information. A final rule governing the Standards for Electronic Transactions (“Transaction Rule”) was issued in August 2000 with compliance initially required by October 2002. One-year compliance extensions have been sought by many entities, including the Corporation, as permitted by a rule published by DHHS.

Congress recognized that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information. In December 2000, DHHS released a final privacy regulation that protects individually identifiable health information maintained by health care providers, health plans and health care clearinghouses (the “Privacy Rule”). DHHS issued modifications to the Privacy Rule in August 2002. The Privacy Rule limits the use and disclosure of individually identifiable health information; gives patients new rights to access their medical records and to know who else has accessed them; restricts certain disclosures of individually identifiable health information to the minimum needed for the intended purpose; establishes new criminal and civil sanctions for improper use or disclosure; and establishes new requirements for access to records by researchers and others. The present compliance date for the Privacy Rule is April 14, 2003 for most covered entities. The Privacy Rule establishes specific federal penalties if a patient’s right to privacy is violated including civil monetary penalties of \$100 per violation up to \$25,000 per person, per year, per standard. In addition, criminal penalties are provided in HIPAA for certain types of violations of the statute that are done knowingly: up to \$50,000 and/or one year in prison for obtaining or disclosing protected health information inappropriately; up to \$100,000 and/or five years in prison for inappropriately obtaining or disclosing protected health information under “false pretenses”; and up to \$250,000 and/or 10 years in prison for obtaining protected health information with the intent to sell, transfer or use it for commercial advantage, personal gain or malicious harm. HIPAA also mandates that DHHS issue a security regulation. That regulation has not been issued in final form yet. The Corporation anticipates that there will be ongoing costs associated with establishing and maintaining compliance with HIPAA.

Anti-Fraud and Abuse Provisions

Federal Anti-Kickback Law. The federal Anti-Kickback Law prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare and Medicaid patients. A wide array of relationships and arrangements, including ownership interests in a company by persons who refer or who are in a position to refer patients, as well as personal service agreements, have, under certain circumstances, been alleged or been found to violate these provisions. Certain arrangements, such as the provision of services for more or less than fair market value compensation, may also violate the Anti-Kickback Law. A violation of the Anti-Kickback Law could result in loss of eligibility to participate in Medicare or Medicaid, or in criminal penalties of up to five years imprisonment and/or fines up to \$25,000.

The scope of prohibited payments under the Anti-Kickback Law is broad. DHHS has published regulations which describe certain arrangements that will be deemed not to constitute

violations of the Anti-Kickback Law (“safe harbors”). The safe harbors described in the regulations are narrow and do not cover the full range of economic relationships which health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, health care providers that are parties to financial arrangements or relationships with referral sources or recipients may be required to modify these arrangements in order to ensure compliance with the Anti-Kickback Law.

In addition to the safe harbor regulations, a significant body of case law has developed in this area, providing further guidance as to the scope of the Anti-Kickback Law. Finally, health care providers may seek advisory opinions from the Office of the Inspector General of DHHS about the legality of particular relationships subject to the Anti-Kickback Law’s prohibitions.

Management of the Corporation believes that it will be in material compliance with the Anti-Kickback Law. Due to the broad language of the Anti-Kickback Law and the variety of regulations, case law, advisory opinions and other secondary governmental guidance available pertaining to the Anti-Kickback Law, however, there is significant uncertainty regarding the law’s scope and interpretation. Therefore, there can be no assurance that the Corporation will not be found to have violated the Anti-Kickback Law, and, if so, that any sanction imposed would not have a material adverse effect on the operations of the Facilities or the financial condition of the Corporation.

False Claims and Billing Practices. The Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act expand the penalties for health care fraud, including broader provisions for the exclusion of providers from the Medicare and Medicaid programs. Further, under Operation Restore Trust, a major anti-fraud demonstration project, the Office of the Inspector General of DHHS, in cooperation with other federal and state agencies, has focused on the activities of skilled nursing facilities, home health agencies, hospices and durable medical equipment suppliers in certain states, including California. Due to the success of Operation Restore Trust, the project has been expanded to numerous other states and to additional providers, including providers of ancillary nursing home services. While management believes that the Corporation’s billing practices will be consistent with Medicare and Medicaid criteria (and with Medi-Cal in California), those criteria are often vague and subject to interpretation, and there can be no assurance that aggressive anti-fraud actions will not adversely affect the business of the Corporation.

Nature of the Income of the Elderly

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

Professional Liability Claims and General Liability Insurance

In recent years, the number of malpractice and general liability suits, including bad faith claims, and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in professional liability insurance premiums. Professional liability and other actions alleging wrongful conduct and claiming punitive damages are often filed against health care related facilities. Professional liability insurance does not provide coverage for judgments for punitive damages or for the payment of bad faith claims. See “ABSENCE OF MATERIAL LITIGATION” herein.

The Corporation carries professional liability and general liability insurance which management of the Corporation considers adequate; however, the Corporation is unable to predict the availability or cost of such insurance in the future.

Changes in Health Care Delivery

Scientific and technological advances, improved preventive medicine, occupational health and safety, and outpatient health care delivery may reduce the utilization and revenues of the Corporation in the future.

Rate Setting

Future legislation granting full or partial rate fixing authority to a State or federal agency could prevent the Corporation from increasing rates adequately to cover potential increases in its operating costs or other expenses. In addition, proposed legislation, if enacted, would limit the frequency of rate increases imposed by assisted living facilities and the ability to assess separate charges for items and services not authorized in the initial admission agreement.

Competition

Increased competition from a wide variety of potential sources, including, but not limited to, other assisted living and retirement facilities, sheltered care facilities, residential supportive living facilities, continuing care facilities, skilled nursing facilities, nursing homes, inpatient and outpatient health care facilities, independent living facilities, home health services and others could adversely affect the utilization and/or revenues of the Corporation. For information regarding the potential competitors of the Corporation, see APPENDIX A - “THE CORPORATION AND THE PROJECT.” Existing and potential competitors may not be subject to various restrictions applicable to the Corporation, and competition may, in the future, arise from new sources not currently anticipated or prevalent. Consequently, the utilization and revenues of the Corporation could be adversely affected thereby.

Environmental Laws and Regulations

There are potential risks relating to liabilities for environmental hazards with respect to the ownership or long-term leasing of any real property. If hazardous substances are found to be located on property, owners of such property may be held liable for costs and other liabilities related to the removal of such substances, which costs and liabilities could exceed the value of a facility. No site assessment has been done on the site.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Corporation, would have material adverse consequences. In the event such enforcement actions were initiated, the Corporation could be liable for the costs of removing or otherwise treating pollutants or contaminants located at the Facilities. In addition, under certain environmental statutes, in the event an enforcement action was initiated, a lien could attach to the Facilities, which would adversely affect the Corporation's ability to generate revenues from the operation of the Facilities sufficient to meet the debt service requirements with respect to the Certificates and its obligations under the Sale Agreement.

The Trustee will not be required to enter, take possession of, or take any other action with respect to the Project, and will not be required to initiate foreclosure proceedings with respect to the Project and the Deed 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 or from any circumstances present at the Project relating to the presence, use, management, disposal of, or contamination by any environmentally hazardous materials or substances of any kind. If the Corporation fails to make a scheduled payment of principal or interest, funds held by the Trustee under the Trust Agreement may be used to pay the fees and expenses of an environmental auditor to determine (i) the existence and extent of any contamination, and (ii) the expenses or obligations resulting from environmental liability and cleanup.

Taxation of Interest on the Certificates

Because the exclusion for federal income tax purposes of the interest on the Certificates from the gross income of the Owners thereof depends upon events occurring after the date of execution and delivery of the Certificates, the opinion of Special Counsel described under "TAX MATTERS" herein assumes the compliance by the Corporation with the provisions of the Code and the regulations relating thereto. No opinion is expressed by Special Counsel with respect to the exclusion from gross income of the interest on the Certificates in the event of noncompliance with such provisions. The failure of the Corporation to comply with the provisions of the Code and the regulations thereunder may cause the interest on the Certificates to become includable in the gross income of the Owners thereof as of the date of execution and delivery of the Certificates.

The occurrence of one or more of the foregoing events, or the occurrence of other unanticipated events, could adversely affect the Corporation's financial performance.

Possible Future Federal Tax Legislation

It is possible that future tax legislation could require that the interest on the Certificates be included in the gross income of the Owners for federal income tax purposes, and the value or marketability of the Certificates could be adversely affected by any such legislation. See "TAX MATTERS" herein.

Internal Revenue Code Compliance

The Internal Revenue Service (the "IRS") has determined that the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as

amended (the “Code”), and exempt from taxation under Section 501(a) of the Code. As a tax-exempt, charitable organization, the Corporation and its operations is subject to various requirements specified by the Code and the regulations promulgated thereunder. Compliance with those requirements is necessary to maintain the tax-exempt status of the Corporation. If the Corporation should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, action could be initiated by federal or state tax authorities to attempt to subject the Corporation, its property, and its revenues to taxation. If successful, such action could cause interest on the Certificates thereof to be taxable to the Owners thereof. Under the Code as amended to the date of this Official Statement, the failure of the Corporation to maintain its tax-exempt status could constitute a default under the Sale Agreement. The Corporation has covenanted in its Sale Agreement that it will not take or omit to take any action, if such act or omission would cause the interest on the Certificates to be includable in the gross income of any Owners for federal income tax purposes. Loss of tax-exempt status by the Corporation could result in loss of tax-exemption of the Certificates, and defaults in covenants regarding the Certificates and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation.

The maintenance by the Corporation of tax-exempt status depends, in part, upon the maintenance 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 primarily for charitable purposes. The IRS has announced that it intends to closely scrutinize transactions between nonprofit corporations and for-profit entities, including transactions relating to the Anti-Kickback Law, and has issued revised audit guidelines for tax-exempt health care entities. Although specific activities of health care entities have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Corporation conducts operations involving private parties, there can be no assurance that certain of the Corporation’s transactions would not be challenged by the IRS.

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

Intermediate sanctions may now be imposed where there is an “excess benefit transaction,” generally defined to include a disqualified person (i.e., an insider) engaging in an economic transaction with a tax-exempt organization at other than fair market value.

A disqualified person who benefits from an excess benefit transaction will be required to restore the excess benefit to the exempt organization and will be subject to a “first tier” penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers (e.g., directors) who participate in an excess benefit transaction knowing it to be improper are subject to a “first-tier” penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A “second tier” penalty excise tax of 200% of the amount of the

excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period. The intermediate sanctions law is effective retroactively to September 15, 1995.

Property Taxes

Local property tax assessors take differing positions as to whether or not facilities such as those owned by the Corporation are exempt from property taxation. Moreover, budgetary pressures on local government may lead to increasing pressures for state legislation to amend the property tax statutes to subject to taxation various properties owned by nonprofit organizations or to condition exemption from taxation upon the performance of specific types or level of charitable activity. The Corporation believes that it is currently exempt from *ad valorem* property tax with respect to the Facilities. The County Assessor for Los Angeles County, California, has not processed exemptions in a timely manner, however, and the Corporation has not received a formal exemption from the County Assessor.

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 and to the beneficiary of any junior deed of trust. Following the lapse of three months after the recording of the notice of default and election to sell, the trustee shall give notice of sale. The notice of sale must be posted in a public place and published once a week over a 20-day period prior to the trustee's sale. Such notice of sale must be posted on the property and sent to the trustor, to each person who has requested a copy, to any successor in interest of the trustor and to the beneficiary of any junior deed of trust at least 20 days prior to the sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure the default by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. Following the sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

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 sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successor in interest may redeem the property for a period of one year (or a period of only three months if the entire amount of the debt is bid at the foreclosure sale).

Anti-Deficiency Legislation and Other Limitations on Lenders. The State of California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two 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 where the deed of trust is given to secure the payment of bonds or certificates authorized or permitted to be issued by the California Commissioner of Corporations. Under the latter (not applicable in this situation), a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations.

Another California statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule was applicable to the Deed of Trust, and the trustee under the Deed of Trust were to file suit to collect the debt under the Series 1998 Obligation without seeking to enforce their remedies under the Deed of Trust, such trustees might be precluded from thereafter proceeding under the Deed of Trust. This limitation is probably not applicable to a junior deed of trust where the property is sold under a foreclosure of a senior deed of trust which eliminates the security of the junior deed of trust.

Another statutory provision limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the 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 liens of the Deed of Trust in the event of a default by the Corporation.

Governmental Approvals

One of the parcels in the Project, known as the "Park Avenue Parcel," may not receive final rezoning approval from the City until February 2003. The Corporation does not expect any delay in obtaining the rezoning approval.

Bankruptcy

The ability of the Trustee to exercise rights with respect to the Corporation under the Documents may be limited by bankruptcy, insolvency, reorganization, or other similar laws or equitable principles related to or affecting the enforcement of creditors' rights generally.

Bond Insurance for the Series A Certificates

In the event the Corporation fails to provide funds to make payment of the principal of and interest on the Series A Certificates when the same shall become due, any Series A Certificate Owner will have a claim on the Bond Insurance Policy for such payments. The Bond Insurance Policy does not insure the principal of or interest on the Series A Certificates coming due by reason of acceleration, optional or extraordinary redemption, however, nor does it insure

the payment of any redemption premium payable upon the redemption of the Series A Certificates. **The Bond Insurance Policy does not insure the payment of principal of or interest on the Series B Certificates.**

Under no circumstances, including the situation in which the interest on the Series A Certificates becomes subject to federal taxation for any reason, can the maturities of the Series A Certificates be accelerated without the consent of ACA, so long as ACA performs its obligations under the Bond Insurance Policy. Furthermore, so long as ACA performs its obligations under the Bond Insurance Policy, ACA may direct, and must consent to, any remedies that the Trustee exercises under the Trust Agreement for the Series A Certificates.

In the event that ACA is unable to make payments of principal and interest on the Series A Certificates as such payments become due, the Series A Certificates are payable solely from moneys received by the Trustee pursuant to the Sale Agreement. See “BOND INSURANCE FOR THE SERIES A CERTIFICATES” herein for further information concerning ACA and the Bond Insurance Policy.

The ratings on the Series A Certificates are dependent on the ratings of ACA. ACA’s current ratings are predicated upon, among other things, a level of reserves in excess of the levels required by the various state agencies regulating insurance companies. The level of reserves maintained by ACA could change over time and this could result in a downgrading of the ratings on the Series A Certificates. ACA is not contractually bound to maintain its present level of reserves in the future.

Amendments to Documents

Certain amendments to the Documents may be made without the consent of the Owners of the Certificates and other amendments may be made with the consent of the Owners of a majority in an aggregate principal amount of all outstanding Certificates. Such amendments could affect the security for the Certificates. Certain amendments may be made without the consent of the Owners of the Certificates if the amendment does not materially adversely affect the interest of the Owners of the Certificates. See “SUMMARY OF PRINCIPAL DOCUMENTS - TRUST AGREEMENT - Amendment of Agreements” in APPENDIX E hereto.

Certain Matters Relating to Enforceability of Agreements

The obligations of Corporation under the Sale Agreement will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors rights and as additionally described below.

The obligations described herein of the Corporation to make payments under the Sale Agreement may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization, fraudulent conveyance or transfer laws or similar laws affecting the enforcement of creditors’ rights and by general equitable principles and (2) such payments (i) are requested to make payments for a purpose which is not consistent with the charitable purposes of the Corporation from which such payments are requested or which are for the benefit of any entity other than a tax-exempt organization; (ii) are requested to be made from

any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Corporation from which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws.

There exist, in addition to the foregoing, common law of the City under California statutes pursuant to which the California courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion pursuant to a petition of the California Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Legal Opinions

The various legal opinions to be delivered concurrently with the delivery of the Certificates will express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

In addition, such opinions will be qualified as to the enforceability of the various legal instruments by, among others, limitations imposed by state and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

Other Considerations

Labor Relations. Nonprofit nursing homes and their employees came under the jurisdiction of the National Labor Relations Board in 1974. At the present time none of the employees of the Corporation are represented by a labor organization.

Reduced Demand. The reduced need for assisted living services arising from future scientific advances, preventive medicine, home healthcare services, alternative delivery systems, changes in demographics, or a decline in the population or the economic condition of any of the service areas of the Corporation's facilities may adversely affect the Corporation's revenues.

Changes in Tax Policy. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of nonprofit organizations, including nursing homes and retirement centers, particularly where such authorities are dissatisfied with the amount of service provided to indigents. The Corporation believes its services to indigents are adequate, but it is possible that future administrative or judicial proceedings will have the effect of requiring the Corporation to increase its services to indigent patients to retain its tax-exempt status, which would have an adverse effect on the revenues of the Corporation.

Cost Increases. Cost increases without corresponding increases in revenue would result from, among other factors, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the Corporation to increase revenues from operating its physical plants or providing services. In addition, it is possible that the State of California will pass legislation requiring certain tax-exempt organizations, such as the Corporation, to pay certain fees for municipal services, which may in turn increase the Corporation's operating costs. At present, many charitable organizations similar to the Corporation are not required to pay fees for municipal services in respect of such real property unless the fees represent user fees of general application. Furthermore, the Code places certain limitations on the ability to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the Corporation.

Governmental Approvals. The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.

Natural Disasters. The occurrence of natural disasters, including earthquakes, floods, hurricanes and tornadoes, may damage some or all of the facilities operated by the Corporation or interrupt utility service to some or all of the facilities, otherwise impair the operations of some or all of the facilities, or the generation of revenues from some or all of the facilities. The Corporation may not be able to obtain insurance against all such hazards at commercially reasonable rates.

Adverse Relations. Adverse community relations or publicity involving some or all of the facilities owned or managed by the Corporation could affect the demand for the services provided by such facilities, or the generation of revenues from some or all of the facilities.

Other Legislation. Assisted living and certain retirement facilities, such as the Corporation's Facilities, are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by nursing facilities. Among the types of regulatory requirements faced by assisted living facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; requirements related to polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the nursing facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. The Corporation and its assisted living facility may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of assisted living facilities include, to some extent, and in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of assisted living facilities are susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in

damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

Other Factors. The occurrence of any of the following events, or other unanticipated events, could affect adversely the operation of the Corporation:

- (a) shortages of personnel rendering services at assisted living facilities and nursing facilities;
- (b) shortages in nursing staff;
- (c) reinstatement or establishment of mandatory wage or price controls;
- (d) increases in the cost or limitations on the availability of insurance;
- (e) expansion of programs paying or increasing payments for in-home care;
- (f) a decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market area; or
- (g) increases in the cost of public utilities, including electricity, natural gas, water and sewer.

ABSENCE OF MATERIAL LITIGATION

The City. There is no controversy or litigation of any nature now pending against the City, to the knowledge of its officers, threatened that seeks to restrain or enjoin the sale, execution or delivery of the Certificates or that in any way contests or affects the validity of the Certificates or any proceedings of the City taken with respect to the execution, delivery or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Certificates, the use of the Certificate proceeds or the existence or powers of the City relating to the execution and delivery of the Certificates.

The Corporation. There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened that seeks to restrain or enjoin the sale, execution or delivery of the Certificates or that in any way contests or affects the validity of the Certificates or any proceedings of the Corporation relating to the execution, delivery or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Certificates, the use of the Certificate proceeds or the existence or powers of the Corporation relating to the execution and delivery of the Certificates.

There is no controversy or litigation of any nature now pending against the Corporation or, to the know edge of its officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Corporation.

TAX MATTERS

In the opinion of Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, the interest component of the Installment Payments made by the City under the Purchase Agreement and received by the Owners of the Certificates 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 exempt from State of California personal income taxes. The Certificates are "qualified 501(c)(3) bonds" under the Code. Special Counsel is also of the opinion that the interest component of the Installment Payments is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. In addition, the difference between the initial public offering price of certain maturities of the Installment Payments evidenced by the Certificates (assuming such initial public offering price is the first price at which such maturity is sold to the public) and the amount payable at the maturity thereof constitutes original issue discount, and the amount of any original issue discount that accrues to the Owners of such Installment Payments evidenced by the Certificates is excluded from the gross income of such Owners for federal income tax purposes, is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes (but is included in adjusted current earnings in calculating corporate alternative minimum taxable income), and is exempt from State of California personal income taxes. The proposed form of the opinion of Special Counsel is included in APPENDIX F hereto.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations such as the Certificates to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the Corporation be a tax-exempt organization described in Section 501(c)(3) of the Code. We have relied on the opinion of Michael D. Smith, Esq. regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. We note that such opinion is subject to a number of qualifications and limitations. Additional requirements relate to limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States, and a requirement that the City file an information report with the Internal Revenue Service. The Corporation and the City have covenanted in the Trust Agreement and the Sale Agreement that they will comply with these requirements.

For purposes of the opinion that the Certificates are "qualified 501(c)(3) bonds," Special Counsel will assume continuing compliance with the covenants of the Sale Agreement, the Purchase Agreement, the Trust Agreement and the Tax Certificate pertaining to those sections of the Code which affect the status of the Corporation as an organization described in Section 501(c)(3) of the Code and the exclusion from gross income of interest on the Certificates for federal income tax purposes. In addition, Special Counsel will rely on representations by the City, the Corporation and the Underwriter with respect to matters solely within the knowledge of the City, the Corporation and the Underwriter, respectively, which Special Counsel has not independently verified. If the Corporation or the City should fail to comply with the covenants

in the Sale Agreement, the Purchase Agreement, the Trust Agreement or the Tax Certificate, or if the foregoing representations with respect to the Corporation, the City or the Underwriter should be determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income for federal income tax purpose from the date of original delivery of the Certificate regardless of the date on which the event causing such includability occurs.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Sale Agreement, the Purchase Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Installment Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to the Purchase Agreement, any Certificate or the interest component of the Installment Payments if any such change occurs or action is taken or omitted upon the advice or approval of Special Counsel other than Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP.

Although Special Counsel has rendered an opinion that the interest component of the Installment Payments is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of the Certificates or the accrual or receipt of the interest component (including an original issue discount) of the Installment Payments may otherwise affect a Owner's tax liability. The nature and extent of these other tax consequences will depend upon the Owner's particular tax status or the Owner's other items of income or deduction. Special Counsel expresses no opinion regarding other such tax consequences.

Special Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Special Counsel's knowledge of facts as to the date thereof. Special Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Special Counsel's opinions are not a guarantee of result and are not binding upon the Internal Revenue Service (IRS). Rather, such opinions represent Special Counsel's legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions as of the date of the opinions and the representations and covenants of the City, the Corporation and the Underwriter that it deems relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurances can be given whether or not the IRS will commence an audit on the Certificates. Special Counsel observes that the Corporation has covenanted in the Sale Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the Certificates that is excluded from gross income for federal income tax purposes

and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

APPROVAL OF LEGALITY

Legal matters incident to the delivery of the Certificates are subject to the approving opinion of Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, San Francisco, California, Special Counsel. Approval of other legal matters will be passed upon for the City by its legal counsel; for the Corporation by its counsel, Michael D. Smith, Esq., Claremont, California; and for the Underwriter by its counsel, Michael Best & Friedrich LLP, Madison, Wisconsin. Special Counsel and counsel to the Corporation, the City and the Underwriter undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

RATINGS

Standard & Poor's Ratings Services ("S&P") has given the Series A Certificates a rating of "A". S&P has given the Series B Certificates a rating of "BBB-". Any explanation of the significance of such ratings may be obtained only from S&P. The Corporation has furnished to S&P certain information and materials concerning the Certificates and the Corporation. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that such ratings will be maintained for any given period of time or that they will not be lowered or withdrawn entirely by S&P if in its judgment circumstances so warrant. The City, the Corporation and the Underwriter have undertaken no responsibility either to notify Owners of any proposed change in or withdrawal of such ratings or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the ratings may have an adverse effect on the market price of the Certificates.

INDEPENDENT AUDITORS

The financial statements of Brethren Hillcrest Homes as of and for the years ended June 30, 2002, 2001 and 2000, included in APPENDIX B hereto, have been audited by Vicenti, Lloyd & Stutzman, LLP, independent auditors, as stated in their reports appearing in APPENDIX B hereto.

UNDERWRITING

The Certificates are being purchased by Cain Brothers & Company, LLC, as Underwriter, at an aggregate purchase price of \$46,306,103.75 (reflecting the \$47,000,000.00 par amount of the Certificates, plus accrued interest to the date of delivery in the amount of \$45,541.40, less original issue discount in the amount of \$386,937.65, less Underwriter's discount in the amount of \$352,500.00) for reoffering by the Underwriter. The Certificate Purchase Agreement provides that the Underwriter will purchase all of the Certificates, if any are purchased. The obligation of the Underwriter to accept delivery of the Certificates is subject to various conditions contained in the Certificate Purchase Agreement.

The Underwriter intends to offer the Certificates to potential investors 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 Corporation has agreed to indemnify the Underwriter and the City against certain liabilities, including certain liabilities under federal securities law.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Certificates, the Trust Agreement, the Purchase Agreement, the Sale Agreement, the Deed of Trust and the Continuing Disclosure Agreement and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is made to said documents for full and complete statements of the provision as of such documents. The Appendices attached hereto are integral parts of this Official Statement.

Copies of all documents referred to herein may be obtained upon written request directed during the offering period to the Underwriter, Cain Brothers & Company, LLC, 452 Fifth Avenue, 25th Floor, New York, New York 10018, Attention: Sales Desk; and thereafter to the Trustee, BNY Western Trust Company, 700 South Flower Street, Suite 500, Los Angeles, California 90017, Attention: Corporate Trust Department.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The City and the Underwriter have not undertaken to verify independently, and assume no responsibility for, the accuracy or completeness of the information in this Official Statement with respect to the Corporation, the Facilities or the elder living or health care industry in general.

The execution and delivery of this Official Statement have been approved by the Corporation. This Official Statement is not to be construed as a contract or agreement between the City and the Corporation and the purchasers or Owners of any of the Certificates.

CITY OF LA VERNE, CALIFORNIA

By: /s/ Martin R. Lomeli
Martin R. Lomeli, City Manager

Approved:

BRETHREN HILLCREST HOMES

By: /s/ Charles E. Cable
Charles E. Cable, President
and Chief Executive Officer

APPENDIX A

THE CORPORATION AND THE PROJECT

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HISTORY AND BACKGROUND

Introduction

Brethren Hillcrest Homes (the "Corporation") is a California nonprofit public benefit corporation, which was incorporated in 1947 for the purpose of owning, maintaining and operating homes for aging and elderly persons within the State of California. The Corporation operates as a continuing care retirement community (CCRC), providing housing and healthcare needs for elderly residents. The Corporation is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Corporation is also exempt from State of California franchise taxes.

Hillcrest opened on a six and one half-acre parcel in 1949 with a duplex cottage, which has since been removed. The original West Manor and chapel along with 58 apartments were added in 1958. Hillcrest has expanded over the years to include homes, additional apartments, assisted living, physical therapy, a 24-bed dementia facility and a 79-bed licensed nursing facility. Hillcrest has also acquired additional land over the years which now totals 53 acres, of which approximately 17 remain undeveloped.

THE PROJECT

The Corporation is undertaking a redevelopment of its core campus to meet the growing needs of its community and its existing and future residents. The Project will consist of financing the construction of certain improvements and expansions to Hillcrest. The Corporation will also be reimbursed for funds already expended on the project for architectural and design costs. The project will be completed in two phases over 27 months in an effort to minimize the disturbance to existing residents. The first phase will begin in January 2003 with completion scheduled for January 2004. The second phase is scheduled to begin February 2004 with completion in April 2005.

The improvements include the construction of (1) an Aquatic and Fitness Center in phase I; (2) the Manor 34-unit assisted living facility in phase I; (3) the 20-unit residential living facility in phase I; (4) the Manor 26-unit residential living facility in phase II; and (5) the Meeting House with ten (10) residential living units on the second story and resident and management facilities on the first floor in phase II. The 90 living units to be constructed will replace 12 existing one bedroom residential living/residential living with services units; 23 studio homes that had provided residential living with services; and, in the Manor, 11 assisted living units and 40 residential living with services units in the Manor. Each of the new residential living units will have one or two bedrooms, a kitchen, laundry and spacious living areas. The services provided in the 26-unit Manor residential living facility, include housekeeping, flat-linen laundry and dining. The services provided in the 34-unit Manor assisted living facility include dining, flat linen laundry, medication assistance, and bathing and dressing assistance. The residential living units will be one and two beds apartments and the assisted living units will be studio and one-bedroom apartments.

As part of its renovation plans, the Corporation has built 17 new two-bedroom, two-bath Courtyard homes, with attached two-car garages, over the past two years, all of which have been

occupied. Existing residents of the assisted living facility and residential care facility will occupy a significant portion of the new assisted living facility and the new residential living units. Management believes that the new residential living units will fill as quickly as the Courtyard homes.

The Corporation will also develop a new community center, called the Meeting House, described briefly above. It will be the center for the entire campus. The Meeting House will include a large multi-purpose meeting room, dining venues, library, parlor game area, and gift shop along with other resident amenities. The Meeting House will also include management offices, a second story of 10 residential living units (described above), and a basement.

The Aquatic and Fitness Center will feature an indoor swimming pool and spa, an exercise area, multi-purpose rooms, locker and changing rooms, an exterior patio, a physical therapy area, and an outpatient clinic area for residential living residents.

The main dining room will be expanded and will have a new entrance, restrooms and a private dining room. This will be completed during phase I of the project.

In addition to the Village Center Project, the Corporation will construct 11 new homes located on their campus. These two-bedroom, two-bath homes, with attached two-car garages, will be constructed over an 18-month period and will be paid for by the receipt of entrance fees. These homes will replace five existing rental units and one residential living unit. As of November 2002, five homes have been reserved.

The following is a breakdown of the unit mix once the scheduled projects are completed:

232	Residential Homes and apartments
48	assisted living units
24	dementia beds
<u>79</u>	skilled nursing beds
383	total units

Project Architect

Irwin-Pancake Architects, Huntington Beach, California, Carl H. Irwin, AIA is the principal who will be the architect for the Project. Established in 1966, Irwin-Pancake Architects focuses exclusively on senior housing care facilities in the Western United States. They have successfully provided value and service to clients in Washington, Arizona, New Mexico, Colorado, Utah, Montana, Missouri, and California.

Irwin-Pancake experience includes substantial master planning and campus renewal projects involving both new and remodeled independent living apartments and cottages, assisted living facilities, residential Alzheimer care facilities, skilled nursing facilities, wellness centers, restorative and aquatic therapy centers, resident activity centers, administrative buildings, food service facilities and maintenance/service facilities.

Contractor

The Corporation has entered into a negotiated Guaranteed Maximum Price (GMP) contract with The Weitz Company, who has been in business since 1855 and is the oldest general contractor west of the Mississippi. Based in Des Moines, Iowa, it will manage the project out of its Phoenix, Arizona office. The Weitz Company's nationwide experience includes 134 senior living projects in 25 states including construction of 15,508 living units, 1,266 assisted living units, 4,254 nursing beds and 313 Alzheimer's beds. Having handled a volume of over \$1.2 billion in these types of projects, they have developed staff and services particularly sensitive to the special requirements of senior living facilities, whether it is new construction, an addition or extensive remodeling. Weitz has built all levels of senior living facilities ranging from low income residential to luxury condominiums. Amenities have included such items as swimming pools, tennis courts, clubhouses, beauty parlors, shops, activity centers, convocation halls, and resident services of all types. As of December 31, 2001, Weitz completed total construction revenues of \$864 million with an equity position totaling \$33 million.

A list of recent senior living construction projects in which Weitz acted as general contractor include the following:

<u>Name</u>	<u>Location</u>
Cypress Cove	Ft. Myers, FL
McKeen Towers	West Palm Beach, FL
Lambeth House	New Orleans, LA
Mary Woods at Marylhurst	Marylhurst, OR
Classic Residence at Grayhawk	Scottsdale, AZ
The Baptist Home of Philadelphia	Philadelphia, PA
La Perla Independent Living Apartments	Green Valley, AZ

Construction Monitor

The Corporation will retain the firm of Levien-Rich Associates, Inc., Los Angeles, California ("Levien-Rich"), to serve as Construction Monitor in connection with the Project. Prior to the issuance of the Certificates, Levien-Rich is expected to issue a written report to the effect that in its opinion (i) the plans and specifications for the Project conform to generally accepted building construction practices; (ii) the plans and specifications for the Project are in compliance with governing codes; and (iii) the construction budget for the Project is reasonable and is adequate to effect the completion of the Project. The written report will also include a seismic structural assessment. Upon the commencement of construction of the Project, Levien-Rich is expected to review the progress of construction and the conformance of construction with the plans and specifications for the Project once per month, to review and approve all change orders and draw requests submitted by the contractor for payment, and to prepare a monthly written report to the Trustee, the Corporation, the Certificate Owners and the Underwriter respecting the progress, schedule and financial status of the construction activity. Requests made by the Corporation for withdrawals from the Project Fund are required to be made by the Corporation with evidence of approval by Levien-Rich.

Government Agency Approvals

Management of the Corporation expects to obtain all governmental agency approvals, permits and licenses presently required to complete the Project in early December, 2002 with the remaining building permits for phase two of the Project to be received in due course.

Future Plans

The long-range plan for the Corporation includes construction of a new skilled nursing facility in the next 10 years. This will not be completed until the current project is fully stabilized. The Corporation also expects to continue to construct residential living homes and apartments to meet the growing demand.

THE FACILITY

Description

The Corporation owns and operates a continuing care retirement community (“CCRC”) located in La Verne, California. The CCRC consists of a 53-acre site including 289 residential units and a licensed 79-bed skilled nursing facility. Currently the Corporation is home to approximately 380 residents. Residents can choose from a variety of different lifestyles including residential living, assisted living, skilled nursing care, and specialized care for residents with Alzheimer’s and other types of memory impaired conditions. The existing CCRC residential living units include 31 studio, 60 one bedroom, 102 two bedroom, 5 three bedroom and 2 four bedroom units. There are also 51 Manor apartments for residential living with services or assisted living and 14 Woods Assisted Living units. In addition the Corporation has a 24-unit dementia facility as well as a licensed 79-bed skilled nursing facility. The Corporation maintains a unique campus, with little duplication of unit types or designs.

The campus also includes interior circulation roads; open paved parking, both uncovered and covered; park-like grounds with lit walking paths; and resident gardens.

The Corporation maintains a broad inventory of residential homes as noted above. The inventory includes residential living, residential living with services, assisted living, dementia care and skilled nursing care accommodations as described in further detail below.

The great majority of residents enter into a Continuing Care Contract with the Corporation, by which they pay an entrance fee upon admission and a monthly fee during residency. This gives them the right to receive continuing care, allowing them to move from one level of care to another as necessity demands. The monthly fee is set in accordance with the level of care, so that residents at each level cover the Corporation’s costs of providing services to them. Accordingly, the Corporation operates what is called a “Type C” facility. Historically, the entrance fee has been non-refundable after a certain period of time in residency. However, in 1999 the Corporation added an option providing for a higher entrance fee, 50% of which would be fully refundable at the end of residency. In addition, the Corporation admits some residents under a Monthly Care Agreement, usually to assisted living. These residents pay no entrance fee, being responsible for only a monthly fee. Unlike continuing care residents, they have no

automatic right to move to a different level of care and their residency can be terminated by the Corporation at any time without cause upon thirty days' notice.

Residential Living

Residents in residential living receive living accommodations (including utilities, campus security, and internal and external building maintenance), social programs, and general wellness services(including the monitoring of health status), all under the monthly fee. In addition, they may receive meals in the central dining room, obtain housekeeping services, participate in day trips and recreational activities, and receive transportation services, all at an extra charge.

Residential Living with Services

The Corporation currently offers a more inclusive service program in a residential setting, which is called "Residential Living with Services." This level of living can be accessed through the Continuing Care Contract or through a Monthly Care Agreement. Residential Living with Services at the Corporation is designed to help residents maintain independence. These accommodations provide a place where residents who need some help with the activities of daily living can truly enjoy life. Residents in the Residential Living with Services program receive all the standard services plus two meals daily, weekly light housekeeping, and weekly flat linen service. This program features standardized service programs that will continue to be offered in the Manor apartments. Nineteen units of the 31 residential units have been vacated in preparation for the first phase of the Project.

Assisted Living

The Corporation offers an all-inclusive Assisted Living program that is not currently based on a point assessment for levels of care, but is based on ambulation and acuity. Residents in Assisted Living pay a monthly fee to receive three meals daily, housekeeping, flat linens, activities, use of the apartment including utilities, nursing supervision, and personalized services. The majority of Assisted Living residents transition from the Corporation's residential living units, but the Corporation offers direct placement from outside the community through a Monthly Care Agreement. The campus redevelopment will create 34 new Assisted Living apartments to replace existing units in the Manor building. In addition to the new Assisted Living apartments, residents who need assisted living may reside in the 14 units of the Woods Assisted Living facility.

Dementia Care

The Corporation offers a social model of care for residents with cognitive impairment, dementia or Alzheimer's disease. This is offered at the 24-bed Southwoods Lodge that is adjacent to the skilled nursing facility. The majority of these residents transition from the Corporation's residential living and assisted living units. The Corporation also offers direct placement from outside of the community through a Monthly Care Agreement. The monthly fee includes three meals daily, housekeeping as needed, flat linens, specialized activities, use of the accommodation including utilities, cable TV, supervision, health status review, personal laundry, bathing and grooming services and personalized services. Should a resident develop complex medical problems, the Corporation can offer accommodation in the skilled nursing facility. In

the event of complex behavioral problems or when the resident is a danger to themselves or others, a resident can be asked to move.

Skilled Nursing Care and Custodial Nursing Care

The Corporation also offers skilled nursing care at a 79-bed skilled nursing facility (“SNF”) called Woods Health Services. This is the highest level of care that the Corporation provides, and is available for residents who require full-time nursing services. Woods Health Services is licensed by the California Department of Health Services and is Medicare and Medi-Cal certified. In addition to offering skilled nursing care, it acts as a central staging point for other health-related services provided to residents. Residents may stay in the SNF while recovering from short-term illness or injury, then return to their home when they have recovered. Woods also offers a comfortable environment for residents needing long-term care. Residents who have paid an entrance fee when they entered the community receive a discounted daily rate for skilled nursing care. Residents on monthly care agreements are charged the posted daily rate for skilled nursing care. Based on availability, the Corporation offers accommodations at a daily rate to non-Hillcrest residents.

Licenses

The Corporation holds a Residential Care Facility for the Elderly (“RCFE”) license from the California Department of Social Services covering all of the premises except for the Woods Health Services SNF. Both the RCFE and the SNF licenses are renewed on an annual basis.

The Corporation has a Certificate of Authority from the California Department of Social Services to enter into continuing care contracts. By law, this certificate remains in effect until revoked, suspended or limited by the Department of Social Services or surrendered by the Corporation. As a certificate holder, the Corporation is obligated to maintain certain minimum financial reserves. The Corporation meets these requirements, and indeed has historically exceeded them.

For more detailed information on licensure, please see “Laws and Regulations Governing the Corporation’s Facilities” in the Official Statement.

Accreditation

The Corporation was the first continuing care retirement community in California to be nationally accredited by the Continuing Care Accreditation Commission in 1986. Accreditation was renewed for five-year periods in 1991, 1996 and 2001.

Memberships

The Corporation maintains active memberships in the following organizations:

- American Association of Homes and Services for the Aging (AAHSA)
- California Association of Homes and Services for the Aging (CAHSA)
- International Association of Homes and Services of the Aging (IAHSA)
- Continuing Care Accreditation Commission (CCAC)
- Association of Brethren Caregivers (ABC)
- Retirement Communities Alliance (RCA)

Insurance

To assist the resident in preserving personal assets, each resident is required to maintain a minimum level of health insurance coverage. A majority of the residents carry Medicare Parts A and B or programs equivalent in benefit value. Many residents are presently enrolled in a supplemental (or “Medigap”) program providing certain benefits not covered by Medicare. If a resident fails to remain insured, the Corporation reserves the right to terminate the resident’s Continuing Care Contract.

The Corporation currently carries property, automobile and commercial general liability insurance in such amounts as are customarily carried by similar institutions in the State of California. The Corporation also carries malpractice insurance in the amount of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate, with excess coverage provided by an umbrella policy. The Corporation does not carry earthquake or flood insurance.

There is a risk that the Corporation will be subject to increases in liability insurance premiums, decreases in liability insurance coverage, and/or unavailability of liability insurance.

The management of the Corporation is aware of only three entities providing workers’ compensation coverage. Workers’ compensation coverage premiums quoted to the Corporation reflect increases of 100% over the Corporation’s existing premiums. The Corporation is exploring entering into a self-insurance pool with other, similar entities, to be called the “GuardianComp, Inc. Group Workers’ Compensation Self-Insurance Program.” Such an arrangement would spread the workers’ compensation risk among the other participants in the pool, but might also expose the Corporation to its pro-rata share of workers’ compensation claims from the other participants. If other workers’ compensation coverage cannot be obtained at competitive rates, then the Corporation may participate in the State of California’s State Workmen’s Compensation Fund, which carries no rating from any rating agency or entity.

Services

Persons in residential living select their own activities and programs. The Corporation provides residents with all standard utilities except for telephone and cable television programming. The Corporation also provides maintenance and repair of the residents’ homes and of the campus, grounds keeping, a monitored emergency response system, a 24-hour security service, recreational and community facilities, and planned activities. In addition, for an extra charge, persons in independent living may obtain meals in the main dining room, housekeeping and linen

services, local and medical transportation, and in-home health services. Other campus amenities include a bookstore, fireside lounge, computer lab, library, dining room, fitness center, gift shop, woodworking shop, beauty salons, unique aviary, campus shuttle, walking trails, community gardens and shuffleboard.

RESIDENT CONTRACTS AND AGREEMENTS

Admission Criteria

The Corporation operates the facilities on a non-discriminatory basis and affords equal treatment and access to services to all qualified persons regardless of race, color, religion, national origin or ancestry. The Corporation accepts applications from persons who are at least 62 years of age and who meet licensing, financial, medical and other criteria. Persons admitted into the facility are required to enter into a Continuing Care Contract or a Monthly Care Agreement.

Continuing Care Contracts

The Corporation offers two types of Continuing Care Contracts, each of which has been approved by the California Department of Social Services. (See “Licenses” above.)

Either the Corporation or the resident may cancel either Continuing Care Contract during an initial 90-day cancellation period for any reason or no reason. Subsequently, the resident may terminate the Contract for any or no reason on 30 days’ prior written notice to the Corporation. In the event of death of the resident during the 90-day cancellation period, the estate will be entitled to a refund under the principles set forth in the Contract. After the cancellation period, the Corporation will not refund the estate any portion of the Entrance Fee on the resident’s death.

The Continuing Care Contracts are different with respect to refunds due to residents who terminate after the 90-day cancellation period.

Continuing Care Contract with 50-Month Declining Refund

The Corporation’s traditional Continuing Care Contract offers a terminating resident an entrance fee refund if the termination occurs during the first 50 months of residence. After that time, terminating residents receive no entrance fee refund. The amount of the refund is equal to the entrance fee, less four percent (4%) for refurbishing and processing and two percent (2%) for each month that the resident has been in residence. The refund will be made within the latter of 90 days after the notice is received or 14 calendar days after the resident releases their unit back to the Corporation.

Continuing Care Contract with 50% Refund

In recent years, the Corporation has offered an alternative to the traditional 50-Month Declining Refund Contract. Under the alternative, one-half of the entrance fee is subject to the traditional 50-month declining refund. Thus, if the resident terminates the Contract within the first 50 months of residency, he or she receives a refund equal to the entrance fee, less four percent (4%) for refurbishing and processing and two percent (2%) for each month of residency. The other

one-half of the entrance fee is fully refunded upon termination. The refund will be made within the latter of 90 days after the notice is received or 14 calendar days after the resident releases their unit back to the Corporation.

In the past five years, only two residents have terminated the Continuing Care Contract.

Monthly Care Agreement

The Monthly Care Agreement provides services to residents on a month-to-month basis. Either the resident or the Corporation may terminate the Agreement, with or without cause, upon 30 days' notice to the other party. In addition, the Corporation may terminate the Agreement at any time upon a three-day written notice to a resident if it obtains the prior written approval of the California Department of Social Services.

Upon termination of the Monthly Care Agreement, the monthly fee is payable until the unit is vacated and all personal property is removed. A refund will be completed within 10 business days after the unit is vacated, less the amount of any unpaid monthly fees or other charges or expenses incurred while in residency. In the event of death, if the amount owed exceeds the sum of the final fee, then the Corporation will bill the estate.

Entrance Fees; Monthly Fees

Entrance and monthly fees are based primarily on the size of the residential unit. Monthly fees also depend on whether the occupancy is single or double. Entrance fees are adjusted periodically to reflect such factors as past experience, the present market environment and the anticipated cost of future continuing care. Monthly fees are adjusted annually based on factors such as projected costs, prior year per capita costs, and economic indicators. Entrance fee adjustments affect only new residents, while monthly fee adjustments affect all residents. The monthly fees for Fiscal Year 2003 are approximately 7% higher than the monthly fees in effect during Fiscal Year 2002.

Because of the unique nature of each living accommodation at the Corporation, the entrance fees are based on a standardized formula. This equation is based on unit square footage, community access and amenities, and customized renovations. Prior to marketing, the unit is assessed for improvements and usage. The unit is re-marketed after renovation. The entrance fees and monthly fees are determined and disclosed based on the assessment and changes.

Set forth below is a chart indicating the current range of Fiscal Year 2003 entrance fees and monthly fees for the various residential living units:

Residential Living 50% Refundable Continuing Care Contract			
Apartment Type	One Bedroom	Two Bedroom	Two Bedroom
Square Feet	626	902	1,011
Entrance Fee for Single	\$143,330	\$198,260	\$220,290
Entrance Fee for Double	\$162,530	\$217,460	\$239,710
Single Basic Monthly Fee	\$1,076	\$1,301	\$1,390
Double Basic Monthly Fee	\$1,376	\$1,601	\$1,690

Residential Living 50-Month Declining Refund Continuing Care Contract			
Apartment Type	One Bedroom	Two Bedroom	Two Bedroom
Square Feet	626	902	1,011
Entrance Fee for Single	\$106,170	\$147,160	\$163,340
Entrance Fee for Double	\$120,370	\$161,360	\$177,540
Single Basic Monthly Fee	\$1,076	\$1,301	\$1,390
Double Basic Monthly Fee	\$1,376	\$1,601	\$1,690

Residential Living Monthly Care Agreement			
Apartment Type	One Bedroom	Two Bedroom	Two Bedroom
Square Feet	626	902	1,011
Single Basic Monthly Fee	\$3,332	\$4,428	\$4,861
Double Basic Monthly Fee	\$3,934	\$5,030	\$5,463

Residential Living with Services 50% Refundable Continuing Care Contract			
Apartment Type	Studio	Manor Suite	Manor Bay Suite
Entrance Fee for Single	\$74,160	\$76,775	\$95,081
Entrance Fee for Double	\$93,360	\$95,975	\$114,281
Single Basic Monthly Fee	\$1,507	\$2,361	\$2,528
Double Basic Monthly Fee	\$2,533	\$3,421	\$3,587

Residential Living with Services 50-Month Declining Refund Continuing Care Contract			
Apartment Type	Studio	Manor Suite	Manor Bay Suite
Entrance Fee for Single	\$54,930	\$56,870	\$70,430
Entrance Fee for Double	\$69,130	\$71,070	\$84,630
Single Basic Monthly Fee	\$1,507	\$2,361	\$2,528
Double Basic Monthly Fee	\$2,533	\$3,421	\$3,587

Residential Living with Services Monthly Care Agreement					
Apartment Type	Manor Single	Manor Single	Studio	Manor Suite	Manor Bay Suite
Single Basic Monthly Fee	\$2,326	\$2,895	\$2,445- \$2,942	\$3,415	\$3,832
Double Basic Monthly Fee	\$3,366	\$3,967	\$3,501 - \$3,988	\$4,475	\$4,891

Other Monthly Fee Options in addition to Basic Fee include the following:

Standard	30 meals per person	Monthly fee for Single	\$270
	Bi-weekly light housekeeping	Monthly fee for Double	\$470
Enhanced	60 meals per person	Monthly fee for Single	\$500
	Weekly light housekeeping	Monthly fee for Double	\$860
	Scheduled transportation service in the local area		

Twenty-Six-Unit Manor Living Residential Living Facility

Set forth below are two charts indicating the projected range of entrance fees and monthly fees for the new 26 residential living units called Manor Living for Fiscal Year 2004:

Residential Living 50% Refundable Continuing Care Contract					
Apartment Type	One Bedroom	One Bedroom	One Bedroom	One Bedroom	Two Bedroom
Square Feet	553	671	760	770	925
Entrance Fee for Single	\$145,410	\$172,400	\$192,750	\$195,030	\$230,490
Entrance Fee for Double	\$167,310	\$194,300	\$214,650	\$216,930	\$252,390
Single Basic Monthly Fee	\$1,155	\$1,265	\$1,348	\$1,358	\$1,502
Double Basic Monthly Fee	\$1,495	\$1,605	\$1,688	\$1,698	\$1,495

Residential Living 50-Month Declining Refund Continuing Care Contract					
Apartment Type	One Bedroom	One Bedroom	One Bedroom	One Bedroom	Two Bedroom
Square Feet	553	671	760	770	925
Entrance Fee for Single	\$107,710	\$127,700	\$142,780	\$144,470	\$170,710
Entrance Fee for Double	\$123,960	\$143,960	\$159,040	\$160,730	\$186,990
Single Basic Monthly Fee	\$1,155	\$1,265	\$1,348	\$1,358	\$1,502
Double Basic Monthly Fee	\$1,495	\$1,605	\$1,688	\$1,698	\$1,495

The Corporation does not plan to offer a monthly care agreement to the initial residents of these 26 residential living units.

Ten-Unit Meeting House Residential Living Facility

Set forth below is a chart indicating the projected range of entrance fees and monthly fees for the Meeting House residential living units for Fiscal Year 2004:

Residential Living 50% Refundable Continuing Care Contract					
Apartment Type	One Bedroom	One Bedroom	One Bedroom	One Bedroom	Two Bedroom
Square Feet	1,157	1,250	1,298	1,480	1,621
Single Entrance Fee	\$292,440	\$313,700	\$324,680	\$366,300	\$403,250
Double Entrance Fee	\$314,340	\$335,600	\$346,580	\$388,200	\$425,150
Single Basic Monthly Fee	\$1,754	\$1,841	\$1,886	\$2,055	\$2,206
Double Basic Monthly Fee	\$2,094	\$2,181	\$2,226	\$2,395	\$2,206

Residential Living 50-Month Declining Refund Continuing Care Contract					
Apartment Type	One Bedroom	One Bedroom	One Bedroom	One Bedroom	Two Bedroom
Square Feet	1,157	1,250	1,298	1,480	1,621
Single Entrance Fee	\$216,620	\$232,370	\$240,500	\$271,330	\$298,700
Double Entrance Fee	\$232,880	\$248,630	\$256,760	\$287,590	\$314,960
Single Basic Monthly Fee	\$1,754	\$1,841	\$1,886	\$2,055	\$2,206
Double Basic Monthly Fee	\$2,094	\$2,181	\$2,226	\$2,395	\$2,206

The Corporation does not plan to offer a monthly care agreement to the initial residents of these 10 residential living units.

Two-Story, Twenty-Unit Residential Living Facility

Set forth below is a chart indicating the projected range of entrance fees and monthly fees for the twenty residential living units for Fiscal Year 2004:

Residential Living 50% Refundable Continuing Care Contract			
Apartment Type	One Bedroom	One Bedroom Den	Two Bedroom
Square Feet	657	856	972
Single Entrance Fee	\$155,360	\$197,910	\$222,710
Double Entrance Fee	\$175,860	\$218,410	\$243,210

Residential Living 50-Month Declining Refund Continuing Care Contract			
Apartment Type	One Bedroom	One Bedroom Den	Two Bedroom
Square Feet	657	856	972
Single Entrance Fee	\$115,080	\$146,600	\$164,970
Double Entrance Fee	\$130,270	\$161,790	\$180,160
Single Basic Monthly Fee	\$1,159	\$1,332	\$1,433
Double Basic Monthly Fee	\$1,479	\$1,652	\$1,753

The Corporation does not plan to offer a monthly care agreement to the initial residents of these 20 residential living units.

Assisted Living and Skilled Nursing Fees

Assisted Living Units and Skilled Nursing beds are available to all residential residents of the facility for a monthly fee and daily fee, respectively. The continuing care contract monthly fees

for assisted living are \$2,674 (Manor single room), \$4,142 (Manor Suite) or \$4,295 (Manor Bay Suite) for a single residency depending on the size of the unit selected and \$4,334 (Manor single room), \$5,188 (Manor Suite) or \$5,348 (Manor Bay Suite) for a double occupancy depending on the size of the unit selected. The monthly care agreement monthly fees are higher than the continuing care contract monthly fees. The monthly care agreement fees are \$2,973 (Manor single room), \$4,739 (Manor Suite) or \$4,892 (Manor Bay Suite) for a single residency depending on the size of the unit selected and \$4,633 (Manor single room), \$5,785 (Manor Suite) or \$5,945 (Manor Bay Suite) for a double occupancy depending on the size of the unit selected.

The daily rate for skilled nursing includes three meals and snacks, housekeeping and linens, specialized activities, usage of the accommodation including utilities, cable TV, nursing review, care and supervision, bathing and grooming services and personalized services such as medication management pending a needs assessment. The continuing care contract for the daily fee for residency at the skilled nursing facility equals \$151 for a semi-private room and \$185 for a private room. Residents under a monthly care agreement receive priority admission over non-residents to the skilled nursing facility at a current rate of \$171 for semi-private room and \$204 for a private room.

The new Assisted Living Units will charge the following basic monthly fees as of Fiscal Year 2004:

Apartment Type	Fee Range
Continuing Care Contract – single	\$3,305 - \$4,457
Continuing Care Contract – double	\$4,110 - \$5,542
Monthly Care Agreement – single	\$3,771 - \$5,085
Monthly Care Agreement – double	\$4,576 - \$6,171

OPERATING STATISTICS

Historical Occupancy of Facilities

Occupancy for Hillcrest has improved over the past five fiscal and calendar years to its current rate. The data is maintained on a fiscal year basis while the trends are reviewed on a fiscal and calendar year basis. This data shows a fairly consistent trend in the number of residents added to the community each year, but varying amounts of alternating year peaks and valleys in Entrance Fees in prior years. This trend has stabilized in recent years, as occupancy remains high with desirable renovation and replacement and with the addition of the Courtyard Homes. Management believes that the addition of the new residential living apartments and the Park Avenue homes should continue this trend leading to a fairly consistently high total of Entrance Fees.

Occupancy of the residential living units of Hillcrest has averaged 96% over the last three fiscal years. In the last five fiscal years, occupancy for all levels of care is as follows:

Utilization of Residential Living: Occupancy of the independent living units of Hillcrest through September 30, 2002 was as follows:

Period	Units Available	Units Occupied	Average Occupancy
9/30/02	163	158	97%
6/30/02	161	155	96%
6/30/01	155	150	97%
6/30/00	151	142	94%
6/30/99	147	134	91%
6/30/98	149	134	90%

Utilization of Residential Living with Services: The following table outlines the utilization of the residential living apartments:

Period	Units Available	Residents	Units Occupied	Average Occupancy
9/30/02	47	37	35*	74%
6/30/02	49	41	39*	79%
6/30/01	54	47	46	85%
6/30/00	56	53	50	89%
6/30/99	54	49	47	85%
6/30/98	44	41	38	88%

* In preparation for the resident relocation and demolition of the current facilities for the project construction period.

Utilization of Assisted Living, Including Dementia Care:

Period	Units Available	Residents	Units Occupied	Average Occupancy
9/30/02	48	43	42	88%
6/30/02	51	44	43	84%
6/30/01	51	47	46	90%
6/30/00	51	50	49	96%
6/30/99	57	40	39	68%
6/30/98	67	49	47	70%

Utilization of Skilled Nursing Beds:

Period	Skilled Beds Available	Residents	Average Occupancy
9/30/02	78	68	88%
6/30/02	78	61	78%
6/30/01	75	65	87%
6/30/00	76	74	97%
6/30/99	76	73	96%
6/30/98	76	63	83%

Payor Mix

Hillcrest's payor mix is 100% private pay for residential living, residential living with services, assisted living and dementia care. The payor mix for the skilled nursing facility is as follows:

Period	Medicare	HMO	Medi-Cal	Private	Total
9/30/02	0%	6%	18%	76%	100%
6/30/02	3%	10%	18%	69%	100%
6/30/01	0%	3%	9%	88%	100%
6/30/00	3%	0%	16%	81%	100%
6/30/99	3%	1%	18%	78%	100%
6/30/98	6%	3%	19%	72%	100%

MARKET AREA AND COMPETITION

Market Area

A market study has been completed and is included in the Official Statement in its entirety as APPENDIX C. The market study was completed by New Life Management & Development, Inc. ("New Life"). New Life specializes in the development, marketing and management of retirement communities that meet the needs of today's older persons. New Life provides a full array of specialized services to take not-for-profit organizations through the process of planning, development, facility financing, marketing, construction, and management. To date, New Life has developed, managed or marketed more than 20 continuing care retirement communities in several states, which contain over 4,000 residential living units, assisted living units and skilled nursing care beds. The market study has been summarized below.

The primary market service area is defined as the area from which the majority of residents originate. This area is defined by information obtained from resident, depositor, and lead origin profiles and from industry and facility experience. The Corporation draws primarily from a five-to ten-mile radius that includes eastern Los Angeles County and western San Bernardino County, with some residents from Orange County. The Corporation has worked making the local market of children of elderly parents aware of Assisted Living and its benefit. As a result, residents coming directly into Assisted Living often have a prior address outside the primary and secondary markets.

The Corporation's primary market service area has been and continues to be La Verne, San Dimas, Claremont, Glendora, Pomona, Upland, and Rancho Cucamonga. There is a small sampling from Monrovia, Arcadia, and Pasadena for a generalized maximum distance of a 20-mile radius. Due to the Corporation's maturity in the market and connection with the Church of the Brethren and the University of La Verne, there is a large geographic secondary market of 20 – 30 miles of people throughout the California southland area who are aware of the Corporation. There is no significant pocket outside the primary market area from which the community draws residents, but rather many residents come from a scattered area.

Below is a table showing the majority of prior addresses of residents moving to residential living during the past three fiscal years:

Municipality	Distance from La Verne	Total Population 1990 Census 2001 Estimate	Population 65+ 1990 Census 2001 Estimate	Median Home Value* 2001 Estimate	Median Household Income* 2001 Estimate
La Verne	0	31,431	4,033	\$282,950	\$64,046
San Dimas	3	34,672	3,953	\$279,048	\$71,425
Claremont	4	34,495	5,082	\$271,644	\$69,928
Glendora	8	49,384	6,241	\$255,114	\$64,743
Pomona	5	151,180	10,241	\$149,880	\$45,763
Upland	10	68,782	7,887	\$235,463	\$45,806
Rancho Cucamonga	17	130,672	8,432	\$194,573	\$56,924
Pasadena	20	133,995	17,015	\$311,719	\$47,107

*Source: Claritas, Inc.

Senior adults generally own their own homes debt free and are willing to spend the proceeds from their house sale on retirement housing. If housing values are low in the primary market area, seniors will be more dependent on subsidized and affordable senior housing and services. Higher values like those in the Corporation's market service area indicate the ability exists to privately pay for market rate senior housing such as continuing care.

Demographic information about the population living in the Corporation's primary market area age 65 and older was obtained and analyzed. Information was obtained from Claritas, Inc., a firm that specializes in providing demographic data through their Senior Life Report. This report includes information regarding the defined population with regard to the following characteristics: Total and senior population age 55 and older; Senior population age 75 and older; Household incomes by age and income cohorts; Median household income; and Median home values.

Population Trends

The following are population characteristics about persons age 65 and older living locally and within a ten-mile radius of the Corporation:

- Within the Corporation's primary market service area, population estimates for 2001 indicate that 6% of the total population is age 70 and older. Projections show that the 70+ population will increase to 6.3% by the year 2006. This percentage is lower than the national average of 12.8%, but the total number of people at 61,550 reported in 2001 is considerable due to the dense population of this area.
- Within the Corporation's primary market service area, population estimates for 2001 indicate that 3.7 % of the population is age 75 and older. Projections show that the 75+ population will increase to 3.9% by the year 2006, indicating that there is some growth of the older population in the 75+ age cohort, which is significant for a continuing care retirement community like the Corporation.
- The population ages 45-64, which is considered the cohort for the adult children of elderly parents, is significant in this geographic area, estimated at 221,951 or 21.7% of the total population in the 2001 projections. This is estimated to increase to 24.4% of the population in 2006. Many of the new assisted living communities are moving to this market service area in response to this age cohort.

Financial Characteristics of the Primary Market Service Area

Within the primary market service area, there was a total of 13,310 households in 2001, with householders aged 70 and above with incomes at least \$35,000 annually. This represents 14.8% of the total households aged 55 and higher. This number is projected to grow to 14,965 in 2006 but this represents a minor reduction in the percentage of the total population aged 55 and higher to 14.4%.

Competition

Comparable CCRCs

New Life has identified existing and proposed retirement and assisted living communities in the Corporation's primary market service area. They analyzed these competitors with regard to distance from the Corporation, pricing, services, location, number of beds, product type and status. In determining which projects to consider competitive, New Life included existing residential care facilities for the elderly, continuing care retirement communities, and Alzheimer's and dementia care facilities offering similar service as the Corporation. New Life included projects under construction and facilities showing signs of significant development activity. Complete data is included in APPENDIX C, with information on the following: Location; Product Type; Owner/Year Opened; Units Offered by Type; Construction/Proposed Expansion.

Market Share Analysis

Continuing Care Residential Units

The market penetration rate for residential living is defined as the percentage of age and income qualified senior households per 100 within the primary market service area that must be motivated to move into independent living apartments or homes. The market penetration rate takes into consideration the size of the market and is not always indicative of the willingness of individuals to move into the units. Every market has its distinct characteristics, which makes it difficult to substitute results from one market to another. Therefore, the estimated market penetration rate analysis should not be considered as absolute.

The following has been taken into account to calculate the market penetration rate: (1) income qualified refers to households with incomes \$35,000 and higher; (2) the target market of age and income qualified householders excludes individuals living in a skilled nursing facility or other institutional setting and includes householders age 70 and older with incomes of \$35,000 and higher; (3) the competitors for the total residential living units, including continuing care retirement communities of Hillcrest, Mount San Antonio Gardens, and Claremont Manor; and (4) units to occupy are the estimated market shares attracted from each estimated service area. The mix of residents is assumed to be 70% from the primary market area and 30% from other areas. Penetration is calculated to estimate the amount of risk involved in bringing more units into the market place. Nationally, approximately 7% of age and income qualified seniors will choose a continuing care retirement community. The following table represents the penetration rates if incomes of \$35,000 and higher and age 70 and older are used:

Estimated age and income qualified householders is supplied by Claritas, Inc. for 2001 and 2006.

**HILLCREST PRIMARY MARKET SERVICE AREA
Penetration Rate for Residential Housing within CCRCs**

Total population estimate for the year 2001, age 70 and older, with incomes of \$35,000 and higher	13,310
Existing units in the market service area (95%)	669
Penetration rate of existing units	5.0%
Assuming only 70% of existing units are filled from the market service area, penetration rate decreases to	468 3.5%
Units in the market service area under construction (95%)	0
Penetration rate of existing units and under construction units	5.0%
Assuming only 70% of existing and under construction units are filled from the market service area, penetration rate decreases to	468 3.5%
Units in the market service area under consideration, in planning (95%)	29
Penetration rate of existing units and under construction units	5.2%
Assuming only 70% of existing units are filled from the market service area, penetration rate decreases to	489 3.7%

*There are 704 existing units within the PMSA.

The following table represents the market penetration rates if incomes of \$50,000 and higher and age 75 and older are used:

**HILLCREST PRIMARY MARKET SERVICE AREA
Penetration Rate for Residential Housing within CCRCs**

Total population estimate for the year 2001, age 75 and older, with incomes of \$50,000 and higher	4,238
Existing units in the market service area (95%)	669
Penetration rate of existing units	15.8%
Assuming only 70% of existing units are filled from the market service area, penetration rate decreases to	468 11.1%
Units in the market service area under construction (95%)	0
Penetration rate of existing units and under construction units	15.8%
Assuming only 70% of existing and under construction units are filled from the market service area, penetration rate decreases to	468 11.1%
Units in the market service area under consideration, in planning (95%)	29
Penetration rate of existing units and under construction units	16.5%
Assuming only 70% of existing units are filled from the market service area, penetration rate decreases to	489 11.5%

*There are 704 existing units within the PMSA.

In mature markets such as the Corporation's primary market service area, it is not unusual to see market penetration rates of 12% – 15%.

Assisted Living within the Primary Market Area

Determining market demand for assisted living is a difficult task because there are so many care options available. In addition to residential retirement community options are family members who care for the majority of elderly persons at home. As an aid in predicting demand, several methodologies have been developed that are accepted and utilized by the senior housing and health care industry. Historically, of the cohort of seniors age 75+ requiring assistance, a percentage will leave the primary market service area to be near adult children living out of the area. At the same time, other seniors will move into the primary market service area to be near their adult children. Factors affecting migration patterns include population growth among seniors and their adult children, the ratio of adult children (45-64) to seniors (75+) and the attractiveness of the primary market area to seniors. It is difficult to estimate the impact of this factor. However, an area where there are greater numbers of adult children moving in than seniors moving out generally indicates that there will be more seniors moving in than out. One methodology assumes that 20% of persons age 75-84 and 50% of persons age 85+ will need assisted living services. Of those, 15% will choose an assisted living facility as their caregiver. Based on these percentages, the primary market service area for the Corporation's is under bedded by a significant percentage even though most communities are currently experiencing

occupancy challenges. This methodology does not account for subsidized assisted living versus private pay.

HILLCREST ASSISTED LIVING PENETRATION - NEW LIFE METHODOLOGY

	2001		2003		2006	
	75 - 84	85+	75 - 84	85+	75 - 84	85+
Primary Market Population	28457	9678	29,898	10,283	31,338	10,888
Penetration Rate	x20%	x 50%	x 20%	x 50%	x 20%	x 50%
Care Modality Index*	x15%	x15%	x15%	x15%	x15%	x15%
MSA Unit Bed Need	854	726	897	771	940	817
Expected Supply	951		951		951	
Amount Needed or (Overbedded)	629		717		806	

2003 Primary Market Population numbers were figured by taking 2006 numbers-2001numbers and dividing the difference by 2, then adding the difference to the 2001 numbers.

* The Care Modality Index may be higher, up to 40% in some markets. For purposes of this study, a Care Modality Index of only 15% was used for this calculation.

Fees

Because of the unique nature of each living accommodation at the Corporation, the fees are based on a standardized formula. This equation is based on unit square footage, community access and amenities, and customized renovations. As each unit becomes available following turnover, the unit is assessed for improvements and usage according to the Master Plan. The unit is re-marketed after renovation and the entrance fee is determined and disclosed based on the assessment and changes.

The following table provides a rough comparison of pricing of a one-bedroom unit for Hillcrest and its two prominent competitors:

Unit Type Single Occupancy	Hillcrest La Verne	Mt. San Antonio Gardens, Pomona	Claremont Manor Claremont
One Bedroom Approx. 626 sq. ft.	EF - \$106,170 MF - \$1,076	EF - \$130,600 MF - \$1,860 - \$2,568	No EF \$2,700 - \$3,890
Service Program	Type C Fee-for-Service	Type A Lifecare	Type D Rental

The following is a complete Competitor profile of all CCRC's in the Corporation's service area:

CCRC COMPETITOR PROFILE

Name	Location	Product Type	Owner/Operator Year Opened	RLUs	ALUs	SNFs	Dementia
Hillcrest	La Verne	Type C CCRC	Brethren Hillcrest Homes 1950	207	30	79	24
Mt. San Antonio Gardens	Pomona	Type A CCRC	Congregational Homes, Inc. 1961	267	60	64	
Claremont Manor	Claremont	RCFE	Front Porch Group 1949	229	41	57	
Royal Oaks Manor	Bradbury	Type B CCRC	Southern California Presbyterian Homes 1959	165	26	48	
Windsor Manor	Glendale	Type B CCRC	Southern California Presbyterian Homes 1955	105	26	28	
Villa Gardens	Pasadena	Type B CCRC	Front Porch Group 1933	205	40	54	20
The Scripps Home	Altadena	Type A CCRC	The Scripps Home 1911	92	25	70	
Solheim Lutheran Home	Los Angeles	Type C CCRC	Solheim Lutheran Home 1923	61	58	76	
Morningside	Fullerton	Type A CCRC	Life Care Services 1990	327	54	99	26

Mt. San Antonio Gardens

Unit Style	Entrance Fee*	Monthly Fee
Studio	\$34,850 - \$65,440	\$1,798
1 Bedroom	\$100,380 - \$110,350	\$1,798
2 Bedroom	\$137,550 - \$145,450	\$1,798

* Entrance fee is actuarial, based on age and type of unit, monthly fee is the same for everyone under the Lifecare contract.

Claremont Manor

Unit Style (Main Building)	Monthly Fee
Studio	\$2,700
Semi-Suite	\$2,935
1 Bedroom	\$3,165 - \$3,700
Unit Style (Garden Villas/Campus Homes)	Monthly Fee
1 Bedroom	\$3,890 & up
2 Bedroom	\$4,100

Royal Oaks Manor

Unit Style	Entrance Fee	Monthly Fee
Studio	\$47,000 - \$50,000	\$1,300
Alcove	\$54,500 - \$57,000	\$1,568
1 Bedroom	\$79,000 - \$105,000	\$2,183
1 Bedroom Special	\$145,000	\$2,183
1 Bedroom/Den	\$175,000	\$2,664
2 Bedroom	\$130,000 - \$205,000	\$3,023
2 Bedroom Cottage	\$245,000 - \$315,000	\$3,130

Windsor Manor

Unit Style	Entrance Fee*	Monthly Rent	2nd Person Fee
Studio	\$35,000 - \$45,000	\$1,385	\$350
1 Bedroom	\$110,000	\$2,415	\$350
2 Bedroom	\$150,000	\$3,200	\$350

*No entrance fee for second person.

Solheim Lutheran Home

Unit Style	Entrance Fee	Monthly Rent	Price for Couple
Studio	\$34,000 - 39,000	\$1,725	\$3,350
Parlor Suite	\$43,500	\$1,725	\$3,350
1 Bedroom	\$57,200- \$67,580	\$1,725	\$3,350

ASSISTED LIVING COMPETITOR PROFILE

Name	Location	Product Type	Owner/Operator Year Opened	ILUs	ALUs	SNFs	Dementia
Brighton Gardens	San Dimas	Assisted Living, Special Care, Skilled Nursing	Marriott Senior Living 1999		90	29	25
Christian Heritage Care Center	Upland	Assisted Living, Skilled Nursing, Dementia Care	Christian Heritage Care 1971		88	70	15
Claremont Place	Claremont	Assisted Living	Local Partnership 2000		76		
Montclair Royale	Montclair	Assisted Living	Residential Care Group 1990		119		
Rancho Park Villa	San Dimas	Assisted Living, Dementia Care, Skilled Nursing	ARV Assisted Living 1988		149		
Sunrise Assisted Living	Claremont	Assisted Living, Dementia Care	Sunrise Assisted Living 2000		43		11
Sunrise Assisted Living	Rancho Cucamonga	Assisted Living, Dementia Care	Sunrise Assisted Living 2000		59	14	
The Gables	Monrovia	Assisted Living	MBK Senior Living Services 1998		101		
The Gardens at Hillsborough Village	Chino	Assisted Living	Family owned 1999	63	90		
Victorian Court	Ontario	Assisted Living	Summerville Senior Living 1997		97		
Wellington Court	Arcadia	Assisted Living	Leisure Care 1988		98		

Assisted living pricing varies considerably because of care level assessments and definition of basic service compared to all-inclusive service. The following table includes stand-alone Assisted Living in addition to those available within the competitive CCRCs.

Assisted Living	Hillcrest La Verne	Mt. San Antonio Gardens Pomona	Claremont Manor Claremont	Brighton Gardens San Dimas	The Gardens at Hillsboro Chino	Rancho Park Villa San Dimas	Montclair Royale Montclair	Christian Heritage Care Center Upland
Single Room, Single Occupancy Monthly Fee	\$2,973 Assistance included (monthly care agreement)	\$2,875 Supplies extra	\$3,245-\$4,560 Plus Level 1 \$350 Level 2 \$675 Level 3 \$1,025 Level 4 \$1,375	\$2,616-\$3,069 + flat fee for each additional care level	\$1,850 - \$3,500 Plus \$350/mo. \$650/mo. \$850/mo. depending on service pkg.	\$1,780 +	\$1,800	\$1,550+
Distance	0	2.6 miles	2.8 miles	5.6 miles	10 miles	4.5 miles	6.3 miles	9.8 miles

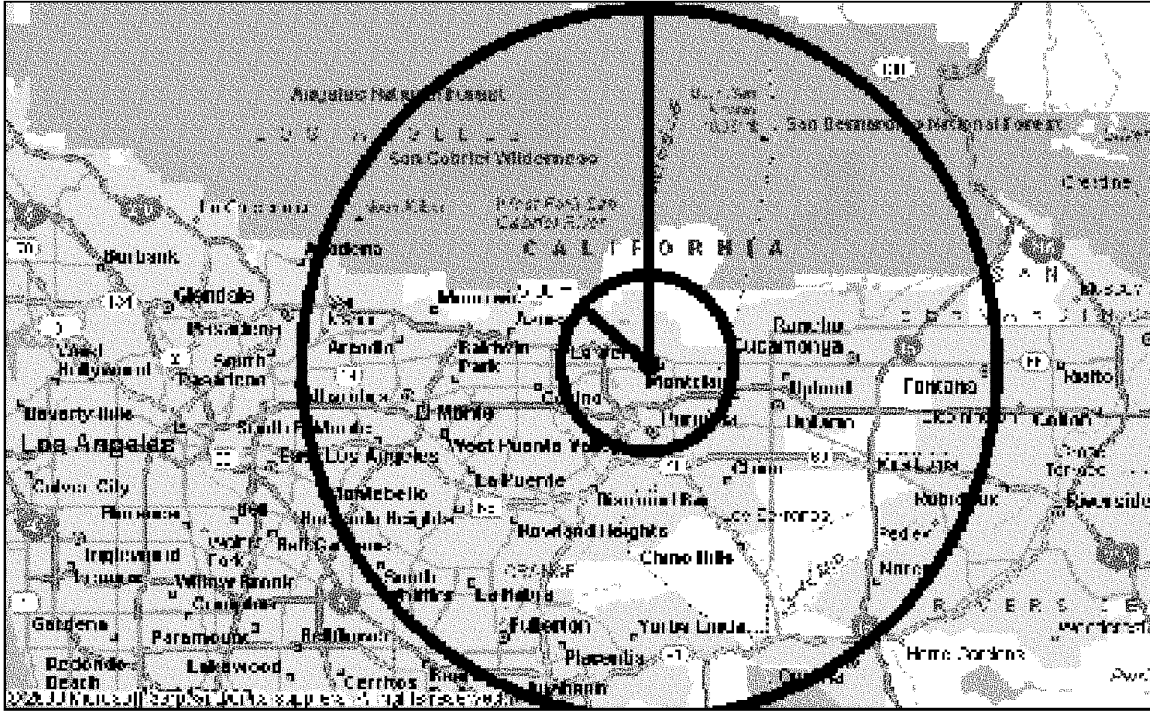
The following table provides a rough comparison of pricing among specialized care providers for a single occupancy. This is typically a semi-private accommodation. The service packages included in the price do have variations in what is included and what is available for an additional fee. This table includes stand-alone dementia care in RCFEs because the competitive CCRCs do not offer this level of service.

Special Care Single Occupancy	Hillcrest La Verne	Brighton Gardens San Dimas	Mountain View Claremont	Oak Park Manor Claremont	San Dimas Retirement Center San Dimas
Single Person Monthly Fee	\$3,617	\$3,800	\$2,350 - \$3,450	\$2,500 - \$3,400	\$1,800 - \$3,000
Distance	0	5.6 miles	3.0 miles	4.4 miles	3.4 miles

The following table provides a rough comparison of pricing among skilled nursing competitors for a semi-private room. This table includes stand-alone skilled nursing facilities in addition to those available within the competitive CCRCs and multi-level RCFEs.

Skilled Nursing	Hillcrest La Verne	Mt. San Antonio Gardens Pomona	Claremont Manor Claremont	Pilgrim Place Claremont	Brighton Gardens San Dimas	Casa Bonita San Dimas
Daily Rate, Semi-Private	\$171	\$147	\$164	\$120	\$145	\$125-\$135
Distance	0	2.6 miles	2.8 miles	3.6 miles	5.6 miles	5.3 miles

Service Area Map



GOVERNANCE AND MANAGEMENT

The bylaws of the Corporation provide for a Board of Directors (the “Board”) consisting of not more than 13 voting members. Board members are elected for three-year terms. In addition, there are four to five ex-officio non-voting members.

Name	Occupation	Residence	Term Expires
James Piatt Chair	Attorney; Retired Superior Court Judge, Los Angeles County	Upland, CA	11/05
Jan Lemons	Vice President of PFF Bancorp and PFF Bank & Trust	Upland, CA	11/04
William Dale Treasurer	Retired	Rancho Cucamonga, CA	11/03
Paula Stanley Secretary	Retired/Resident	La Verne, CA	11/03
Lowell Brubaker Ex-Officio Member; Past Chair	Retired/Resident	La Verne, CA	11/03
Linda Battram, Esq.	Attorney	Claremont, CA	11/04
Don Fancher	Management Supervisor with Living Opportunities Management Company	Long Beach, CA	11/05
Robert Frick	Retired	La Verne, CA	11/05
Richard Hart	Retired	La Verne, CA	11/04
Danny Locke, M.D.	Physician	Diamond Bar, CA	11/04
Robert Rodriguez	Retired	La Verne, CA	11/05
Joanne Wagoner	Retired	La Verne, CA	11/05
Sharon Wright	Retired/Resident	La Verne, CA	11/05
Charles E. Cable, CHE Ex-Officio Member	President/CEO	Claremont, CA	
Richard Hart Ex-Officio Member	Interim Executive, Pacific Southwest District, Church of the Brethren	La Verne, CA	10/03
Sara Haldeman Scarr Ex-Officio Member	Pastor, Church of the Brethren Chair, Board of Administration, Pacific Southwest District, Church of the Brethren	Pomona, CA	10/03
Myrna Wheeler Ex-Officio Member	Chaplain, Hillcrest	San Dimas, CA	10/03

Management

Charles E. Cable, President and Chief Executive Officer, Age 58. Mr. Cable began his career with Brethren Hillcrest Homes in July of 1982. Initially, he was the Administrator of Brethren Hillcrest Homes. From October 1978 to July 1982, he was the Hospital Administrator, Covina Valley Community, a Tenet organization, formerly National Medical Enterprises, Inc., d/b/a National Medical Healthcare Services. Mr. Cable was a Health Services Administrator at the Maricopa County General Hospital, Phoenix, Arizona from January 1972 to October 1978. Prior to joining the Maricopa County General Hospital, he was an accountant at the Garfield Park Community Hospital/Bethany Brethren Hospital, Chicago, Illinois. He holds a Bachelor of Arts in Business and Economics from the University of La Verne, La Verne, California, and received a Master of Public Health (Hospital Administration) from the University of California, Los Angeles School of Public Health Los Angeles, California. Mr. Cable is licensed by the State

of California as a Nursing Home Administrator and a Residential Care Facility for the Elderly (RCFE) Administrator. Mr. Cable is a Certified Healthcare Executive (CHE), American College of Healthcare Executives. Mr. Cable has served in various capacities for the California Association of Homes and Services for the Aging and the American Association of Homes and Services for the Aging. He has also served on a variety of committees of the American College of Healthcare Executives, Continuing Care Accreditation Commission, International Association of Homes and Services for the Aging. Currently, he serves as a Board Member of the American Red Cross, Pomona Valley Chapter; a member of the Rotary International, local clubs and District committees since 1976; and on advisory boards at the University of La Verne School of Business and Global Studies and the program in Gerontology.

Kenneth Jacobsen, Chief Financial Officer, Age 56. Since June of 1996 Mr. Jacobsen has served Hillcrest as Vice President and Chief Financial Officer. Prior to joining the Corporation, Mr. Jacobsen was the Director of Accounting for the Covenant Retirement Communities Corporate Office in Chicago. Other experience includes a Vice President with the International Bible Society in Colorado Springs and the Director of Accounting with the Christian and Missionary Alliance. Mr. Jacobsen received his CPA certificate while in public practice in New Jersey. Throughout his career Mr. Jacobsen has been involved with major financing transactions and strong regulatory environments. Mr. Jacobsen received a Bachelor of Arts in accounting degree from Upsala College, East Orange, New Jersey. He has served on committees of the California Association of Homes and Services for the Aging. He is a member and past officer of the Sunrise Rotary Club of Claremont.

Dr. Robert Johnson, Interim Administrator, Health Services, Age 59. He served as Administrator of Villa Marin, then under contract with NCPHS, from June 1989 until August 1990. Dr. Johnson joined Hillcrest on an interim basis to oversee the health and residential services areas. He previously served with Northern California Presbyterian Homes and Services (NCPHS) as the Executive Director of The Tamalpais, a continuing care retirement community in Greenbrae, California, from August 1990 to May 2002. He served as Administrator of Villa Marin, then under contract with NCPHS, from June 1989 until August 1990. He was Administrator-in-Training with The Redwoods, a multi-level retirement community in Mill Valley, California from 1969 to 1970. He served with the U.S. Army, retiring in 1989 as a Lieutenant Colonel at the Presidio of San Francisco. From 1966 to 1967 he worked with law enforcement and social service organizations to help troubled adolescents at the Palm Beach County (Florida) Juvenile Court. He was awarded Doctor of Public Administration from the University of Georgia and a Bachelor of Science and Masters of Science from Florida State University. Dr. Johnson is licensed by the State of California as a Nursing Home Administrator and a Residential Care Facility for the Elderly Administrator. He served on a number of committees of the California Association of Homes and Services for the Aging. He is also a trained and experienced site evaluator with the national Continuing Care Accreditation Commission. He is a current member and past president of the Rotary Club of Central Marin; a former civic association officer, PTA president, Boy Scout and Girl Scout leader.

Larry Boles, CFRE, CSPG, Director of Development and Planned Giving, Age 53. Mr. Boles joined Brethren Hillcrest Homes in March 1996. He directs the fundraising efforts with particular emphasis on the benevolent program to help those residents who outlive their financial resources. His focus is on planned giving. Mr. Boles was Pastor of the Valley Presbyterian

Church, Hacienda Heights, California, from 1984 through 1995. He was the Associate Pastor at First Presbyterian Church, Covina, California, from 1975 to 1984 and Assistant Pastor at Geneva Presbyterian Church, Modesto, California. He received a Masters of Divinity from San Francisco Theological Seminary and a Bachelor of Arts from California State University San Diego. Mr. Boles' affiliations include the following organizations: Association of Fundraising Professionals (formerly National Society of Fund Raising Professionals); Southern California Planned Giving Roundtable; Inland Valley Estate Planning Council, Presbytery of San Gabriel; and Board of Directors of La Verne Chamber of Commerce; and, the Advisory Board for the Gerontology Department of the University of La Verne. He holds certifications as a Certified Fund-Raising Executive (CFRE) and Certified Specialist in Planned Giving (CSPG).

Carolyn Sage, Director of Marketing, Age 58. Ms. Sage joined Brethren Hillcrest Homes in September of 1997, bringing 18 years of experience to the Corporation. Before joining Brethren Hillcrest Homes, Ms. Sage served as the Homes Representative for the Masonic Homes of California. She holds a Bachelor of Arts in Public Administration, University of La Verne. Her current affiliations Claremont Chamber of Commerce, La Verne Chamber of Commerce, San Dimas Chamber of Commerce, Marketing and Admission Professionals for Seniors (M.A.P.S.), Access To Senior Services, Networking for Seniors, Gerontology Advisory Committee of Chaffey College and Pomona Adult Education Advisory Board.

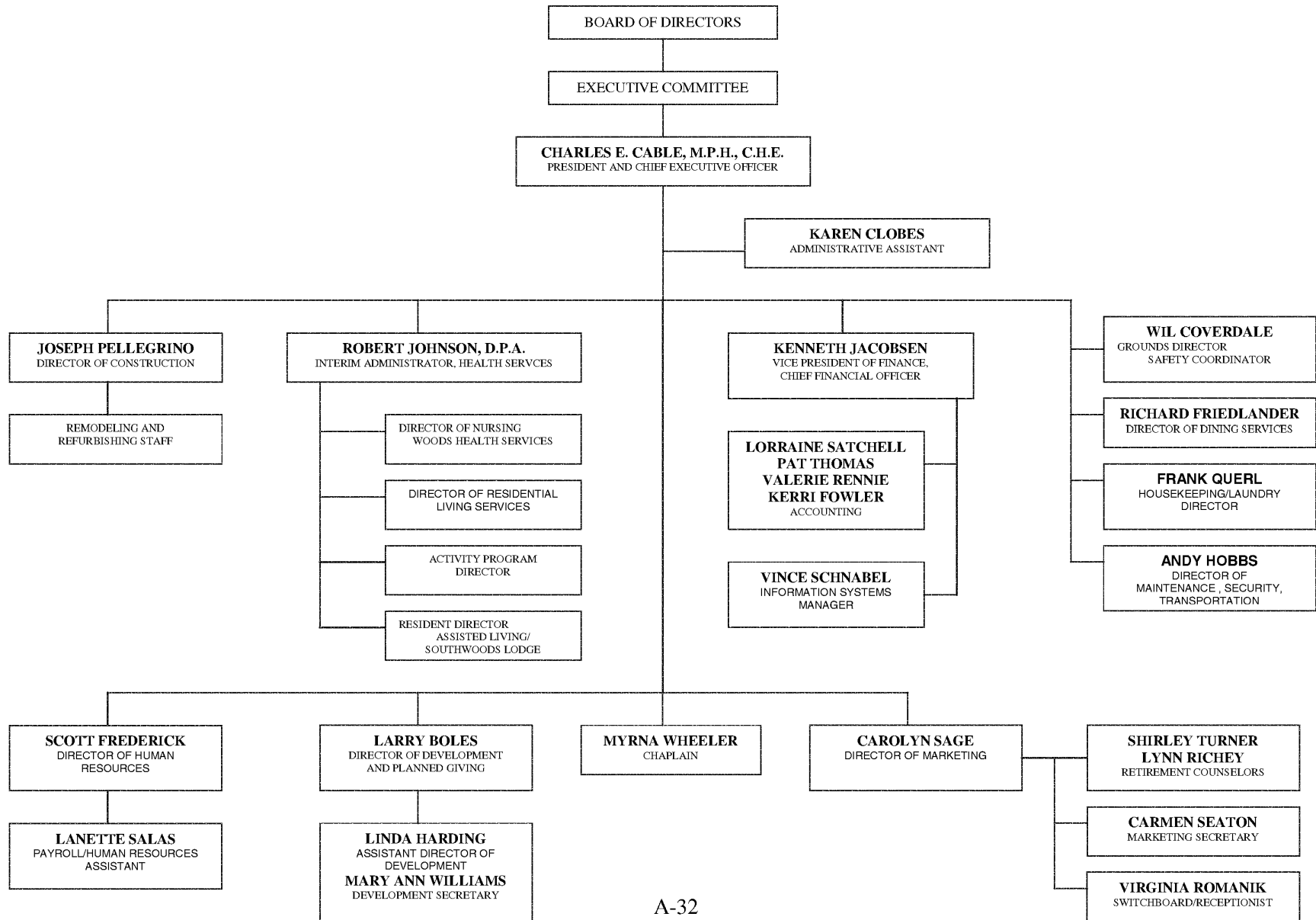
Joseph Pellegrino, Director of Construction, Age 47. Mr. Pellegrino joined Brethren Hillcrest Homes in January of 1991 as the Director of Construction. He has over 30 years experience in the construction industry. His experience ranges from preliminary planning, coordination of various construction projects, estimating, job control and contractor negotiations. Mr. Pellegrino has worked closely with civil engineers, architects and construction planners over the years on many of the Corporation's construction jobs. Mr. Pellegrino has completed over 575,000 square feet of buildings for the Corporation over the past 12 years. Prior to his current position at Hillcrest, he was the Maintenance Division Manager of Western National Properties, d/b/a Resident Group Services, from 1983 to 1987. Mr. Pellegrino has spoken at several conventions on building for the elderly in a changing environment and was selected as a juror in the 1998 to 2000 AIA/American Association of Homes and Services for the Aging Design for Aging Review Boards. Mr. Pellegrino was honored by the City of La Verne as the outstanding person to deal with in planning and construction matters in 1997.

Scott D. Frederick, Director of Human Resources, Age 47. Mr. Frederick began his career with Brethren Hillcrest Homes in December, 1990. Prior to joining Hillcrest Mr. Frederick worked for the Marriott Corporation's Bob's Big Boy Restaurant division from 1973 to 1989 in a number of capacities. He started as a cook working his way through three levels of restaurant management before accepting a divisional training and development managers position in 1977. From 1986 to 1989 Mr. Frederick was a Regional Human Resources Manager supporting 28 restaurants under the Bob's Big Boy, Farrell's, and Howard Johnson brand names. Mr. Frederick holds management and Human Resource certificates. Mr. Frederick is a member of Professionals in Human Resources Association (PIHRA).

Conflict of Interest Policy

The Corporation's policy regarding potential conflicts of interest requires, among other things, disclosure of potential conflicts on interest, but does not preclude the Corporation from entering into commercially reasonable transaction with persons holding positions with the Corporation. The Corporation may from time to time engage or enter into transactions with business of which other Board members may be investors or officers, only after such transactions are disclosed in accordance with the policy set forth herein.

**BRETHREN HILLCREST HOMES
ORGANIZATIONAL CHART**



Employees

The Corporation currently employs approximately 185 full-time equivalent employees. The Corporation provides compensation and a range of fringe benefits to its employees that Management believes are competitive with those offered by similar corporations in the area. Unions represent none of the employees of the Corporation.

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

Summary of Financial Statements for the Corporation

The financial statements for the fiscal years ended June 30, 2000, 2001 and 2002 referenced within this Management Discussion have been derived by the Corporation from the audited financial statements of the Corporation, for Fiscal Years 2000, 2001 and 2002. The financial statements for the 2000, 2001 and 2002 Fiscal Years are presented in APPENDIX B to this Official Statement. The audits were performed by Vicenti, Lloyd & Stutzman, LLP, independent auditors. Financial data should be read in conjunction with the detailed information and financial statements, including notes, in APPENDIX B. Interim financial information for the three-month periods ended September 30, 2001 and 2002 is unaudited.

	Fiscal Years Ending		
	6/30/2000	6/30/2001	6/30/2002
ASSETS			
Current Assets:			
Cash	\$ 764,766	\$ 167,664	\$ 389,514
Cash-specific purpose	236,251	342,508	377,713
Cash-gift annuity	53,284	290,689	243,860
Cash-endowment unrestricted	658,434	1,026,382	589,642
Cash	<u>\$ 1,712,735</u>	<u>\$ 1,827,243</u>	<u>\$ 1,600,729</u>
Receivables	525,887	772,131	995,843
Inventories	42,085	42,502	43,690
Interest receivable	71,417	69,424	60,811
Prepaid expenses	22,077	35,307	184,769
Current Assets	<u>\$ 2,374,201</u>	<u>\$ 2,746,607</u>	<u>\$ 2,885,842</u>
Investments-unrestricted	618,558	90,425	134,799
Investments-specific purpose	1,534,697	1,639,130	1,333,130
Investments-gift annuity	773,445	1,206,839	1,505,476
Investments-endowment & life income	6,500,063	6,425,204	5,045,571
Investments	<u>\$ 9,426,763</u>	<u>\$ 9,361,598</u>	<u>\$ 8,018,976</u>
Property and Equipment	27,597,964	31,304,122	36,767,114
Accumulated Depreciation	(13,189,070)	(14,172,749)	(15,282,111)
Net Property and Equipment	<u>\$ 14,408,894</u>	<u>\$ 17,131,373</u>	<u>\$ 21,485,003</u>
Notes receivable	98,556	109,224	-
TOTAL ASSETS	<u>\$ 26,308,414</u>	<u>\$ 29,348,802</u>	<u>\$ 32,389,821</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	\$ 508,903	\$ 530,401	\$ 362,843
Accrued expenses	612,292	586,191	659,894
Line of credit	-	340,000	1,969,000
Current portion of long-term debt	56,214	62,107	64,591
Refundable deposits	26,497	18,356	9,890
Total current liabilities	<u>\$ 1,203,906</u>	<u>\$ 1,537,055</u>	<u>\$ 3,066,218</u>
Long term debt, less current portion	\$ 605,579	\$ 538,741	\$ 472,475
Gift notes payable			
Other long-term liability	\$ 78,898	\$ 73,145	\$ 67,671
Annuities payable	529,521	814,094	919,221
Refundable fees	210,000	210,000	210,000
Deferred revenue from advance fees	8,456,525	9,856,172	11,414,407
TOTAL LIABILITIES	<u>\$ 11,084,429</u>	<u>\$ 13,029,207</u>	<u>\$ 16,149,992</u>
Unrestricted	\$ 7,042,460	\$ 7,481,156	\$ 7,372,761
Temporarily restricted	3,456,721	3,494,987	3,260,760
Permanently restricted	4,724,804	5,343,452	5,606,308
TOTAL NET ASSETS	<u>15,223,985</u>	<u>16,319,595</u>	<u>16,239,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,308,414</u>	<u>\$ 29,348,802</u>	<u>\$ 32,389,821</u>

	Fiscal Years Ending			Three Months Ending	
	6/30/2000	6/30/2001	6/30/2002	9/30/2001	9/30/2002
Revenues					
Woods Health Service	\$ 3,386,373	\$ 3,500,372	\$ 3,754,572	\$ 923,773	\$ 965,578
Woods Assisted Living	328,338	398,420	386,656	84,396	103,867
Southwoods Lodge	804,051	875,856	962,617	235,709	269,945
Manor rooms	1,092,229	1,044,385	765,780	518,550	620,422
Manor apartments	853,893	867,954	930,772	230,891	151,688
Residential living	2,785,957	3,088,537	3,222,618	195,763	238,339
Rental units	82,899	95,570	96,783	14,809	15,698
Telephone/Cable TV	54,431	55,240	58,171	11,583	13,105
Net Investment Income (per supplemental audited information)	249,632	33,781	113,009	-	-
Other Revenue	165,888	351,956	163,707	22,171	111,182
Net assets released from restrictions	169,779	89,115	77,909	-	-
Net unrealized gain on investments	(212,064)	49,024	(146,910)	-	-
Amortization of Entrance Fees	-	-	-	268,251	434,109
Total Revenues	\$ 9,761,406	\$10,450,210	\$10,385,684	\$ 2,505,896	\$ 2,923,933
Expenses					
Woods Health Services	\$ 3,411,020	\$ 3,638,471	\$ 3,919,774	\$ 991,573	\$ 1,014,383
Woods Assisted Living	346,143	357,929	402,678	101,357	91,113
Southwoods Lodge	657,566	740,998	884,924	214,745	211,773
Manor Rooms	683,147	726,813	615,500	167,031	158,986
Manor Apartments	770,108	835,468	788,953	207,383	194,792
Residential Living	2,059,411	2,238,294	2,583,204	540,405	564,766
Rental units	40,777	44,849	51,943	17,479	26,636
Telephone and cable television system	61,749	60,469	57,282	26,702	34,457
Management and general	1,199,853	1,368,223	1,189,843	358,032	383,228
Total expenses	\$ 9,229,774	\$10,011,514	\$10,494,101	\$ 2,624,707	\$ 2,680,134
CHANGE IN UNRESTRICTED NET ASSETS	\$ 531,632	\$ 438,696	\$ (108,417)	\$ (118,811)	\$ 243,799
Change In temporarily restricted net assets	(224,721)	38,266	(234,227)	156,449	(167,702)
Change In permanently restricted net assets	495,091	618,648	262,878	(201,832)	(213,730)
CHANGE IN NET ASSETS	\$ 802,002	\$ 1,095,610	\$ (79,766)	\$ (164,194)	\$ (137,633)

FISCAL YEAR ENDED JUNE 30, 2001 COMPARED TO FISCAL YEAR ENDED JUNE 30, 2000

Statement of Activity

Total Revenue: Total revenue increased \$688,804 or 7% from \$9,761,406 in Fiscal Year 2000 to \$10,450,210 in Fiscal Year 2001. The increase was primarily due to an increase of residential living revenue by \$302,580 or 11% from \$2,785,957 in Fiscal Year 2000 to \$3,088,537 in Fiscal Year 2001. This increase was due to the addition of ten courtyard homes, a \$123,143 increase in entrance fee amortization, and a four percent (4%) increase in monthly fees. Woods Assisted Living revenue increased by \$70,082 or 21% from \$328,338 in Fiscal Year 2000 to \$398,420 in Fiscal Year 2001 which was the result of an increased census. Other revenue increased by \$186,068 or 112%, from \$165,888 in Fiscal Year 2000 to \$351,956 in Fiscal Year 2001, which was the result of an increase in donations. Net investment income decreased by \$215,851 or 86% from \$249,632 in Fiscal Year 2000 to \$33,781 in Fiscal Year 2001 due to the reduction in return on the board designated fund. Net assets released from restrictions decreased by \$80,664 or 48% from \$169,779 in Fiscal Year 2000 to \$89,115 in Fiscal Year 2001, which was the result

of a reduced number of residents in need of benevolence. Net unrealized gain on investments increased by \$261,088 or 123% from (\$212,064) in Fiscal Year 2000 to \$49,024 in Fiscal Year 2001. This increase was due to market changes as of June 30, 2001 versus the prior year.

Total Expense: Total expenses increased \$781,740 or 8% from \$9,229,774 in Fiscal Year 2000 to \$10,011,514 in Fiscal Year 2001. This can be explained by an increase in several expense categories. Expenses related to Woods Health Services increased by \$227,451 from \$3,411,020 in Fiscal Year 2000 to \$3,638,471 in Fiscal Year 2001 due to increased operating expenses such as labor and benefits, as well as professional services, which collectively increased by \$191,480 over the prior year. Southwoods Lodge expenses increased by \$83,432 or 13% from \$657,566 in Fiscal Year 2000 to \$740,998 in Fiscal Year 2001. Increase in labor and benefit costs accounted for 78% of this increase. Resident living expenses also increased by \$178,883 to \$2,238,294 in Fiscal Year 2001 as a result of an increase in depreciation for new construction totaling \$59,122 in addition to an increase in inter-department expense allocation for non-revenue cost centers of \$116,240, including food service expense of \$55,423. Other changes include an increase in management and general expenses of \$168,370 from \$1,199,853 in Fiscal Year 2000 to \$1,368,223 in Fiscal Year 2001. This increase is due to increased labor costs, higher insurance premiums, increased professional services as well as an increase in education expenses.

Net Assets: The change in net assets increased by \$293,608 or 37% from \$802,002 in Fiscal Year 2000 to \$1,095,610 in Fiscal Year 2001. Most of this increase resulted from a \$262,987 increase in change in temporarily restricted net assets to \$38,266 in Fiscal Year 2001, due primarily to investment market valuation changes, which was \$259,760 less in Fiscal Year 2001. Increase in unrestricted net assets decreased by \$92,936 from \$531,632 in Fiscal Year 2000 to \$438,696 in Fiscal Year 2001.

Statement of Financial Position

Assets: Total assets increased by \$3,040,388 or 12% from \$26,308,414 at June 30, 2000 to \$29,348,802 at June 30, 2001. Cash increased by \$114,508 or 7% from \$1,712,735 at June 30, 2000 to \$1,827,243 at June 30, 2001, which was the result of operating, investing and financing activities including the temporary use of the line of credit totaling \$340,000 at June 30, 2001. Net property and equipment increased by \$2,722,479 or 19% from \$14,408,894 at June 30, 2000 to \$17,131,373 at June 30, 2001, primarily resulting from the completion of ten courtyard homes and the work in progress of the remaining seven courtyard homes.

Liabilities: Total liabilities increased by \$1,944,778 or 18% from \$11,084,429 at June 30, 2000 to \$13,029,207 at June 30, 2001. This increase is partially due to an increase in the line of credit of \$340,000, which was used for the construction of the courtyard homes. Annuities payable increased by \$284,573 or 54%, from \$529,521 at June 2000 to \$814,094 at June 30, 2001, resulting from the increased growth of the annuity program. Deferred revenue from advance fees increased by \$1,399,647 or 17% from \$8,456,525 at June 30, 2000 to \$9,856,172 at June 30, 2001 due to 21 new continuing care contracts, which included entrance fees from ten new courtyard homes.

Total Net Assets: Total net assets continued to improve, increasing by \$1,095,610 from \$15,223,985 in Fiscal Year 2000 to \$16,319,595 in Fiscal Year 2001. This increase is mainly

due to sustained operations, with profit totaling \$438,696 in Fiscal 2001, in addition to contributions, and changes in the Corporation's investment portfolio market value. This increase also included a \$618,648 increase in permanently restricted net assets to \$5,343,452 in Fiscal Year 2001, which was due in large part from contributions totaling \$587,560. In addition, unrestricted net assets increased by \$438,696 from \$7,042,460 in Fiscal Year 2001 to \$7,481,156 in Fiscal Year 2002 which is a direct result of the Corporation's profitability.

FISCAL YEAR ENDED JUNE 30, 2001 COMPARED TO FISCAL YEAR ENDED JUNE 30, 2002

Statement of Activity

Total Revenue: Total revenue remained stable, decreasing slightly by \$64,526 or 1% from \$10,450,210 in Fiscal Year 2001 to \$10,385,684 in Fiscal Year 2002. Revenue from Woods Health Service increased by \$254,200 from \$3,500,372 in Fiscal Year 2001 to \$3,754,572 in Fiscal Year 2002. This increase can be explained by a 7.5% rate increase and a change in payor mix. Revenue from the Manor rooms decreased from \$1,044,385 in Fiscal Year 2001 to \$765,780 in Fiscal Year 2002, which was the result of planned vacancies to accommodate the campus renovation. Residential living revenue increased by \$134,081 from \$3,088,537 in Fiscal Year 2001 to \$3,222,618 in Fiscal Year 2002 due to a full year of revenue from 10 courtyard homes and a partial year of revenue from seven courtyard homes completed in 2002. Also accounting for this increase was a six percent (6%) rate increase over Fiscal Year 2001. Southwoods Lodge revenues increased by \$86,761 or 10% from \$875,856 in Fiscal Year 2001 to \$962,617 in Fiscal Year 2002, resulting from a monthly fee increase of six percent (6%) and increased occupancy mix. Other revenue decreased by \$188,249 or 53% from \$351,956 in Fiscal Year 2001 to \$163,707 in Fiscal Year 2002 which was the result of a nonrecurring unrestricted donation in Fiscal Year 2001. Donations decreased by \$264,034 to \$26,723. Net investment income increased by 79,228 or 235% from \$33,781 in Fiscal Year 2001 to \$113,009 in Fiscal Year 2002. The net gain on the sale of investments totaling \$90,236 versus a net loss in Fiscal Year 2001 of \$24,354 is the primary reason for the increase. Net unrealized gain on investments decreased by \$195,934 from \$49,024 in Fiscal Year 2001 to (\$146,910) in Fiscal Year 2002. This decrease was due to market conditions as of June 30, 2002.

Total Expense: Total expenses increased \$482,587 or 5% from \$10,011,514 in Fiscal Year 2001 to \$10,494,101 in Fiscal Year 2002. Expenses relating to Woods Health Services increased by \$281,303 from \$3,638,471 in Fiscal Year 2001 to \$3,919,774 in Fiscal Year 2002, primarily due to increased labor and benefit costs, which increased \$231,584, insurance costs, which increased \$19,213, and utilities, which increased \$30,351. Woods Assisted Living expenses increased \$44,479 or 12% from \$357,929 in Fiscal Year 2001 to \$402,678 in Fiscal Year 2002, which was the result of increased labor and benefit costs totaling \$15,358, increased insurance costs of \$4,985 and increased utility costs of \$7,786. Southwoods Lodge expenses increased by \$143,926 or 19% from \$740,998 in Fiscal Year 2001 to \$884,924 in Fiscal Year 2002. Increased labor and benefits totaling \$73,343, increased insurance costs of \$7,109, increased utility costs of \$8,667 comprise the majority of the direct cost increases. Manor rooms expenses decreased by \$111,313 or 15% from \$726,813 in Fiscal Year 2001 to \$615,500 in Fiscal Year 2002. Reduced occupancy of assisted living beds resulted in this decrease. Residential living expenses increased

by \$344,910 or 15% from \$2,238,294 in Fiscal Year 2001 to \$2,583,204 in Fiscal Year 2002, resulting from an increase depreciation associated with the 17 new courtyard homes and the campus renovation totaling \$89,049 as well as the substantial increases in insurance and utilities. Management and general expenses decreased by \$178,380 or 13% from \$1,368,223 in Fiscal Year 2001 to \$1,189,843 in Fiscal Year 2002. Investing activities in capital expenditures produced this decrease.

Net Assets: The change in net assets decreased by \$1,175,376 from \$1,095,610 in Fiscal Year 2001 to (\$79,766) in Fiscal Year 2002. This decrease was primarily due to a decrease in the Corporation's profitability in Fiscal Year 2002. Unrestricted net assets change decreased by \$547,113 from \$438,696 in Fiscal Year 2001 to (\$108,417) in Fiscal Year 2002. Change in temporarily restricted net assets decreased by \$272,493 from \$38,266 in Fiscal Year 2001 to (\$234,227) primarily due to market value changes as well as a decrease in contributions. In addition, change in permanently restricted net assets decreased by \$355,770 to \$262,878 in Fiscal Year 2002 from \$618,648 in Fiscal Year 2001 due to market value changes and a decrease in contributions from \$587,892 to \$152,799.

Statement of Financial Position

Assets: Total assets increased by \$3,041,019 or 10% from \$29,348,802 at June 30, 2001 to \$32,389,821 at June 30, 2002. Cash decreased by \$226,514 or 12% from \$1,827,243 at June 30, 2001 to \$1,600,729 in June 30, 2002, which was the result of investing activities in capital expenditures. Receivables increased by \$223,712 or 29% from \$772,131 at June 30, 2001 to \$995,843 June 30, 2002. This increase was primarily related to entrance fees, which were paid in July 2002. Prepaid expenses increased by \$149,462 from \$35,307 at June 30, 2001 to \$184,769 at June 30, 2002, resulting from increased insurance premiums. Investments decreased by \$1,342,622 or 14% from \$9,361,598 at June 30, 2001 to \$8,018,976 at June 30, 2002. The main reason for this decrease was the utilization of investment funds to complete the purchase of 8.9 acres of land adjacent to the campus. Net property and equipment increased by \$4,353,630 or 25% from \$17,131,373 at June 30, 2001 to \$21,485,003 at June 30, 2002, resulting from the December 2001 land purchase and completion of the courtyard homes. Notes receivable decreased 100% due to the full reserve placed on the notes receivable when the debtor filed bankruptcy.

Liabilities: Total liabilities increased by \$3,120,785 or 24% from \$13,029,207 at June 30, 2001 to \$16,149,992 at June 30, 2002. Accounts payable decreased by \$167,558 or 32% from \$530,401 at June 30, 2001 to \$362,843 at June 30, 2002. This decrease can be explained by having fewer open payables at June 30, 2002. The Corporation's line of credit increased by \$1,629,000 from \$340,000 at June 30, 2001 to \$1,969,000 at June 30, 2002. The line of credit increased due to financing the construction of courtyard homes and then supplementing revenue lost due to planned vacancies in preparation for construction. Long-term debt decreased by \$66,266 or 12% from \$538,741 at June 30, 2001 to \$472,475 at June 30, 2002. This was due to the payment on the Corporation's debt. Deferred revenue from advance fees increased by \$1,558,235 or 16% from \$9,856,172 at June 30, 2001 to \$11,414,407 June 30, 2002 due to the entrance fees received from nineteen continuing care contracts.

Total Net Assets: Total net assets remained stable, decreasing slightly from \$16,319,595 in Fiscal Year 2001 to \$16,239,829 in Fiscal Year 2002. This decrease is mainly due to portfolio market valuation changes. The decrease in unrestricted net assets of \$108,417 and temporarily restricted net assets of \$234,227 is partially offset by the net gain in permanently restricted net assets of \$262,878 due to contributions of \$154,935 and a net gain on sale of investments of \$111,467.

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2002 COMPARED TO SEPTEMBER 30, 2001

Statement of Activity

Total Revenue: Total revenue increased \$418,037 or 17% from \$2,505,896 for the period ended September 30, 2001 to \$2,923,933 for the period ended September 30, 2002. The increase was due to increases in several categories. Manor rooms increased by \$101,872 or 20% from \$518,550 for the period ended September 30, 2001 to \$620,422 for the period ended September 30, 2002 due to higher occupancy and a seven percent (7%) rate increase. Manor apartments decreased by \$79,203 or 34% from \$230,891 for the period ended September 30, 2001 to \$151,688 for the period ended September 30, 2002 due to a reduced use of assisted living in the Manor. Residential living revenue increased by \$42,576 or 22% from \$195,763 for the period ended September 30, 2001 to \$238,339 for the period ended September 30, 2002, which can be explained by the occupancy of the final seven courtyard homes, which were occupied in the second and third quarter of Fiscal Year 2002, as well as the seven percent (7%) rate increase, which took effect July 1, 2002. Woods Health Services increased by \$41,805 to \$965,578 for the three-month period ending September 30, 2002 due to increases in the daily rate. Revenue from Woods Assisted Living increased by \$19,471 or 23% from \$84,396 for the period ended September 30, 2001 to \$103,867 for the period ended September 30, 2002 which was the result of a seven percent (7%) fee increase and increased occupancy. Southwoods Lodge increased by \$34,236 or 15% due to increased occupancy, from \$235,709 for the period ended September 30, 2001 to \$268,945 for the period ended September 30, 2002.

Total Expense: Total expenses increased \$55,427 or 2% from \$2,624,707 for the period ended September 30, 2001 to \$2,680,134 for the period ended September 30, 2002. Expenses relating to Woods Health Services increased by \$22,810 to \$1,014,383 for the three-month period ending September 30, 2002, which was due to a three percent (3%) salary increase, increased cost of benefits and insurance. Woods Assisted Living decreased by \$10,244 or 10% from \$101,357 for the period ended September 30, 2001 to \$91,113 for the period ended September 30, 2002, which was the result of staffing changes. Management and general expenses increased by \$25,196 for the three-month period ending September 30, 2002, which was due to increased labor and insurance costs.

Net Assets: The change in net assets increased by \$26,561 from (\$164,194) for the period ended September 30, 2001 to (\$137,633) for the period ended September 30, 2002. Increase in unrestricted net assets increased by \$362,610 from (\$118,811) for the period ended September 30, 2001 to \$243,799 for the period ended September 30, 2002. This increase was primarily due to an increase in the Corporation's profitability for the three-month period ending September 30,

2002, compared to the same period in the prior year. Change in temporarily restricted net assets decreased by \$324,151 from \$156,449 for the three-month period ending September 30, 2001 to (\$167,702) primarily due to market value changes of investments. In addition, change in permanently restricted net assets decreased slightly by \$11,898 to (\$213,730) for the three-month period ending September 30, 2002 due to market value changes.

DAYS CASH ON HAND AND DEBT SERVICE COVERAGE RATIO

	Forecasted 6/30/2006*	Forecasted 6/30/2007
Days Cash on Hand		
Cash	\$23,043,523	\$24,923,129
Cash-endowed restricted	143,639	143,639
Investments-restricted	890,649	890,649
Restricted cash and investments	8,195,903	8,195,903
Total Cash, Excluding Bond Proceeds	\$32,273,714	\$34,153,320
Total Annual Operating Expenses	\$16,688,330	\$17,673,701
Less depreciation/amortization	(2,699,437)	(2,766,104)
Net Annual Operating Expenses	\$13,988,893	\$14,907,597
Daily Expenses (Net Annual Operating Expenses divided by 365)	\$38,326	\$40,843
Days Cash on Hand:	842	836
Debt Service Coverage Ratio (based on Maximum Annual Debt Service)		
Decrease in unrestricted net assets	\$ (247,424)	\$ (282,969)
Plus interest expense	2,270,998	2,723,871
Plus depreciation and amortization	2,699,437	2,766,104
Less amortization of entrance fees	(2,581,512)	(2,725,422)
Net receipts of entrance fees	4,619,830	3,865,507
Income available for debt service	\$6,761,329	\$6,347,091
Maximum Annual Debt Service (MADS)	\$3,469,000	\$3,469,000
Debt Service Coverage Ratio:	1.95	1.83

*The fiscal year ending June 30, 2006 is the first fully stabilized fiscal year for which the project is expected to be fully utilized.

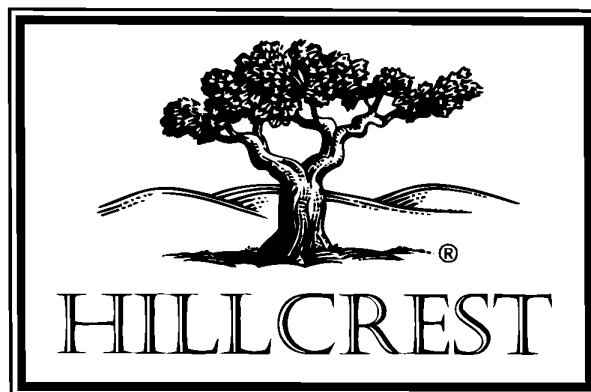
APPENDIX B

FINANCIAL STATEMENTS

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BRETHREN HILLCREST HOMES

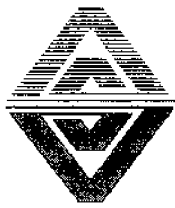
**Financial Statements
for the Years Ended
June 30, 2002 and 2001
and
Independent Auditors' Report**



BRETHREN HILLCREST HOMES

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VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

Board of Directors
Brethren Hillcrest Homes
2705 Mountain View Drive
La Verne, CA 91750

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
CARL POON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
KARIN HECKMAN NELSON
ARVEE ROBINSON

We have audited the statements of financial position of Brethren Hillcrest Homes, a California not-for-profit corporation, as of June 30, 2002 and 2001, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Brethren Hillcrest Homes' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brethren Hillcrest Homes at June 30, 2002 and 2001, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

August 16, 2002

BRETHREN HILLCREST HOMES

STATEMENTS OF FINANCIAL POSITION

June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,011,087	\$ 800,861
Accounts receivable	995,843	772,131
Interest receivable	60,811	69,424
Investments	838,299	1,137,220
Inventories	43,690	42,502
Prepaid expenses and deposits	<u>184,769</u>	<u>35,307</u>
Total Current Assets	3,134,499	2,857,445
Noncurrent Assets:		
Cash and cash equivalents	589,642	1,026,382
Investments	7,180,677	8,224,378
Notes receivable	-	109,224
Property, plant and equipment (net)	<u>21,485,003</u>	<u>17,131,373</u>
Total Assets	\$ 32,389,821	\$ 29,348,802
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 362,843	\$ 530,401
Accrued expenses	659,894	586,191
Line of credit	1,969,000	340,000
Current portion of long-term debt	64,591	62,107
Refundable deposits	<u>9,890</u>	<u>18,356</u>
Total Current Liabilities	3,066,218	1,537,055
Noncurrent Liabilities:		
Long-term debt, less current portion	472,475	538,741
Other long-term liability	67,671	73,145
Annuities payable	919,221	814,094
Refundable fees	210,000	210,000
Deferred revenue from advance fees	<u>11,414,407</u>	<u>9,856,172</u>
Total Liabilities	16,149,992	13,029,207
NET ASSETS		
Unrestricted	7,372,739	7,481,156
Temporarily restricted	3,260,760	3,494,987
Permanently restricted	<u>5,606,330</u>	<u>5,343,452</u>
Total Net Assets	16,239,829	16,319,595
Total Liabilities and Net Assets	\$ 32,389,821	\$ 29,348,802

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

BRETHREN HILLCREST HOMES

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
REVENUES		
Woods Health Services	\$ 3,754,572	\$ 3,500,372
Woods Assisted Living	386,656	398,420
Southwoods Lodge	962,617	875,856
Manor rooms	765,780	1,044,385
Manor apartments	930,772	867,954
Residential living	3,222,618	3,088,537
Rentals	96,783	95,570
Telephone system	58,171	55,240
Other revenue	276,716	385,737
Net assets released from restrictions	77,909	89,115
Net unrealized gain (loss) on investments	<u>(146,910)</u>	<u>49,024</u>
 Total revenues	 <u>10,385,684</u>	 <u>10,450,210</u>
 EXPENSES		
Woods Health Services	3,919,774	3,638,471
Woods Assisted Living	402,678	357,929
Southwoods Lodge	884,924	740,998
Manor rooms	615,500	726,813
Manor apartments	788,953	835,468
Residential living	2,583,204	2,238,294
Rentals	51,943	44,849
Telephone system	57,282	60,469
Management and general	<u>1,189,843</u>	<u>1,368,223</u>
 Total expenses	 <u>10,494,101</u>	 <u>10,011,514</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 <u>\$ (108,417)</u>	 <u>\$ 438,696</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
UNRESTRICTED NET ASSETS:		
Increase (decrease) in unrestricted net assets	\$ (108,417)	\$ 438,696
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	398,466	114,016
Gain on sale of investments	22,276	16,372
Investment income	36,265	157,563
Present value adjustment of gift annuities payable	48,279	52,899
Net assets released from restrictions:		
Miscellaneous	(77,909)	(89,115)
Net unrealized gain / (loss) on investments	<u>(661,604)</u>	<u>(213,469)</u>
Increase (decrease) in temporarily restricted net assets	<u>(234,227)</u>	<u>38,266</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	35,108	238,359
Gain on sale of investments	111,467	32,012
Contribution portion of new gift annuities	119,827	249,201
Present value adjustment of gift annuities payable	(2,136)	100,332
Payment of life income	(700)	(700)
Net investment income on Forgy Trust	<u>(688)</u>	<u>(556)</u>
Increase in permanently restricted net assets	<u>262,878</u>	<u>618,648</u>
INCREASE (DECREASE) IN NET ASSETS	(79,766)	1,095,610
NET ASSETS - BEGINNING OF YEAR	<u>16,319,595</u>	<u>15,223,985</u>
NET ASSETS - END OF YEAR	<u>\$ 16,239,829</u>	<u>\$ 16,319,595</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents	\$ 8,544,738	\$ 8,209,936
Contributions	671,146	993,761
Investment income received	67,651	216,435
Other revenues	267,443	50,553
Cash paid to suppliers and employees	<u>(9,448,682)</u>	<u>(9,047,293)</u>
Net cash provided by operating activities	<u>102,296</u>	<u>423,392</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,462,992)	(3,706,158)
Proceeds from sales of marketable securities	1,544,754	1,980,920
Purchase of marketable securities	<u>(1,106,229)</u>	<u>(2,170,810)</u>
Net cash (used) in investing activities	<u>(5,024,467)</u>	<u>(3,896,048)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Entrance fees received	2,961,530	2,910,222
Proceeds from new annuity obligations	243,897	441,667
Payments on annuity obligations	(138,770)	(104,725)
Proceeds from loans	1,969,000	1,190,000
Principal payments on loans	<u>(340,000)</u>	<u>(850,000)</u>
Net cash provided by financing activities	<u>4,695,657</u>	<u>3,587,164</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(226,514)	114,508
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,827,243</u>	<u>1,712,735</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,600,729</u></u>	<u><u>\$ 1,827,243</u></u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2002 and 2001

**RECONCILIATIONS OF EXCESS (DEFICIT) OF REVENUES OVER EXPENSES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2002</u>	<u>2001</u>
Change in Net Assets:	\$ (79,766)	\$ 1,095,610
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Amortization of entrance fees	(1,357,302)	(1,510,575)
Depreciation	1,108,684	979,252
Net realized loss/(gain) on investments	90,236	(24,030)
Net unrealized loss on investments	808,514	164,445
Decrease (increase) in operating assets:		
Accounts receivable	(223,712)	(246,244)
Interest receivable	8,613	(417)
Inventories	(1,188)	1,993
Prepaid expenses and deposits	(149,462)	(13,230)
Notes receivable		(10,668)
Increase (decrease) in operating liabilities:		
Accounts payable	(167,558)	21,498
Accrued expenses	73,703	(26,101)
Deposits	<u>(8,466)</u>	<u>(8,141)</u>
 Net cash provided by operating activities	 <u>\$ 102,296</u>	 <u>\$ 423,392</u>

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

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS June 30, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations - Brethren Hillcrest Homes (Hillcrest) incorporated in 1947 as a tax-exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 380 residents.

Net Asset Classes - Hillcrest classifies its net assets into three categories; unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets generally result from revenues from providing services, receiving unrestricted contributions, and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the elapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity.

Board Designated Amounts - The Board of Directors has designated certain unrestricted amounts for specific purposes. As of June 30, 2002, \$205,018 was designated for capital purposes and \$694,471 was designated for benevolent purposes. As of June 30, 2001, \$409,012 was designated for capital purposes and \$896,316 was designated for benevolent purposes. Inasmuch as these amounts have no donor restrictions, the Board may rescind the designation of these amounts at any time.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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

Accounting Method - The accrual method of accounting is used.

Inventory Valuation - Inventory is recorded at cost based on the first-in/first-out method.

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

Investments - Hillcrest considers its marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold.

Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Accounts Receivable - Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was \$40,000 at June 30, 2002 and 2001.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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

Amortization of Entrance Fees - Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by Statement of Position (SOP) 90-8, issued by the American Institute of Certified Public Accountants. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.2 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown on the balance sheet as deferred revenue. Entrance fees and the unamortized portion of entrance fees are summarized as follows:

	<u>Total Entrance Fees</u>	<u>Unamortized Entrance Fees</u>
Balance at June 30, 2000	\$14,322,724	\$ 8,666,525
Sale of contracts	2,910,222	2,910,222
Deceased residents	(1,071,594)	(477,028)
Resident withdrawals	(57,887)	(36,763)
Amortization of continuing care contracts	<u>-</u>	<u>(996,784)</u>
Balance at June 30, 2001	<u>16,103,465</u>	<u>10,066,172</u>
Sale of contracts	2,961,530	2,961,530
Deceased residents	(907,868)	(233,885)
Resident withdrawals	(191,480)	(54,688)
Refunds	(45,993)	(45,993)
Amortization of continuing care contracts	<u>-</u>	<u>(1,068,729)</u>
Balance at June 30, 2002	<u>\$17,919,654</u>	<u>\$11,624,407</u>

The amount shown in the financial statements for unamortized entrance fees has been reduced by the amount set up as a liability for refunds of \$210,000 at June 30, 2002 and 2001 (see Note 1, Refundable Fees).

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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

Refundable Fees - Hillcrest is obligated to refund a portion of entrance fees to residents who withdraw before five years. If the resident withdraws within three months, all of the entrance fee is refunded. After three months, the amount to be refunded is the entrance fee less 2.00% of the entrance fee per month. However, the maximum amount refunded cannot exceed 90% after the initial three month period.

The liability for entrance fees shown in these financial statements of \$210,000 at June 30, 2002 and 2001, is based upon Hillcrest's experience. The maximum amount refundable is approximately \$6,200,000 and \$5,500,000 at June 30, 2002 and 2001, respectively.

Net Patient Service Revenue - Hillcrest has agreements with third-party payers that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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

Obligation to Provide Future Services - Hillcrest annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. For the years ended June 30, 2002 and 2001, the calculation resulted in no future service liability. The discount rate used was 6%.

Gift Annuities - Hillcrest sponsors a charitable gift annuity program as part of its fund raising activities. All amounts received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the unrestricted net asset class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and is adjusted accordingly. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

Concentration of Credit Risk - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. Hillcrest charges monthly fees on open accounts to its residents, all of whom live on campus.

Hillcrest has reserve funds, comprised of cash and equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the \$100,000 federally insured limit.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 2 - INVESTMENTS:

The fair value and total cost of Hillcrest's marketable securities at June 30, 2002 and 2001, are as follows:

	Equity Securities		Debt Securities		Totals	
	2002	2001	2002	2001	2002	2001
Fair Value	<u>\$3,882,074</u>	<u>\$5,018,632</u>	<u>\$4,136,902</u>	<u>\$4,342,966</u>	<u>\$8,018,976</u>	<u>\$9,361,598</u>
Cost	<u>\$2,909,742</u>	<u>\$3,170,781</u>	<u>\$3,996,764</u>	<u>\$4,270,104</u>	<u>\$6,906,506</u>	<u>\$7,440,885</u>

In addition to the above equity and debt securities, Hillcrest also held money market funds, which are included in "cash and cash equivalents" of \$947,748 as of June 30, 2002, and \$1,424,162 as of June 30, 2001.

The investment income and net realized and unrealized gains and losses for the fiscal years ending June 30, 2002 and 2001, are as follows:

	2002	2001
Investment income, net of expenses of \$147,712 and \$158,957	\$204,630	\$247,078
Net realized gains	212,005	24,030
Net unrealized (losses)	(808,514)	(164,445)

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Acquisitions are recorded at cost. When property is donated, it is valued at fair value at date of the gift. Interest paid during the period of construction is capitalized.

Depreciation is computed on the straight-line basis over estimated useful lives as follows:

Buildings	Principally 25 to 35 years
Plant and equipment	Principally 3 to 20 years

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT: (continued)

Property, plant and equipment are summarized as follows:

	<u>2002</u>	<u>2001</u>
Land and improvements	\$ 3,180,388	\$ 1,187,975
Master plan	622,377	616,337
Buildings and improvements	28,400,490	24,994,937
Furniture, fixtures, equipment and vehicles	<u>4,563,181</u>	<u>4,504,873</u>
	36,766,436	31,304,122
Less accumulated depreciation	<u>(15,281,433)</u>	<u>(14,172,749)</u>
	<u>\$21,485,003</u>	<u>\$17,131,373</u>

NOTE 4 - NOTES RECEIVABLE:

	<u>2002</u>	<u>2001</u>
Note receivable secured by property in San Jacinto, California. The note bears interest at 10%. Monthly payments of \$878, balance due January, 2028.	\$ <u>0</u>	\$ <u>109,224</u>

During the fiscal year ended June 30, 2002, the note receivable became uncollectible, and was recognized as a decrease in permanently restricted contributions. For purposes of the required Statement of Cash Flow disclosure, this is a non-cash investing transaction.

NOTE 5 - LONG TERM DEBT:

There are two classifications of notes payable.

	<u>2002</u>	<u>2001</u>
UNSECURED LONG-TERM DEBT:		
Note dated February 28, 1994 to a resident, with 5% interest only payable in quarterly installments, due on demand.	\$ 25,000	\$ 25,000

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 2001

NOTE 5 - LONG TERM DEBT: (continued)

	<u>2002</u>	<u>2001</u>
LONG-TERM DEBT SECURED BY DEED OF TRUST:		
A note in the amount of \$836,000, secured by a Trust Deed on Woods Health Services property, dated April 1996. Interest rates are reset every April and October according to changes in the Federal Home Loan Bank District monthly cost of funds. The interest rates at June 30, 2002 and June 30, 2001 were 5.823% and 8.514%, respectively.	<u>\$512,066</u>	<u>\$575,848</u>
Total	537,066	600,848
Less: current position	<u>(64,591)</u>	<u>(62,107)</u>
Long-term portion	<u>\$472,475</u>	<u>\$538,741</u>
Total interest costs incurred	<u>\$ 41,908</u>	<u>\$ 56,492</u>

Maturities of long-term debt are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>2002</u>	<u>2001</u>
2002		\$ 62,107
2003	\$ 64,591	64,591
2004	67,175	67,175
2005	69,862	69,862
2006	72,343	72,343
2007	75,562	75,562
Thereafter	<u>187,533</u>	<u>189,208</u>
Total	<u>\$ 537,066</u>	<u>\$ 600,848</u>

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 6 - OTHER LONG-TERM LIABILITY:

On September 14, 1998, Hillcrest entered into an agreement with the City of La Verne involving the cost of certain roadway improvements made to "B" Street, which runs along the eastern side of Hillcrest. The City of La Verne contributed \$82,117 of improvement costs to Hillcrest. Rather than requiring Hillcrest to pay cash to the City, the parties agreed that Hillcrest would set aside six residential units for "very low income housing" for a term of 15 years per unit. Hillcrest has recorded the cost in fixed assets, and established a corresponding liability. Hillcrest will amortize the fixed assets cost and the liability on a per-unit basis, beginning when units are occupied by qualifying individuals.

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	<u>2002</u>	<u>2001</u>
Benevolence	\$ 2,798,543	\$ 3,012,445
Christian Service	52,666	54,714
Nurses training - Bowser	14,215	14,775
Fine arts	26,005	27,029
Woods discretionary	81,968	88,655
Entrance fee - Fasnacht	28,222	29,335
Minnie A. Trout Health Services Education	26,138	50,690
C.O.B. Ministers and Missionaries	121,392	139,744
Village Tower	57,646	52,988
Village Aquatic and Fitness Center	24,703	4,888
Village Center Pool	28,783	24,721
Mountain View Furniture	6,575	-
Annuity contracts available for general purposes	<u>(6,096)</u>	<u>(4,997)</u>
	<u>\$ 3,260,760</u>	<u>\$ 3,494,987</u>

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

(continued)

Temporarily restricted net assets were released for the following purposes:

	<u>2002</u>	<u>2001</u>
Benevolence	\$ 77,909	\$ 84,306
Woods discretionary		731
Program services		<u>4,078</u>
Total	<u>\$ 77,909</u>	<u>\$ 89,115</u>

Earnings from permanently restricted net assets are available for the following purposes:

	<u>2002</u>	<u>2001</u>
Benevolence	\$5,236,357	\$4,982,639
Woods discretionary	37,622	36,753
Minnie A. Trout Health Services Education Fund	173,738	169,726
C.O.B. Ministers and Missionaries	117,665	114,367
Life income funds - Forgy Trust	<u>40,948</u>	<u>39,967</u>
Total	<u>\$5,606,330</u>	<u>\$5,343,452</u>

NOTE 8 - PENSION AND ANNUITY PLANS:

Hillcrest provides a pension plan for employees under Section 403(b) of the Internal Revenue Code. Full-time employees who are 21 years of age and have been employed for one year are eligible to participate. Employees may voluntarily contribute a portion of their salary to the plan, subject to certain limitations. Hillcrest contributed 8% each year on behalf of each eligible employee. Hillcrest's total cost for this pension plan was \$282,367 and \$175,233 in 2002 and 2001, respectively.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 9 - SUPPLEMENTAL CASH FLOW DISCLOSURES:

Hillcrest considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Hillcrest paid \$129,448 in 2002 and \$102,475 in 2001 for interest costs.

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS:

Brethren Hillcrest Homes was the remainderman beneficiary of a pooled income fund which matured during the fiscal year ended June 30, 2002. At June 30, 2001, the fund had a market value of \$18,725. Brethren Foundation, Inc. was the trustee. Since Hillcrest was not the trustee of this fund, the value was not included in these financial statements as of June 30, 2001.

NOTE 11 - CHARITY CARE:

Hillcrest maintains records to identify and monitor the level of charity care it provides. These records indicate the difference between the Home's customary charge and the rate paid by Medi-Cal or Supplemental Security Income (SSI) as well as charity care for residents. Resident's charity care is supported through Benevolence donations and earnings on endowment resources. The following information measures the level of voluntary charity care provided during the years ended June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Related to residents:		
Nursing facility	\$ 47,001	\$ 43,985
Assisted living	<u>30,908</u>	<u>40,321</u>
	77,909	84,306
Related to community patients	<u>74,281</u>	<u>109,555</u>
Total	<u>\$ 152,190</u>	<u>\$193,861</u>

In 2002 and 2001, charity care for residents was fully subsidized by contributions and earnings from benevolent funds.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 12 - LINE OF CREDIT:

Hillcrest established a line of credit with PFF Bank & Trust during 2001. Interest is payable monthly. The interest rate as of June 30, 2002 was 5.75%. Interest expense for 2002 and 2001 was \$92,077 and \$36,627, respectively. As of June 30, 2002, the balance outstanding was \$1,969,000, and as of June 30, 2001, the balance outstanding was \$340,000.

NOTE 13 - SUBSEQUENT EVENT:

Hillcrest is in the process of a major development project, which is planned to include 40 new residential units, 26 manor residential apartments and 34 assisted living units, along with an aquatic and fitness center and the Meeting House Building containing resident activity areas, meeting room and administrative offices. The Board has approved architectural plans, and has named the principal contractor and underwriter. Bond financing will be used to fund the construction. The estimated amount of the bond issue will be approximately \$45,000,000. Applications for approval have been submitted to the California Department of Social Services. The first application, for ten residential units, has been approved. The second application was submitted in July, 2002 and Hillcrest anticipates receiving approval by December, 2002. As of the date of this report, the Board's approval of the bond issue was pending, scheduled for later in 2002.

BRETHREN HILLCREST HOMES

**Financial Statements
for the Years Ended
June 30, 2001 and 2000**

and

Independent Auditors' Report

BRETHREN HILLCREST HOMES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Brethren Hillcrest Homes
2705 Mountain View Drive
La Verne, CA 91750

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
KARIN HECKMAN NELSON
ARVEE ROBINSON

We have audited the statements of financial position of Brethren Hillcrest Homes, a California not-for-profit corporation, as of June 30, 2001 and 2000, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Brethren Hillcrest Homes' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brethren Hillcrest Homes at June 30, 2001 and 2000, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

August 24, 2001

BRETHREN HILLCREST HOMES

STATEMENTS OF FINANCIAL POSITION June 30, 2001 and 2000

	2001	2000
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 800,861	\$ 1,054,301
Accounts receivable (net)	772,131	525,887
Interest receivable	69,424	71,417
Investments	1,137,220	1,691,296
Inventories	42,502	42,085
Prepaid expenses and deposits	35,307	22,077
Total Current Assets	<u>2,857,445</u>	<u>3,407,063</u>
Noncurrent Assets:		
Cash and cash equivalents	1,026,382	658,434
Investments	8,224,378	7,735,467
Notes receivable	109,224	98,556
Property, plant and equipment (net)	<u>17,131,373</u>	<u>14,408,894</u>
Total Assets	<u>\$ 29,348,802</u>	<u>\$ 26,308,414</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 530,401	\$ 508,903
Accrued expenses	586,191	612,292
Line of credit	340,000	-
Current portion of long-term debt	62,107	56,214
Refundable deposits	18,356	26,497
Total Current Liabilities	<u>1,537,055</u>	<u>1,203,906</u>
Noncurrent Liabilities:		
Long-term debt, less current portion	538,741	605,579
Other long-term liability	73,145	78,898
Annuities payable	814,094	529,521
Refundable fees	210,000	210,000
Deferred revenue from advance fees	<u>9,856,172</u>	<u>8,456,525</u>
Total Liabilities	<u>13,029,207</u>	<u>11,084,429</u>
NET ASSETS		
Unrestricted	7,481,156	7,042,460
Temporarily restricted	3,494,987	3,456,721
Permanently restricted	<u>5,343,452</u>	<u>4,724,804</u>
Total Net Assets	<u>16,319,595</u>	<u>15,223,985</u>
Total Liabilities and Net Assets	<u>\$ 29,348,802</u>	<u>\$ 26,308,414</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS

For the Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
REVENUES		
Woods Health Services	\$ 3,500,372	\$ 3,386,373
Woods Assisted Living	398,420	328,338
Southwoods Lodge	875,856	804,051
Manor rooms	1,044,385	1,092,229
Manor apartments	867,954	853,893
Residential living	3,088,537	2,785,957
Rentals	95,570	82,899
Telephone system	55,240	54,431
Other revenue	385,737	415,520
Net assets released from restrictions	89,115	169,779
Net unrealized gain (loss) on investments	49,024	(212,064)
Total revenues	<u>10,450,210</u>	<u>9,761,406</u>
EXPENSES		
Woods Health Services	3,638,471	3,411,020
Woods Assisted Living	357,929	346,143
Southwoods Lodge	740,998	657,566
Manor rooms	726,813	683,147
Manor apartments	835,468	770,108
Residential living	2,238,294	2,059,411
Rentals	44,849	40,777
Telephone system	60,469	61,749
Management and general	1,368,223	1,199,853
Total expenses	<u>10,011,514</u>	<u>9,229,774</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 438,696</u>	<u>\$ 531,632</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
UNRESTRICTED NET ASSETS:		
Increase in unrestricted net assets	\$ 438,696	\$ 531,632
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	114,016	261,854
Gain on sale of investments	16,372	123,454
Investment income	157,563	43,457
Present value adjustment of gift annuities payable	52,899	(10,478)
Net assets released from restrictions:		
Miscellaneous	(89,115)	(169,779)
Net unrealized loss on investments	<u>(213,469)</u>	<u>(473,229)</u>
Increase (decrease) in temporarily restricted net assets	<u>38,266</u>	<u>(224,721)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	238,359	128,883
Gain on sale of investments	32,012	313,647
Contribution portion of new gift annuities	249,201	97,548
Present value adjustment of gift annuities payable	100,332	(42,252)
Payment of life income	(700)	(700)
Net investment income on Forgy Trust	<u>(556)</u>	<u>(2,035)</u>
Increase in permanently restricted net assets	<u>618,648</u>	<u>495,091</u>
INCREASE IN NET ASSETS	1,095,610	802,002
NET ASSETS - BEGINNING OF YEAR	<u>15,223,985</u>	<u>14,421,983</u>
NET ASSETS - END OF YEAR	<u>\$ 16,319,595</u>	<u>\$ 15,223,985</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2001 and 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents	\$ 8,209,936	\$ 7,820,404
Contributions	993,761	579,213
Investment income received	216,435	87,562
Other revenues	50,553	75,897
Cash paid to suppliers and employees	(9,047,293)	(8,144,338)
Net cash provided by operating activities	<u>423,392</u>	<u>418,738</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,706,158)	(2,604,389)
Proceeds from sales of marketable securities	1,980,920	1,313,783
Purchase of marketable securities	(2,170,810)	(1,911,162)
Net cash (used) in investing activities	<u>(3,896,048)</u>	<u>(3,201,768)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Entrance fees received	2,910,222	3,054,320
Proceeds from new annuity obligations	441,667	238,231
Payments on annuity obligations	(104,725)	(96,081)
Proceeds from loans	1,190,000	155,000
Principal payments on loans	(850,000)	(236,325)
Net cash provided by financing activities	<u>3,587,164</u>	<u>3,115,145</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	114,508	332,115
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,712,735</u>	<u>1,380,620</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,827,243</u>	<u>\$ 1,712,735</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2001 and 2000

RECONCILIATIONS OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2001</u>	<u>2000</u>
Change in Net Assets:	\$ 1,095,610	\$ 802,002
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Amortization of entrance fees	(1,510,575)	(1,399,462)
Depreciation and amortization	979,252	1,028,522
Net realized (gain) on investments	(24,030)	(627,356)
Net unrealized loss on investments	164,445	608,242
Decrease (increase) in operating assets:		
Accounts receivable	(246,244)	(46,704)
Interest receivable	1,993	(12,537)
Inventories	(417)	(6,282)
Prepaid expenses and deposits	(13,230)	6,100
Notes receivable	(10,668)	1,444
Increase (decrease) in operating liabilities:		
Accounts payable	21,498	(5,195)
Accrued expenses	(26,101)	62,291
Refundable deposits	(8,141)	7,673
 Net cash provided by operating activities	 <u>\$ 423,392</u>	 <u>\$ 418,738</u>

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

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations - Brethren Hillcrest Homes (Hillcrest) incorporated in 1947 as a tax exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 370 residents.

Net Asset Classes - Hillcrest classifies its net assets into three categories; unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets generally result from revenues from providing services, receiving unrestricted contributions, and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the elapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity.

Board Designated Amounts - The Board of Directors has designated certain unrestricted amounts for specific purposes. As of June 30, 2001, \$409,012 was designated for capital purposes and \$896,316 was designated for benevolent purposes. As of June 30, 2000, \$777,741 was designated for capital purposes and \$1,197,889 was designated for benevolent purposes. Inasmuch as these amounts have no donor restrictions, the Board may rescind the designation of these amounts at any time.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

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

Accounting Method - The accrual method of accounting is used.

Inventory Valuation - Inventory is recorded at cost based on the first-in/first-out method.

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

Investments - Hillcrest considers its marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold.

Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Accounts Receivable - Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was \$40,000 at June 30, 2001 and 2000.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

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

Amortization of Entrance Fees - Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by Statement of Position (SOP) 90-8, issued by the American Institute of Certified Public Accountants. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.2 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown on the balance sheet as deferred revenue. Entrance fees and the unamortized portion of entrance fees are summarized as follows:

	<u>Total Entrance Fees</u>	<u>Unamortized Entrance Fees</u>
Balance at June 30, 1999	\$ 12,206,157	\$ 7,011,667
Sale of contracts	3,054,320	3,054,320
Deceased residents	(937,753)	(537,654)
Resident withdrawals	-	-
Amortization of continuing care contracts	<u>-</u>	<u>(861,808)</u>
Balance at June 30, 2000	<u>14,322,724</u>	<u>8,666,525</u>
Sale of contracts	2,910,222	2,910,222
Deceased residents	(1,071,594)	(477,028)
Resident withdrawals	(57,887)	(36,763)
Amortization of continuing care contracts	<u>-</u>	<u>(996,784)</u>
Balance at June 30, 2001	<u>\$ 16,103,465</u>	<u>\$ 10,066,172</u>

The amount shown in the financial statements for unamortized entrance fees has been reduced by the amount set up as a liability for refunds of \$210,000 at June 30, 2001 and 2000 (see Note 1, Refundable Fees).

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

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

Refundable Fees - Hillcrest is obligated to refund a portion of entrance fees to residents who withdraw before five years. If the resident withdraws within three months, all of the entrance fee is refunded. After three months, the amount to be refunded is the entrance fee less 1.67% of the entrance fee per month. However, the maximum amount refunded cannot exceed 90% after the initial three month period.

The liability for entrance fees shown in these financial statements of \$210,000 at June 30, 2001 and 2000, is based upon Hillcrest's experience. The maximum amount refundable is approximately \$5,500,000 and \$4,500,000 at June 30, 2001 and 2000, respectively.

Net Patient Service Revenue - Hillcrest has agreements with third-party payers that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

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

Obligation to Provide Future Services - Hillcrest annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. For the years ended June 30, 2001 and 2000, the calculation resulted in no future service liability. The discount rate used was 6%.

Gift Annuities - Hillcrest sponsors a charitable gift annuity program as part of its fund raising activities. All amounts received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the unrestricted net asset class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and is adjusted accordingly. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

Concentration of Credit Risk - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. Hillcrest charges monthly fees on open accounts to its residents, all of whom live on campus.

Hillcrest has reserve funds, comprised of cash and equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the \$100,000 federally insured limit.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 2 - INVESTMENTS:

The fair value and total cost of Hillcrest's marketable securities at June 30, 2001 and 2000, are as follows:

	Equity Securities		Debt Securities		Totals	
	2001	2000	2001	2000	2001	2000
Fair Value	<u>\$ 5,018,632</u>	<u>\$ 5,324,092</u>	<u>\$ 4,342,966</u>	<u>\$ 4,102,671</u>	<u>\$ 9,361,598</u>	<u>\$ 9,426,763</u>
Cost	<u>\$ 3,170,781</u>	<u>\$ 3,143,621</u>	<u>\$ 4,270,104</u>	<u>\$ 4,192,053</u>	<u>\$ 7,440,885</u>	<u>\$ 7,335,674</u>

In addition to the above equity and debt securities, Hillcrest also held money market funds, which are included in "cash and cash equivalents" of \$1,424,162 as of June 30, 2001, and \$1,010,030 as of June 30, 2000.

The investment income and net realized and unrealized gains and losses for the fiscal years ending June 30, 2001 and 2000, are as follows:

	2001	2000
Investment income, net of expenses of \$158,957 and \$152,468	\$ 247,078	\$ 220,182
Net realized gains	24,030	627,356
Net unrealized (losses)	(164,445)	(608,242)

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Acquisitions are recorded at cost. When property is donated, it is valued at fair value at date of the gift. Interest paid during the period of construction is capitalized.

Depreciation is computed on the straight-line basis over estimated useful lives as follows:

Buildings	Principally 25 to 35 years
Plant and equipment	Principally 3 to 20 years

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT: (continued)

Property, plant and equipment are summarized as follows:

	<u>2001</u>	<u>2000</u>
Land and improvements	\$ 1,187,975	\$ 1,008,964
Master plan	616,337	602,772
Buildings and improvements	24,994,937	21,846,012
Furniture, fixtures, equipment and vehicles	<u>4,504,873</u>	<u>4,140,216</u>
	31,304,122	27,597,964
Less accumulated depreciation	<u>(14,172,749)</u>	<u>(13,189,070)</u>
	<u>\$ 17,131,373</u>	<u>\$ 14,408,894</u>

NOTE 4 - NOTES RECEIVABLE:

	<u>2001</u>	<u>2000</u>
Note receivable secured by property in San Jacinto, California. The note bears interest at 10%. Monthly payments of \$878, balance due January, 2028.	<u>\$ 109,224</u>	<u>\$ 98,556</u>

NOTE 5 - LONG-TERM DEBT:

There are two classifications of notes payable.

	<u>2001</u>	<u>2000</u>
UNSECURED LONG-TERM DEBT:		
Note dated February 28, 1994 to a resident, with 5% interest only payable in quarterly installments, due on demand.	\$ 25,000	\$ 25,000

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 5 - LONG-TERM DEBT: (continued)

	<u>2001</u>	<u>2000</u>
LONG-TERM DEBT SECURED BY DEED OF TRUST:		
A note in the amount of \$836,000, secured by a Trust Deed on Woods Health Services property, dated April, 1996. Interest rates are reset every April and October according to changes in the Federal Home Loan Bank District monthly cost of funds. The interest rates at June 30, 2001 and June 30, 2000 were 8.514% and 7.901%, respectively.		
	<u>575,848</u>	<u>636,793</u>
Total	600,848	661,793
Less: current portion	<u>(62,107)</u>	<u>(56,214)</u>
Long-term portion	<u>\$ 538,741</u>	<u>\$ 605,579</u>
Total interest costs incurred	<u>\$ 56,492</u>	<u>\$ 53,309</u>

Maturities of long-term debt are as follows:

Year Ended <u>June 30,</u>	<u>2001</u>	<u>2000</u>
2001	\$	\$ 56,214
2002	62,107	62,107
2003	64,591	64,591
2004	67,175	67,175
2005	69,862	69,862
2006	72,343	72,343
Thereafter	<u>264,770</u>	<u>269,501</u>
Total	<u>\$ 600,848</u>	<u>\$ 661,793</u>

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 6 - OTHER LONG-TERM LIABILITY:

On September 14, 1998, Hillcrest entered into an agreement with the City of La Verne involving the cost of certain roadway improvements made to "B" Street, which runs along the eastern side of Hillcrest. The City of La Verne contributed \$82,117 of improvement costs to Hillcrest. Rather than requiring Hillcrest to pay cash to the City, the parties agreed that Hillcrest would set aside six residential units for "very low income housing" for a term of 15 years per unit. Hillcrest has recorded the cost in fixed assets, and established a corresponding liability. Hillcrest will amortize the fixed assets cost and the liability on a per-unit basis, beginning when units are occupied by qualifying individuals.

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	<u>2001</u>	<u>2000</u>
Benevolence	\$ 3,012,445	\$ 3,047,350
Christian Service	54,714	53,274
Nurses training - Bowser	14,775	14,395
Fine arts	27,029	26,334
Woods discretionary	88,655	89,271
Entrance fee - Fasnacht	29,335	28,581
Minnie A. Trout Health Services Education	50,690	61,932
C.O.B. Ministers and Missionaries	139,744	143,481
Village Tower	52,988	50,000
Village Center	29,609	-
Annuity contracts available for general purposes	<u>(4,997)</u>	<u>(57,897)</u>
	<u>\$ 3,494,987</u>	<u>\$ 3,456,721</u>

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

(continued)

Temporarily restricted net assets released from restrictions were for the following purposes:

	<u>2001</u>	<u>2000</u>
Benevolence	\$ 84,306	\$ 151,361
Woods discretionary	731	15,004
Program services	<u>4,078</u>	<u>3,414</u>
Total	<u>\$ 89,115</u>	<u>\$ 169,779</u>

Earnings from permanently restricted net assets are available for the following purposes:

	<u>2001</u>	<u>2000</u>
Benevolence	\$ 4,982,639	\$ 4,392,255
Woods discretionary	36,753	36,704
Minnie A. Trout Health Services Education Fund	169,726	144,055
C.O.B. Ministers and Missionaries	114,367	113,736
Life income funds - Forgy Trust	<u>39,967</u>	<u>38,054</u>
	<u>\$ 5,343,452</u>	<u>\$ 4,724,804</u>

NOTE 8 - PENSION AND ANNUITY PLANS:

Hillcrest provides a pension plan for employees under Section 403(b) of the Internal Revenue Code. Full-time employees who are 21 years of age and have been employed for one year are eligible to participate. Employees may voluntarily contribute a portion of their salary to the plan, subject to certain limitations. Hillcrest contributed 8% each year on behalf of each eligible employee. Hillcrest's total cost for this pension plan was \$175,233 and \$134,948 in 2001 and 2000, respectively.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 9 - SUPPLEMENTAL CASH FLOW DISCLOSURES:

Hillcrest considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Hillcrest paid \$102,475 in 2001 and \$53,309 in 2000 for interest costs.

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS:

Brethren Hillcrest Homes is the remainderman beneficiary of a pooled income fund with a market value of \$18,725 at June 30, 2001 and \$18,051 at June 30, 2000. Brethren Foundation, Inc. is trustee. Since Hillcrest is not the trustee of this fund, it is not included in these financial statements.

NOTE 11 - CHARITY CARE:

Hillcrest maintains records to identify and monitor the level of charity care it provides. These records indicate the difference between the Home's customary charge and the rate paid by Medi-Cal or Supplemental Security Income (SSI) as well as charity care for residents. Resident's charity care is supported through Benevolence donations and earnings on endowment resources. The following information measures the level of voluntary charity care provided during the years ended June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Related to residents:		
Nursing facility	\$ 43,985	\$ 97,505
Assisted living	<u>40,321</u>	<u>53,856</u>
	84,306	151,361
Related to community patients	<u>109,555</u>	<u>144,140</u>
	<u>\$ 193,861</u>	<u>\$ 295,501</u>

In 2001 and 2000, charity care for residents was fully subsidized by contributions and earnings from benevolent funds.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE 12 - LINE OF CREDIT:

Hillcrest established a line of credit with PFF Bank & Trust during 2001. Interest is payable monthly. The interest rate as of June 30, 2001 was 7.75%. Interest expense for 2001 was \$36,627. As of June 30, 2001, the balance outstanding was \$340,000.

BRETHREN HILLCREST HOMES

**Financial Statements
for the Years Ended
June 30, 2000 and 1999**

and

Independent Auditors' Report

BRETHREN HILLCREST HOMES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Brethren Hillcrest Homes
2705 Mountain View Drive
La Verne, CA 91750

We have audited the statements of financial position of Brethren Hillcrest Homes, a California not-for-profit corporation, as of June 30, 2000 and 1999, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Brethren Hillcrest Homes' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brethren Hillcrest Homes at June 30, 2000 and 1999, and the changes in its net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

September 1, 2000

-1-

PETER F. GAUTREAU, CPA ♦ RENEE S. GRAVES, CPA, CGFM ♦ JAMES B. KATHERMAN, CPA, MS ♦ CARL M. PON, CPA, CVA
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BRETHREN HILLCREST HOMES

STATEMENTS OF FINANCIAL POSITION

June 30, 2000 and 1999

	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,054,301	\$ 909,796
Accounts receivable (net)	525,887	479,183
Interest receivable	71,417	58,880
Investments	1,691,296	1,632,027
Inventories	42,085	35,803
Prepaid expenses and deposits	22,077	28,177
Total Current Assets	<u>3,407,063</u>	<u>3,143,866</u>
Noncurrent Assets:		
Cash and cash equivalents	658,434	470,824
Investments	7,735,467	7,210,566
Notes receivable	98,556	100,000
Property, plant and equipment (net)	<u>14,408,894</u>	<u>12,833,027</u>
Total Assets	<u>\$ 26,308,414</u>	<u>\$ 23,758,283</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 508,903	\$ 510,879
Accrued expenses	612,292	550,001
Current portion of long-term debt	56,214	111,971
Refundable deposits	<u>26,497</u>	<u>18,824</u>
Total Current Liabilities	1,203,906	1,191,675
Noncurrent Liabilities:		
Long-term debt, less current portion	605,579	631,147
Other long-term liability	78,898	82,117
Gift notes payable	-	7,000
Annuities payable	529,521	412,694
Refundable fees	210,000	210,000
Deferred revenue from advance fees	<u>8,456,525</u>	<u>6,801,667</u>
Total Liabilities	<u>11,084,429</u>	<u>9,336,300</u>
NET ASSETS		
Unrestricted	7,042,460	6,510,828
Temporarily restricted	3,456,721	3,681,442
Permanently restricted	<u>4,724,804</u>	<u>4,229,713</u>
Total Net Assets	<u>15,223,985</u>	<u>14,421,983</u>
Total Liabilities and Net Assets	<u>\$ 26,308,414</u>	<u>\$ 23,758,283</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS

For the Years Ended June 30, 2000 and 1999

	2000	1999
REVENUES		
Woods Health Services	\$ 3,386,373	\$ 3,402,825
Woods Assisted Living	328,338	271,635
Southwoods Lodge	804,051	760,673
Manor rooms	1,092,229	1,022,364
Manor apartments	853,893	664,973
Residential living	2,785,957	2,528,036
Rentals	82,899	75,335
Telephone system	54,431	49,419
Other revenue	415,520	723,943
Net assets released from restrictions	169,779	142,297
Net unrealized (loss) on investments	(212,064)	(175,572)
Total revenues	<u>9,761,406</u>	<u>9,465,928</u>
EXPENSES		
Woods Health Services	3,411,020	3,164,068
Woods Assisted Living	346,143	339,772
Southwoods Lodge	657,566	633,422
Manor rooms	683,147	590,628
Manor apartments	770,108	728,715
Residential living	2,059,411	1,788,611
Rentals	40,777	53,364
Telephone system	61,749	58,474
Management and general	1,199,853	1,199,677
Total expenses	<u>9,229,774</u>	<u>8,556,731</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 531,632</u>	<u>\$ 909,197</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
UNRESTRICTED NET ASSETS:		
Increase in unrestricted net assets	\$ 531,632	\$ 909,197
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	261,854	220,947
Gain on sale of investments	123,454	344,690
Investment income	43,457	35,571
Present value adjustment of gift annuities payable	(10,478)	(11,026)
Net assets released from restrictions:		
Miscellaneous	(169,779)	(142,297)
Net unrealized (loss) on investments	<u>(473,229)</u>	<u>(179,362)</u>
Increase (decrease) in temporarily restricted net assets	<u>(224,721)</u>	<u>268,523</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	128,883	75,490
Gain on sale of investments	313,647	482,245
Contribution portion of new gift annuities	97,548	86,446
Present value adjustment of gift annuities payable	(42,252)	(19,207)
Payment of life income	(700)	(875)
Net investment income on Forgy Trust	<u>(2,035)</u>	<u>13,902</u>
Increase in permanently restricted net assets	<u>495,091</u>	<u>638,001</u>
INCREASE IN NET ASSETS	802,002	1,815,721
NET ASSETS - BEGINNING OF YEAR	<u>14,421,983</u>	<u>12,606,262</u>
NET ASSETS - END OF YEAR	<u>\$ 15,223,985</u>	<u>\$ 14,421,983</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents	\$ 7,820,404	\$ 7,399,611
Contributions	579,213	547,617
Investment income received	87,562	213,170
Other revenues	75,897	171,181
Cash paid to suppliers and employees	<u>(8,144,338)</u>	<u>(7,221,459)</u>
Net cash provided by operating activities	<u>418,738</u>	<u>1,110,120</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,604,389)	(2,042,472)
Proceeds from sales of marketable securities	1,313,783	2,844,303
Purchase of marketable securities	<u>(1,911,162)</u>	<u>(3,106,333)</u>
Net cash (used) in investing activities	<u>(3,201,768)</u>	<u>(2,304,502)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Entrance fees received	3,054,320	854,797
Proceeds from new annuity obligations	238,231	209,575
Payments on annuity obligations	(96,081)	(66,853)
Proceeds from loans	155,000	289,442
Principal payments on loans	<u>(236,325)</u>	<u>(349,850)</u>
Net cash provided by financing activities	<u>3,115,145</u>	<u>937,111</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	332,115	(257,271)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,380,620</u>	<u>1,637,891</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,712,735</u>	<u>\$ 1,380,620</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2000 and 1999

RECONCILIATIONS OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2000</u>	<u>1999</u>
Change in Net Assets:	\$ 802,002	\$ 1,815,721
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Amortization of entrance fees	(1,399,462)	(1,193,900)
Depreciation and amortization	1,028,522	1,065,672
Net realized (gain) on investments	(627,356)	(1,164,601)
Net unrealized loss on investments	608,242	341,036
Decrease (increase) in operating assets:		
Accounts receivable	(46,704)	66,952
Inventories	(6,282)	(2,196)
Interest receivable	(12,537)	(21,369)
Prepaid expenses and deposits	6,100	32,651
Notes receivable	1,444	(68,420)
Increase (decrease) in operating liabilities:		
Accounts payable	(5,195)	137,406
Accrued expenses	62,291	97,843
Deposits and deferred revenue	7,673	3,325
 Net cash provided by operating activities	 <u>\$ 418,738</u>	 <u>\$ 1,110,120</u>

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

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations - Brethren Hillcrest Homes (Hillcrest) incorporated in 1947 as a tax-exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 385 residents.

Net Asset Classes - Hillcrest classifies its net assets into three categories; unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets generally result from revenues from providing services, receiving unrestricted contributions, and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the elapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity.

Board Designated Amounts - The Board of Directors has designated certain unrestricted amounts for specific purposes. As of June 30, 2000, \$777,741 has been designated for capital purposes and \$1,197,889 has been designated for benevolent purposes. As of June 30, 1999, \$689,680 has been designated for capital purposes and \$1,206,560 has been designated for benevolent purposes. Inasmuch as these amounts have no donor restrictions, the Board may rescind the designation of these amounts at any time.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Accounting Method - The accrual method of accounting is used.

Inventory Valuation - Inventory is recorded at cost based on the first-in/first-out method.

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

Investments - Hillcrest considers its marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold.

Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Accounts Receivable - Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was \$40,000 at June 30, 2000 and 1999.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Amortization of Entrance Fees - Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by Statement of Position (SOP) 90-8, issued by the American Institute of Certified Public Accountants. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.2 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown on the balance sheet as deferred revenue. Entrance fees and the unamortized portion of entrance fees are summarized as follows:

	Total Entrance Fees	Unamortized Entrance Fees
	<u> </u>	<u> </u>
Balance at June 30, 1998	\$12,098,223	\$ 7,283,185
Sale of contracts	934,412	934,412
Deceased residents	(746,863)	(416,624)
Resident withdrawals	(79,615)	(38,021)
Amortization of continuing care contracts	<u> -</u>	<u> (751,285)</u>
Balance at June 30, 1999	<u>12,206,157</u>	<u>7,011,667</u>
Sale of contracts	3,054,320	3,054,320
Deceased residents	(937,753)	(537,654)
Resident withdrawals	-	-
Amortization of continuing care contracts	<u> -</u>	<u> (861,808)</u>
Balance at June 30, 2000	<u><u>\$14,322,724</u></u>	<u><u>\$ 8,666,525</u></u>

The amount shown in the financial statements for unamortized entrance fees has been reduced by the amount set up as a liability for refunds of \$210,000 at June 30, 2000 and 1999 (see Note 1, Refundable Fees).

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Refundable Fees - Hillcrest is obligated to refund a portion of entrance fees to residents who withdraw before five years. If the resident withdraws within three months, all of the entrance fee is refunded. After three months, the amount to be refunded is the entrance fee less 1.67% of the entrance fee per month. However, the maximum amount refunded cannot exceed 90% after the initial three-month period.

Refundable entrance fees shown in these financial statements of \$210,000 at June 30, 2000 and 1999, are based upon Hillcrest's experience. The maximum amount refundable is approximately \$4,500,000 and \$3,600,000 at June 30, 2000 and 1999, respectively.

Net Patient Service Revenue - Hillcrest has agreements with third-party payers that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Obligation to Provide Future Services - Hillcrest annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. For the years ended June 30, 2000 and 1999, the calculation resulted in no future service liability. The discount rate used was 6%.

Gift Annuities - Hillcrest sponsors a charitable gift annuity program as part of its fund raising activities. All amounts received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the unrestricted net asset class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and is adjusted accordingly. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

Concentration of Credit Risk - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. Hillcrest charges monthly fees on open accounts to its residents, all of whom live on campus.

Hillcrest has reserve funds, comprised of cash, cash equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the \$100,000 federally insured limit.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 2 - INVESTMENTS:

The fair value and total cost of Hillcrest's marketable securities at June 30, 2000 and 1999 are as follows:

	Equity Securities		Debt Securities		Totals	
	2000	1999	2000	1999	2000	1999
Fair Value	<u>\$ 5,324,092</u>	<u>\$ 5,257,710</u>	<u>\$ 4,102,671</u>	<u>\$ 3,584,883</u>	<u>\$ 9,426,763</u>	<u>\$ 8,842,593</u>
Cost	<u>\$ 3,143,621</u>	<u>\$ 2,541,353</u>	<u>\$ 4,192,053</u>	<u>\$ 3,610,641</u>	<u>\$ 7,335,674</u>	<u>\$ 6,151,994</u>

The investment income and net realized and unrealized gains and losses for the fiscal years ending June 30, 2000 and 1999, are as follows:

	2000	1999
Investment income, net of expenses of \$152,468 and \$137,528	\$ 220,182	\$ 201,949
Net realized gain	627,356	1,164,601
Net unrealized (losses)	(608,242)	(341,036)

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Acquisitions are recorded at cost. When property is donated, it is valued at fair value at date of the gift. Interest paid during the period of construction is capitalized.

Depreciation is computed on the straight-line basis over estimated useful lives as follows:

Buildings	Principally 25 to 35 years
Plant and equipment	Principally 3 to 20 years

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT: (continued)

Property, plant and equipment are summarized as follows:

	<u>2000</u>	<u>1999</u>
Land and improvements	\$ 1,008,964	\$ 999,065
Master plan	602,772	571,504
Buildings and improvements	21,846,012	19,672,664
Furniture, fixtures, equipment and vehicles	<u>4,140,216</u>	<u>3,750,342</u>
Total property, plant and equipment	27,597,964	24,993,575
Less accumulated depreciation	<u>(13,189,070)</u>	<u>(12,160,548)</u>
Property, plant and equipment (net)	<u>\$14,408,894</u>	<u>\$ 12,833,027</u>

NOTE 4 - NOTES RECEIVABLE:

	<u>2000</u>	<u>1999</u>
Note receivable secured by property in San Jacinto, California. The note bears interest at 10%. Monthly payments of \$878, balloon payment due Dec. 31, 2004.	<u>\$ 98,556</u>	<u>\$ 100,000</u>

NOTE 5 - LONG-TERM DEBT:

There are two classifications of notes payable.

	<u>2000</u>	<u>1999</u>
UNSECURED LONG-TERM DEBT:		
Note dated February 28, 1994 to a resident, with 5% interest only payable in quarterly installments, due on demand.	\$ 25,000	\$ 25,000

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 5 – LONG-TERM DEBT: (continued)

	<u>2000</u>	<u>1999</u>
LONG-TERM DEBT SECURED BY DEED OR TRUST:		
<p>A note in the amount of \$836,000, secured by a Trust Deed on Woods Health Services property, dated April, 1996. Interest rates are reset every April and October according to changes in the Federal Home Loan Bank District monthly cost of funds. The interest rates at June 30, 2000 and June 30, 1999 were 7.900% and 7.608%, respectively.</p>	\$ 636,793	\$ 690,792
<p>A note in the amount of \$205,000 secured by all inventory, accounts, contract rights, equipment and general intangibles, dated March 21, 1997 payable to PFF Bank and Trust. Principal payments were \$6,833 per month in addition to all accrued unpaid interest due as of each payment date with a final payment of \$6,892 payable on September 15, 1999. Interest was calculated at the PFF Bank and Trust Base Rate plus 1.50% and changed whenever the Bank announced a change. The interest rate at June 30, 1999 was 9.25%.</p>	-	27,326
Total	661,793	743,118
Less: current portion	<u>(56,214)</u>	<u>(111,971)</u>
Long-term portion	<u>\$ 605,579</u>	<u>\$ 631,147</u>
Total interest costs incurred	<u>\$ 53,309</u>	<u>\$ 92,396</u>

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 5 – LONG-TERM DEBT: (continued)

Maturities of long-term debt are as follows:

Year-Ended June 30,	2000	1999
2000	\$	\$ 111,971
2001	56,214	65,008
2002	62,107	64,638
2003	64,591	67,433
2004	67,175	70,228
2005	69,862	72,915
Thereafter	341,844	290,925
Total	<u>\$ 661,793</u>	<u>\$ 743,118</u>

NOTE 6 - OTHER LONG-TERM LIABILITY:

On September 14, 1998, Hillcrest entered into an agreement with the City of La Verne involving the cost of certain roadway improvements made to "B" Street, which runs along the eastern side of Hillcrest. The City of La Verne attributed \$82,117 of improvements cost to Hillcrest. The City of La Verne has allowed Hillcrest to satisfy this debt by providing six very low income residential units or a combination of three low income residential units as a substitution for every two very low income residential units, for a term of 15 years per unit. Hillcrest recorded the improvement, and established a corresponding liability during the fiscal year ended June 30, 1999. Hillcrest will amortize the liability on a per-unit basis.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 7 -- TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	<u>2000</u>	<u>1999</u>
Benevolence	\$ 3,047,350	\$ 3,276,710
Christian Service	53,274	54,277
Nurses training - Bowser	14,395	14,684
Fine arts	26,334	26,659
Woods discretionary	89,271	103,424
Entrance fee - Fasnacht	28,581	29,156
Minnic A. Trout Health Services Education	61,932	75,306
C.O.B. Ministers and Missionaries	143,481	148,646
Village Tower	50,000	-
Annuity contracts available for general purposes	<u>(57,897)</u>	<u>(47,420)</u>
	<u>\$ 3,456,721</u>	<u>\$ 3,681,442</u>

Temporarily restricted net assets released from restrictions were for the following purposes:

	<u>2000</u>	<u>1999</u>
Benevolence	\$ 151,361	\$ 134,116
Woods discretionary	15,004	4,476
Program services	<u>3,414</u>	<u>3,705</u>
Total	<u>\$ 169,779</u>	<u>\$ 142,297</u>

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 7 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

(continued)

Earnings from permanently restricted net assets are available for the following purposes:

	<u>2000</u>	<u>1999</u>
Benevolence	\$ 4,392,255	\$ 3,916,973
Woods discretionary	36,704	33,961
Minnie A. Trout Health Services Education Fund	144,055	133,288
C.O.B. Ministers and Missionaries	113,736	104,703
Life income funds - Forgy Trust	38,054	40,788
	<u>\$ 4,724,804</u>	<u>\$ 4,229,713</u>

NOTE 8 - PENSION AND ANNUITY PLANS:

Hillcrest provides a pension plan for employees under Section 403(b) of the Internal Revenue Code. Full-time employees who are 21 years of age and have been employed for one year are eligible to participate. Employees may voluntarily contribute a portion of their salary to the plan, subject to certain limitations. Hillcrest contributed 8% beginning on July 1, 1999, and 7% per year prior to July 1, 1999 on behalf of each eligible employee. Hillcrest's net cost for this pension plan was \$ 134,948 and \$139,025 in 2000 and 1999, respectively.

NOTE 9 - SUPPLEMENTAL CASH FLOW DISCLOSURES:

Hillcrest considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Hillcrest paid \$53,309 in 2000 and \$92,396 in 1999 for interest costs.

See Independent Auditors' report.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE 10 - FUNDS HELD IN TRUST BY OTHERS:

Brethren Hillcrest Homes is the remainderman beneficiary of a pooled income fund with a market value of \$18,051 at June 30, 2000 and \$18,888 at June 30, 1999. Brethren Foundation, Inc. is trustee. Since Hillcrest is not the trustee of this fund, it is not included in these financial statements.

NOTE 11 - CHARITY CARE:

Hillcrest maintains records to identify and monitor the level of charity care it provides. These records indicate the difference between Hillcrest's customary charge and the rate paid by Medi-Cal or Supplemental Security Income (SSI) as well as charity care for residents. Resident's charity care is supported through Benevolence donations and earnings on endowment resources. The following information measures the level of voluntary charity care provided during the years ended June 30, 2000 and 1999:

	2000	1999
Related to residents:		
Nursing facility	\$ 97,505	\$ 101,628
Assisted living	<u>53,856</u>	<u>32,488</u>
	151,361	134,116
Related to community patients	<u>144,140</u>	<u>78,472</u>
	<u>\$ 295,501</u>	<u>\$ 212,588</u>

In 2000 and 1999, charity care for residents was fully subsidized by contributions and earnings from benevolent funds.

See Independent Auditors' report.

APPENDIX C

MARKET FEASIBILITY STUDY

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Hillcrest Market Study and Plan

July 2002

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PURPOSE

The purpose of this study is to evaluate and analyze the ongoing demand for existing and expanded units at Hillcrest, a mature continuing care retirement community located in La Verne, CA.

A continuing care retirement community, by definition, includes a continuum of care for senior adults on one campus. Seniors live in apartments or homes without health care services at admission, knowing that assisted living and nursing care accommodations are available and some consideration for the fees are part of the service package to the community. Access to these health care components is guaranteed through the Residence Agreement as they age in place, if the need arises. In addition to health care services, continuing care retirement communities offer a variety of services such as dining options, housekeeping, transportation, security, maintenance, and planned activities.

For purposes of this study, residential (independent) living units are defined as apartments and homes designed for senior adults age 62 and over capable of caring for themselves without medical assistance. Residents of independent living accommodations enjoy an array of services included in fees such as choice of meal program, scheduled transportation, planned activities, health and wellness programs, maintenance services, and housecleaning. Independent living units generally include one bedroom, one bedroom with den, two, and two bedroom with den apartments; and two bedroom or larger homes with garages. Commons space generally includes dining rooms, lounges, a multi-purpose room, a Wellness Center including a fitness component, a hair care salon, and a media center with a library and computer terminals. Upscale communities often include additional amenities such as an arts studio, retail space, a woodworking shop and an indoor swimming pool.

Assisted living units are defined as studio and one-bedroom efficiency apartments where residents receive assistance with the activities of daily living in addition to the services described above. Assisted living services generally include assistance with bathing, dressing, ambulation, toileting, and eating (Activities of Daily Living, or ADLs). In addition to the ADLs, assisted living may include assistance with the Instrumental Activities of Daily Living (IADLs), which are adaptive and home management tasks that require a higher level of physical and cognitive ability than ADLs. IADLs include: meal preparation (3 meals daily), housekeeping (weekly with spot cleaning and bed making daily), laundry, shopping, self-medication, telephone, financial management, and transportation. Assisted living provides a level of care between residential living and nursing care. In addition to private accommodations, the assisted living portion of the community includes commons space. Commons space generally includes dining, recreation, and lounge areas.

Nursing accommodations in an upscale continuing care retirement community generally include private rooms with a full range of care and therapy available. In addition to patient rooms, the nursing centers typically include commons space for dining, visiting, grooming, doctor's visits, therapy, recreation, and conversation.

EXECUTIVE SUMMARY

I. Site

Hillcrest's location in La Verne and the site for the community are well suited for an existing and expanded continuing care retirement community for the following reasons:

- Even though continuing care is an acceptable form of retirement living in eastern Los Angeles County, there has been limited development of new units in the greater market service area. Hillcrest's commitment to creating new housing in an established neighborhood creates a desirable product from an experienced provider.
- Hillcrest's neighborhood design is highly regarded for quality of living and the site matches the desire of prospective residents in the market service area to replicate and enhance their current lifestyle.
- The location is easily accessible to major highways.

II. Demographics

- Within the Hillcrest primary market service area, population estimates for 2001 indicate that 6% of the total population is age 70 and older. Projections show that the 70+ population will increase to 6.3% by the year 2006. This percentage is lower than the national average of 12.8%, but the total number of people at 61,550 reported in 2001 is considerable due to the dense population of this area.
- Within the Hillcrest primary market service area, population estimates for 2001 indicate that 3.7 % of the population is age 75 and older. Projections show that the 75+ population will increase to 3.9% by the year 2006, indicating that there is some growth of the older population in the 75+ age cohort, which is significant for a continuing care retirement community like Hillcrest.
- The population aged 45-64, which is considered the cohort for the adult children of elderly parents, is significant in this geographic area, estimated at 221,951 or 21.7% of the total population in the 2001 projections. This is estimated to increase to 24.4% of the population in 2006. Many of the new assisted living communities are moving to this market service area in response to this age cohort.
- For 2001, in the most likely cohort to choose continuing care, there are approximately 13,310 households age 70+ with incomes of \$35,000 and higher.
- For 2001, in a more conservative estimate of households likely to choose continuing care, there are approximately 4,238 households age 75+ with incomes of \$50,000 and higher.
- For 2006, in the most likely cohort to choose a continuing care retirement community, there are approximately 14,965 households age 70 and older that have incomes of \$50,000 and higher.

- For 2006, in a more conservative estimate of households likely to choose continuing care, there are approximately 4,932 households age 75+ with incomes of \$50,000 and higher.

III. Penetration rate

The penetration rate for the existing and expanded community is 3.7%, well within acceptable penetration rates for absorbing all units in the market area. This is evaluating the population age 70 and over with annual incomes at \$35,000 and above. Taking a more conservative look, for the population age 75 and over with annual incomes of \$50,000 and above, the penetration rate changes to 11.5%, which is still within highly acceptable ranges. At this rate, the market should be able to absorb all of the proposed units.

IV. Pricing

New Life believes that the Entrance Fee pricing for Hillcrest fairly represents the value of the community with the new extensive and progressive community space.

The Monthly Fees are much more sensitive to the market due to the need to demonstrate value and to maintain distance between the CCRC and the other options. The monthly fees at Hillcrest allow the residents to customize their service program and appeal to a younger market.

Introduction

Hillcrest is a mature community with a long history of service and care and a consistently high occupancy level. With this background, reputation, and credibility, the marketing process does not have to create an image, but rather reinforce the benefits of the community.

Hillcrest uses a number of tactics to attract prospective residents to the community, namely direct mail, advertising, special events, resident referrals, telephone follow-up, personal presentations. The marketing associates establish a quarterly plan for these techniques based on occupancy rates and goals, anticipated vacancies, competition and budget.

Each member of the marketing team is trained to present Hillcrest's continuing care retirement lifestyle as one that incorporates the intangible benefits and securities not present in a typical real estate transaction. The physical appeal of the services and amenities within the community is what brings prospective residents to visit Hillcrest and the Information Center, but it is the intangible benefits (peace of mind, community, companionship, safety, comfort) that ultimately cause people to move in. People shop with emotions, but they buy because they trust the community's representative.

Hillcrest is situated on approximately 53 acres, of which about 33 are developed, in the foothills of the San Gabriel Mountains in the historic university town of La Verne. With an abundance of mature trees and blooming gardens, Hillcrest's accommodations range in size from studio apartments to one- and two-bedroom clustered homes to large single-family homes. The campus is virtually indistinguishable from the surrounding neighborhood. The campus is quiet and serene, yet close to commercial districts,

recreational facilities, and health care. A key attraction to new residents moving to Hillcrest continues to be the uniqueness of each home, the distinct nature of each level of care, and the availability of continuing care.

Hillcrest has a strong market position and is undertaking a major redevelopment, with new homes that will replace outdated assisted living apartments and small homes used for residential living and residential living with services. Hillcrest will also be developing a new expanded community center called the Meeting House and a progressive wellness center, the Aquatic and Fitness Center, with an indoor swimming pool and other therapies. Hillcrest enjoys a current occupancy of approximately 96 percent. New homes have all been reserved and occupied within several weeks of their completion during the past 26 years. Existing assisted living residents will occupy a portion of the new RCFE (Residential Care Facility for the Elderly) units. The new residential living homes will be marketed and reserved prior to occupancy in line with this marketing plan.

Strengths and Weaknesses

Over time, associates, board and residents have identified the community's strengths and weaknesses. The planned redevelopment of the Manor and renovation of existing homes as they become available are capitalizing on the strengths of the community and addressing many of the issues noted as concerns.

Strengths

- History, longevity and reputation
- Image of public rooms – lounge, library, dining room, gift shop
- Neighborhood environment and home styles
- Gardens and landscaping
- Financial stability
- Enthusiasm of residents
- Associates (Staff)
- Management team
- Ability to renovate and customize homes
- Image of Information Center and capability of marketing associates
- Resident Association and involvement in decision making
- Nationally recognized through accreditation by Continuing Care Accreditation Commission since 1986 (first in California)

Weaknesses

- Misinformation about sponsorship of Hillcrest
- Lack of indoor swimming pool, casual dining, community space
- Existing recreation room, woodworking shop, exercise room
- Physical layout of assisted living
- Small bathrooms in assisted living
- Understanding the financial package and affordability
- Increasing maintenance expenses of old facilities built from 1960-1965
- Costly heating and cooling systems in old facilities

Summary of SWOT Analysis

Mission and Promotion of Mission

A. MISSION STATEMENT

HILLCREST provides older persons with services that enable them to live quality lives

Hillcrest is a not-for-profit corporation whose values are shaped by the Christian faith and welcomes persons of all faiths. Hillcrest was founded by and continues a relationship with the Church of the Brethren. The organization emphasizes quality care, cost efficiency, and develops relationships with other organizations to better serve its constituents and the broader community.

Our Mission will be accomplished by:

- Delivering service and resident-oriented, high quality care with excellent outcomes in a cost-effective manner.
- Recognizing the highest standards in senior services, and continually integrating them into the community setting.
- Establishing a collaborative environment for care with older persons and their families.
- Serving as a community resource for senior services.
- Providing competent, dedicated professional associates, state-of-the-art equipment and facilities.

B. VISION STATEMENT

HILLCREST will be the recognized provider of choice for senior services in the Pomona and East San Gabriel Valleys.

This Vision shall be accomplished by:

- Exceeding expectations for the delivery of quality senior services in a collaborative team environment.
- Providing services and programs in a customer-focused manner, which are both economically efficient and operationally effective.
- Assuring that the level of our facilities, equipment and associates will support the attainment of quality outcomes and levels of satisfaction.
- Actively seeking to improve the quality of life and health at Hillcrest.
- Providing seamless services, fully integrated across levels of care and delivery sites, while working in collaboration with physicians, businesses, community agencies and other organizations.

Approved by the Board of Directors: February 23, 2000

Reaffirmed by the Board of Directors: November 15, 2002

- C. Hillcrest defines its organizational goals in terms of its mission, vision and values. The mission, originally approved by the Board of Directors on February 23, 2000, was reviewed and revised on November 1, 2001. The Board reaffirmed it on November 15, 2002.
- D. These statements are included in the brochure, annual report, mailings, in framed wall hangings, and in employee communications. Hillcrest has made a commitment to aggressively pursue inclusivity on all photographic representations of the community.
- E. The core values of Hillcrest establish the standards and set the tone that support the human relationships of this community. Multiple ministries at Hillcrest occur in a complex web of relationships. Broad interaction is essential within and between associates and residents. Maintaining a productive community requires all relationships to be based upon Integrity, Service, Self Worth, Collaboration and Stewardship.
- F. All of these are inherent strengths in the Hillcrest program and in the community's position in the market place.

Product Description

A. Inventory by Type

Hillcrest maintains a unique campus, with little duplication of unit types or designs. The community maintains an inventory by broad type, which changes as the units are renovated and modified. The inventory includes residential, assisted living and specialized dementia care accommodations. The redevelopment of the Village Center area will create 56 one- and two- bedroom apartments and 34 assisted living apartments in place of 80 existing assisted living and residential units. The redevelopment will enhance the quality and safety of the homes offered at Hillcrest.

B. Contract Types

1. Program – Residential

Hillcrest is defined as a Type C, Fee-for-Service continuing care retirement community. Historically, Hillcrest has offered a Non-refundable resident contract and added a 50% Repayable option in 1999. Hillcrest's entrance fee provides for access to the community services and amenities, use of the living accommodation, and priority access on a space-available basis to assisted living, specialized dementia care and skilled nursing care.

Hillcrest also utilizes a monthly fee to cover operational costs. The monthly fee covers the costs of the living accommodation, including utilities, campus security, activities, internal and external maintenance and general wellness services. Hillcrest residents can purchase a variety of services on an as-needed basis, including meals,

housekeeping, premium and expanded cable, telephone service, day trips, transportation and personal care. This program will be offered in 30 of the replacement residential living apartments.

2. Program – Residential Living with Services

Hillcrest currently offers a more inclusive service program in a residential setting, which is called Residential Living with Services. This level of living can be accessed through the continuing care contract or through a monthly care agreement. This program features standardized service programs and will be offered in 26 of the replacement residential living apartments.

Residents in Residential Living with Services receive all the standard services plus two meals daily, weekly light housekeeping, weekly flat linen service, and one uncovered parking space.

3. Program – Assisted Living

Hillcrest offers an all-inclusive Assisted Living program that is not currently based on a point assessment for levels of care, but the location offered is based on ambulation and acuity. Hillcrest currently offers Assisted Living in the Manor building attached to the resident service core as well as in Woods Health Services, in a wing adjacent to the skilled nursing facility.

Residents in Assisted Living pay a monthly fee to receive three meals daily, weekly housekeeping, flat linens, activities, usage of the apartment including utilities, nursing supervision, and personalized services pending a needs assessment. The majority of Assisted Living residents transition from Hillcrest's residential units. Also, Hillcrest offers direct placement from outside the community through a Monthly Care Agreement. The campus redevelopment will create 34 new Assisted Living apartments to replace the units in the Manor building.

4. Program – Specialized Dementia Care

Hillcrest offers a social model of care in Southwoods Lodge for residents with cognitive impairment, dementia or Alzheimer's disease. The majority of Southwoods Lodge residents transition from Hillcrest's residential and Assisted Living units. Hillcrest also offers direct placement from outside of the community through a Monthly Care Agreement. The monthly fee for Southwoods Lodge is all-inclusive and residents receive three meals daily, housekeeping as needed, flat linens, specialized activities, usage of the accommodation including utilities, cable TV, continuous supervision, health status review, personal laundry, bathing and grooming services and personalized services pending a needs assessment. Should a Southwoods Lodge resident develop complex medical problems, the community can offer accommodation in the skilled nursing facility. In the event of complex

behavioral problems or when the resident is a danger to themselves or others, a resident can be asked to move from Southwoods Lodge.

5. Program – Skilled Nursing Care and Custodial Nursing Care

Hillcrest offers a skilled nursing care and custodial in Woods Health Services. This is a comprehensive nursing program, typically used by Hillcrest residents as they transition from other levels of care. Hillcrest residents who paid an entrance fee when they entered the community receive a discounted daily rate for skilled nursing care. If there is availability, Hillcrest will offer accommodations at a daily rate.

The daily rate for skilled nursing includes three meals and snacks, housekeeping and linens, specialized activities, usage of the accommodation including utilities, cable TV, nursing review, care and supervision, bathing and grooming services and personalized services such as medication management pending a needs assessment. Hillcrest residents under a Monthly Care Agreement receive priority admission to Woods Health Services, but no discount on the daily rate.

6. Pricing – Residential Living

Because of the unique nature of each living accommodation at Hillcrest, the fees are based on a standardized formula. This equation is based on unit square footage, community access and amenities, and customized renovations. As each unit becomes available following turnover, the unit is assessed for improvements and usage according to the Master Plan. The unit is re-marketed after renovation and the entrance fee is determined and disclosed based on the assessment and changes.

The following table provides a general comparison of pricing of a one-bedroom unit for Hillcrest and its two prominent competitors.

Unit Type Single Occupancy	Hillcrest La Verne	Mt. San Antonio Gardens, Pomona	Claremont Manor Claremont
One Bedroom Approx 626 sq. ft.	EF - \$106,170 MF - \$1,076 to 1,376	EF - \$130,600* MF - \$1,798	No EF \$2,700 - \$3,890
Service Program	Type C Fee-for-Service	Type A Lifecare	Type D Rental

* Actuarial Pricing

7. Pricing – Assisted Living

The following table provides a general comparison of pricing among assisted living competitors for a single occupancy room. There is considerable growth in the for-profit assisted living market in the Claremont and Rancho Cucamonga areas. If Hillcrest were to redevelop more than 34 assisted living apartments, the new development would pose a threat to Hillcrest’s occupancy level. With

the reduction in overall units for assisted living through the redevelopment, Hillcrest’s assisted living area will provide accommodations primarily for Hillcrest continuing care residents and the need to market to the outside community will be minimal.

Assisted living pricing varies considerably because of care level assessments and definition of basic service compared to all-inclusive service. This table includes stand-alone Assisted Living in addition to those available within the competitive CCRCs.

Assisted Living	Hillcrest La Verne	Mt. San Antonio Gardens Pomona	Claremont Manor Claremont	Brighton Gardens San Dimas	The Gardens at Hillsboro Chino	Rancho Park Villa San Dimas	Montclair Royale Montclair	Christian Heritage Care Center Upland
Single Room. Single Occupancy Monthly Fee	\$2,973 Assistance included	\$3,350 Supplies extra	\$1,695-\$3,145 Plus Level 1 \$350 Level 2 \$675 Level 3 \$1,025 Level 4 \$1,375	\$2,600-\$4,100 + flat fee for each additional care level	\$1,850 - \$3,500 Plus \$350/mo \$650/mo \$850/mo depending on service pkg.	\$2,015-\$4,015	\$1,800	\$1,550+
Distance	0	2.6 miles	2.8 miles	5.6 miles	10 miles	4.5 miles	6.3 miles	9.8 miles

8. Pricing – Specialized Dementia Care

The following table provides a general comparison of pricing among specialized care providers for a single occupancy. This is typically a semi-private accommodation. The service packages included in the price do have variations in what is included and what is available for an additional fee. This table includes stand-alone dementia care in RCFEs because the competitive CCRCs do not offer this level of service.

Special Care Single Occupancy	Hillcrest La Verne	Brighton Gardens San Dimas	Mountain View Claremont	Oak Park Manor Claremont	San Dimas Retirement Center San Dimas
Single Person Monthly Fee	\$3,617	\$3,800	\$2,350 - \$3,450	\$2,500 - \$3,400	\$1,800 - \$3,000
Distance	0	5.6 miles	3.0 miles	4.4 miles	3.4 miles

a. Pricing – Skilled Nursing Care

The following table provides a general comparison of pricing among skilled nursing competitors for a semi-private room. This table

includes stand-alone skilled nursing facilities in addition to those available within the competitive CCRCs and multi-level RCFEs.

Skilled Nursing	Hillcrest La Verne	Mt. San Antonio Gardens Pomona	Claremont Manor Claremont	Pilgrim Place Claremont	Brighton Gardens San Dimas	Casa Bonita San Dimas
Daily Rate. Semi-Private	\$171	\$162	\$164	\$120	\$151	\$125-\$135
Distance	0	2.6 miles	2.8 miles	3.6 miles	5.6 miles	5.3 miles

C. Historical and Year End Occupancy

1. Occupancy for Hillcrest has improved over the past five fiscal and calendar years to its current high rate. The data is maintained on a fiscal year basis while the trends are reviewed on a fiscal and calendar year basis. This data shows a fairly consistent trend in the number of residents added to the community each year, but varying amounts of alternating year peaks and valleys in Entrance Fees in prior years. This trend has stabilized in recent years, as occupancy remains high with desirable renovation and replacement and with the addition of the Courtyard Homes. The addition of the new residential apartments and the Park Avenue homes should continue this trend leading to a fairly consistently high total of Entrance Fees.

Fiscal Year	# Of Contracts	# Of New Residents	Gross Entrance Fees Received	Occupancy % at Fiscal Year End June 30
1995-1996	32	40	\$1,970,130	86.4%
1996-1997	25	39	\$921,802	83.7%
1997-1998	37	54	\$2,114,440	85.7%
1998-1999	33	39	\$934,412	87.7%
1999-2000	47	63	\$3,054,320	95.1%
2000-2001	34	47	\$2,879,000	91.0%*
2001-2002	36	48	\$2,993,600	90.0%*

*In the past two fiscal years, residential living occupancy has been consistent at or over 96%. This statistic represents overall occupancy, including skilled nursing.

D. Projected Vacancies by Type and Time

1. This does not include new Park Avenue homes that are under development in phases.

Estimated Number of Total Annual Net Reservations/Occupancy by Level of Care			
Care Level	FY 2003	FY 2004	FY 2005
Residential Living (RL)* (includes Residential Living with Services)	30 20 existing units 10 Meeting Hse RL apartments	35 17 existing units 18 new RL apartments	36 18 existing units 18 new RL apartments
Assisted Living**	11	15	5
Specialized Dementia	10	10	12
Skilled Nursing***	58	54	60

* does not include new Park Avenue homes that are under development in phases and will only be built as sold

** will be marketed on a limited basis due to development status

*** not all marketed to the outside community

E. Current Waiting List and Projection of Length of Wait

Hillcrest maintains a list of Registrants who have paid a nonrefundable processing fee as a statement of intent to move to Hillcrest at some point in the future. When a prospective resident has selected an actual unit for a near future move, that individual then pays a refundable reservation fee of \$1,000 to secure the unit and make plans to move into the community. Hillcrest's list of Registrants varies in number from the mid 100s to beyond 200. The list is currently 187.

The intent and urgency of any Registrant varies. Even though the marketing associates contact persons on the list on a monthly basis to urge them toward a move to Hillcrest, when a unit becomes available, the associates have generally identified the more active Registrants who are ready to take it rather than who has the oldest priority date. People join the Registrant list with the intent to move to Hillcrest in five, ten, or even fifteen years and longer. Hillcrest marketing associates also maintain an internal waiting list for assisted living and specified residential living accommodations.

F. Definition of Market Area

1. Resident Origin Analysis

- a) Primary Market

The primary market service area is defined as the area from which the majority of residents originate. This area is defined by information obtained from resident, depositor, and lead origin profiles and from industry and facility experience.

Hillcrest draws primarily from a five- to ten-mile radius that includes eastern Los Angeles County and western San Bernardino County, with some residents from Orange County.

Hillcrest has worked making the local market of children of elderly parents aware of Assisted Living and its benefit. As a result, residents coming directly into Assisted Living often have a prior address outside the primary and secondary markets.

The primary market area has been and continues to be La Verne, San Dimas, Claremont, Glendora, Pomona, Upland, and Rancho Cucamonga. There is a small sampling from Monrovia, Arcadia, and Pasadena for a generalized maximum distance of a 20-mile radius.

b) **Secondary Market**

Due to Hillcrest’s maturity in the market and connection with the Church of the Brethren and the University of La Verne, there is a large geographic secondary market of 20 – 30 miles of people throughout the California southland who are aware of Hillcrest. There is no significant pocket outside the primary market from which the community draws residents, but rather many residents come from a scattered area.

2. **Prospect Origin Analysis**

Attached is a table showing the majority of prior addresses of residents moving to Hillcrest residential living during the community’s past three fiscal years.

Municipality	Distance from La Verne	Total Population from 1990 Census	Population 65+ from 1990 Census	Median Home Value*	Median Household Income*
		2001 Estimate	2001 Estimate	2001 Estimate	2001 Estimate
La Verne	0	31,431	4,033	\$282,950	\$64,046
San Dimas	3	34,672	3,953	\$279,048	\$71,425
Claremont	4	34,495	5,082	\$271,644	\$69,928
Glendora	8	49,384	6,241	\$255,114	\$64,743
Pomona	5	151,180	10,241	\$149,880	\$45,763
Upland	10	68,782	7,887	\$235,463	\$45,806
Rancho Cucamonga	17	130,672	8,432	\$194,573	\$56,924
Pasadena	20	133,995	17,015	\$311,719	\$47,107

*Source: Claritas, Inc

Senior adults generally own their own homes debt free and are willing to spend the proceeds from their house sale on retirement housing. If housing values are low in the market area, seniors will be more dependent on subsidized and affordable senior housing and services. Higher values like those in the Hillcrest market service area indicate

the ability exists to privately pay for market rate senior housing such as continuing care.

3. Demographic Data

- a. Complete data for a 10-mile radius is attached as Appendix A.
- b. Demographic information about the population living in Hillcrest's primary market area age 65 and older was obtained and analyzed. Information was obtained from Claritas, Inc., a firm that specializes in providing demographic data through their Senior Life Report. This report includes information regarding the defined population with regard to the following characteristics:
 - Total and senior population age 55 and older
 - Senior population age 75 and older
 - Household incomes by age and income cohorts
 - Medical household income
 - Median housing values

c. Population Trends

The following are population characteristics about persons age 65 and older living locally and within a ten-mile radius of Hillcrest:

- Within the Hillcrest primary market service area, population estimates for 2001 indicate that 6% of the total population is age 70 and older. Projections show that the 70+ population will increase to 6.3% by the year 2006. This percentage is lower than the national average of 12.8%, but the total number of people at 61,550 reported in 2001 is considerable due to the dense population of this area.
 - Within the Hillcrest primary market service area, population estimates for 2001 indicate that 3.7 % of the population is age 75 and older. Projections show that the 75+ population will increase to 3.9% by the year 2006, indicating that there is some growth of the older population in the 75+ age cohort, which is significant for a continuing care retirement community like Hillcrest.
 - The population aged 45-64, which is considered the cohort for the adult children of elderly parents, is significant in this geographic area, estimated at 221,951 or 21.7% of the total population in the 2001 projections. This is estimated to increase to 24.4% of the population in 2006. Many of the new assisted living communities are moving to this market service area in response to this age cohort.
- d. Financial Characteristics of the Primary Market Service Area
- Within the market service area, there was a total of 13,310 households in 2001, with householders aged 70

and above with incomes at least \$35,000 annually. This represents 14.8% of the total households aged 55 and higher.

- This number is projected to grow to 14,965 in 2006 but this represents a minor reduction in the percentage of the total population aged 55 and higher to 14.4%.

4. Competitor Profile

New Life has identified existing and proposed retirement and assisted living communities in Hillcrest's market area. We analyzed these competitors with regard to distance from Hillcrest, pricing, services, location, number of beds, product type and status. In determining which projects to consider competitive, we included existing residential care facilities for the elderly, continuing care retirement communities, Alzheimer's and dementia care facilities offering similar service to Hillcrest. We included projects under construction and facilities showing signs of significant development activity. Complete data is attached as Appendix B, with information on

- a) Location
- b) Product Type
- c) Owner/Year Opened
- d) Units Offered by Type
- e) Construction/Proposed Expansion

5. Market Share Analysis

a. Continuing Care Residential Units

The market penetration rate for independent living is defined as the percentage of age and income qualified senior households per 100 within the primary market area that must be motivated to move into independent living apartments or homes. The market penetration rate takes into consideration the size of the market and is not always indicative of the willingness of individuals to move into the units. Every market has its distinct characteristics, which makes it difficult to substitute results from one market to another. Therefore, the estimated penetration rate analysis should not be considered as absolute.

- Estimated age and income qualified householders is supplied by Claritas, Inc. for 2001 and 2006.
- Income qualified refers to households with incomes \$35,000 and higher. The target market of age and income qualified householders excludes individuals living in a skilled nursing facility or other institutional setting and includes householders age 70 and older with incomes of \$35,000 and higher.
- The competitors factored in for the total independent living units include the continuing care retirement communities of Hillcrest, Mount San Antonio Gardens, and Claremont Manor.

- Units to occupy are the estimated market shares attracted from each estimated service area. The mix of residents is assumed to be 70% from the primary market area and 30% from other areas.

Penetration is calculated to estimate the amount of risk involved in bringing more units into the market place. Nationally, approximately 7% of age and income qualified seniors will choose a continuing care retirement community.

HILLCREST PRIMARY MARKET SERVICE AREA
Penetration Rate for Residential Housing within CCRCs

Total population estimate for the year 2001, age 70 and older, with incomes of \$35,000 and higher	13310
Existing units in the market service area (95%)	669
Penetration rate of existing units	5.0%
Assume only 70% of existing units are filled from the market service area, penetration rate decreases to	468 3.5%
Units in the market service area under construction (95%)	0
Penetration rate of existing units and under construction units	5.0%
Assume only 70% of existing and under construction units are filled from the market service area, penetration rate decreases to	468 3.5%
Units in the market service area under consideration, in planning (95%)	29
Penetration rate of existing units and under construction units	5.2%
Assume only 70% of existing units are filled from the market service area, penetration rate decreases to	489 3.7%

*There are 704 existing units within the PMSA.

The following table represents the penetration rates if incomes of \$50,000 and higher and age 75 and older are used:

- In mature markets such as the Hillcrest market service area, it is not unusual to see penetration rates of 12% - 15%

HILLCREST PRIMARY MARKET SERVICE AREA
Penetration Rate for Residential Housing within CCRCs

Total population estimate for the year 2001, age 75 and older, with incomes of \$50,000 and higher	4238
Existing units in the market service area (95%)	669
Penetration rate of existing units	15.8%
Assume only 70% of existing units are filled from the market service area, penetration rate decreases to	468 11.1%
Units in the market service area under construction (95%)	0
Penetration rate of existing units and under construction units	15.8%
Assume only 70% of existing and under construction units are filled from the market service area, penetration rate decreases to	468 11.1%
Units in the market service area under consideration, in planning (95%)	29
Penetration rate of existing units and under construction units	16.5%
Assume only 70% of existing units are filled from the market service area, penetration rate decreases to	489 11.5%

*There are 704 existing units within the PMSA

b. Assisted Living within the Primary Market Area

Determining market demand for assisted living is a difficult task because there are so many care options available. In addition to residential retirement community options are family members who care for the majority of elderly persons at home. As an aid in predicting demand, several methodologies have been developed that are accepted and utilized by the senior housing and health care industry. Historically, of the cohort of seniors age 75+ requiring assistance, a percentage will leave the primary market area to be near adult children living out of the area. At the same time, other seniors will move into the primary market area to be near their adult children. Factors affecting migration patterns include population growth among seniors and their adult children, the ratio of adult children (45-64) to seniors (75+) and the attractiveness of the primary market area to seniors. It is difficult to estimate the impact of this factor. However, an area where there are greater numbers of adult children moving in than seniors moving out generally indicates that there will be more seniors moving in than out. One methodology is detailed below.

- This methodology assumes that 20% of persons age 75-84 and 50% of persons age 85+ will need assisted living services. Of those, 15% will choose an assisted living facility as their caregiver.
- Based on these percentages, the primary market area for Hillcrest is underbedded by a significant percentage even though most communities are currently experiencing occupancy challenges.
- This methodology does not account for subsidized assisted living versus private pay.

HILLCREST ASSISTED LIVING PENETRATION - NEW LIFE METHODOLOGY

	2001		2003		2006	
	75 - 84	85+	75 - 84	85+	75 - 84	85+
Primary Market Population	28457	9678	29,898	10,283	31,338	10,888
Penetration Rate	x20%	x 50%	x 20%	x 50%	x 20%	x 50%
Care Modality Index*	x15%	x15%	x15%	x15%	x15%	x15%
MSA Unit Bed Need	854	726	897	771	940	817
Expected Supply	951		951		951	
Amount Needed or (Overbedded)	629		717		806	

2003 Primary Market Population numbers were figured by taking 2006 numbers-2001 numbers and dividing the difference by 2, then adding the difference to the 2001 numbers.

* The Care Modality Index may be higher, up to 40% in some markets. For purposes of this study, a Care Modality Index of only 15% was used for this calculation.

G. Customer Profile

1. Resident Profile
 - a. The actual profile of new residents moving to Hillcrest is a successful older adult retired from a professional career who classifies themselves as middle-class, from Southern California, typically Christian, community-minded, and interested in an unstructured yet secure retirement. The new resident is perceived as different from the established residents by virtue of affluence and the desire for more space. Hillcrest has shifted from a religious-oriented community offering a modest lifestyle to a Christian-oriented community offering a comfortable lifestyle.
 - b. The actual profile fits the desired profile for the residential living units.
 - c. The actual profile for assisted living is an elderly older adult, typically female, who has resisted a move to retirement housing but now must move because of health needs. This actual profile is often more frail than the desired profile, but that is a nationwide trend.

2. Residents Average Age by Level of Care

Fiscal Year	Residential	Congregate	Assisted	Southwoods	Overall
1995-1996	78.9	79.4	82.6	N/a	80.3
1996-1997	78.9	86.1	84.6	81.8	82.8
1997-1998	75.5	81.9	86.9	87.1	82.6
1998-1999	82.1	80.2	85.1	83.2	82.8
1999-2000	76.2	83.2	86.8	84.9	81.1
2000-2001	76.7	88.2	84.7	85.3	79.4
2001-2002	78	83	88	85	81

APPENDIX A

POPULATION CHARACTERISTICS - 10 MILE RADIUS

	1990 Actual		2001 Estimated		2006 Projected		Percentage of increase from 1990-2006	
	#	%	#	%	#	%	#	%
45-54	87,860	9.6%	141,524	13.9%	154,319	14.6%	66,459	75.6%
55-59	32,348	3.5%	46,006	4.5%	61,481	5.8%	29,133	90.1%
60-64	29,385	3.2%	34,421	3.4%	41,943	4.0%	12,558	42.7%
65-69	25,197	2.8%	27,217	2.7%	30,852	2.9%	5,655	22.4%
70-74	17,889	2.0%	23,415	2.3%	23,802	2.3%	5,913	33.1%
75-79	12,662	1.4%	17,620	1.7%	18,750	1.8%	6,088	48.1%
80-84	7,848	0.9%	10,837	1.1%	12,588	1.2%	4,740	60.4%
85+	6,587	0.7%	9,678	0.9%	10,888	1.0%	4,301	65.3%
Total Pop. 65+	70,183	7.7%	88,767	8.7%	96,880	9.2%	26,697	38.0%
Total Pop.	912,087	100%	1,019,249	100%	1,056,165	100%	144,078	15.8%

ANNUAL INCOME
Householders Age 55+ 10 Mile Radius

2001

	55-64		65-69		70-74		75-79		80-84		85+		65+	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%
0-\$14,999	3,348	7.9%	2,379	16.8%	2,405	18.0%	3,155	34.4%	2,087	36.3%	1,788	37.2%	11,814	25.0%
\$15,000-\$24,999	3,850	9.0%	2,271	16.1%	2,250	16.8%	1,757	19.2%	1,097	19.1%	933	19.4%	8,308	17.6%
Sub-Total	7,198	16.9%	4,650	32.9%	4,655	34.8%	4,912	53.6%	3,184	55.3%	2,721	56.6%	20,122	42.6%
\$25,000-\$34,999	4,082	9.6%	1,968	13.9%	1,911	14.3%	1,149	12.5%	668	11.6%	584	12.2%	6,280	13.3%
\$35,000-\$49,999	6,031	14.2%	2,217	15.7%	2,122	15.9%	1,060	11.6%	646	11.2%	555	11.6%	6,600	14.0%
\$50,000-\$74,999	9,447	22.2%	2,405	17.0%	2,190	16.4%	1,025	11.2%	641	11.1%	494	10.3%	6,755	14.3%
\$75,000-\$99,999	6,604	15.5%	1,235	8.7%	1,071	8.0%	477	5.2%	279	4.8%	214	4.5%	3,276	6.9%
\$100,000 plus	9,195	21.6%	1,645	11.7%	1,428	10.7%	536	5.9%	336	5.8%	236	4.9%	4,181	8.9%
Sub-Total	35,359	83.1%	9,470	67.1%	8,722	65.2%	4,247	46.4%	2,570	44.7%	2,083	43.4%	27,092	57.4%
Total	42,557	100%	14,120	100%	13,377	100%	9,159	100%	5,754	100%	4,804	100%	47,214	100%

Source: Claritas Inc.

ANNUAL INCOME
Householders Age 55+ 10 Mile Radius

2006

	55-64		65-69		70-74		75-79		80-84		85+		65+	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%
0-\$14,999	4,062	7.6%	2,172	13.9%	1,907	14.4%	2,546	26.9%	1,812	28.0%	1,534	29.0%	9,971	19.9%
\$15,000-\$24,999	4,908	9.1%	2,497	16.0%	2,152	16.2%	2,020	21.3%	1,399	21.6%	1,143	21.6%	9,211	18.4%
Sub-Total	8,970	16.7%	4,669	29.8%	4,059	30.6%	4,566	48.2%	3,211	49.6%	2,677	50.6%	19,182	38.2%
\$25,000-\$34,999	5,088	9.5%	2,282	14.6%	1,949	14.7%	1,401	14.8%	926	14.3%	771	14.6%	7,329	14.6%
\$35,000-\$49,999	7,349	13.7%	2,601	16.6%	2,264	17.1%	1,263	13.3%	808	12.5%	692	13.1%	7,628	15.2%
\$50,000-\$74,999	10,844	20.2%	2,643	16.9%	2,198	16.6%	1,092	11.5%	723	11.2%	584	11.0%	7,240	14.4%
\$75,000-\$99,999	7,802	14.5%	1,447	9.2%	1,189	9.0%	548	5.8%	372	5.7%	268	5.1%	3,824	7.6%
\$100,000 plus	13,697	25.5%	2,005	12.8%	1,619	12.2%	609	6.4%	435	6.7%	301	5.7%	4,969	9.9%
Sub-Total	44,780	83.3%	10,978	70.2%	9,219	69.4%	4,913	51.8%	3,264	50.4%	2,616	49.4%	30,990	61.8%
Total	53,750	100%	15,647	100%	13,278	100%	9,479	100%	6,475	100%	5,293	100%	50,172	100%

Source: Claritas Inc.

HOUSING VALUES -- 10 MILE RADIUS
Owner-Occupied Housing Units of All Age Groups

	1990 Actual	2001 Estimated	2006 Projection
\$40,000 - \$59,999	892	902	912
\$60,000 - \$74,999	1,674	1,449	1,405
\$75,000 - \$99,999	8,484	7,510	7,233
\$100,000 - \$124,999	15,230	13,608	13,143
\$125,000 - \$149,999	21,255	20,239	19,679
\$150,000 - \$174,999	21,256	22,134	22,055
\$175,000 - \$199,999	18,958	19,938	20,001
\$200,000 - \$249,999	26,425	28,659	29,263
\$250,000 - \$299,999	19,841	21,004	21,426
\$300,000 - \$399,999	17,897	22,795	23,842
\$400,000 - \$499,999	6,521	11,043	12,321
\$500,000+	5,077	9,857	13,951
TOTAL	163,510	179,138	185,231

Source: Claritas Inc.

Appendix B – Competitor Profile

Name	Location	Product Type	Owner/Operator Year Opened	ILUs	ALUs	SNFs	Dementia
Hillcrest	La Verne	Type C CCRC	Brethren Hillcrest Homes 1950	207	30	76	22
Mt. San Antonio Gardens	Pomona	Type A CCRC	Congregational Homes, Inc. 1961	267	60	64	
Claremont Manor	Claremont	RCFE	Front Porch 1949	229	41	57	
Royal Oaks Manor	Bradbury	Type B CCRC	Southern California Presbyterian Homes 1959	165	26	48	
Windsor Manor	Glendale	Type B CCRC	Southern California Presbyterian Homes 1955	105	26	28	
Villa Gardens	Pasadena	Type B CCRC	Front Porch 1933	205	40	54	20
The Scripps Home	Altadena	Type A CCRC	The Scripps Home 1911	92	25	70	
Solheim Lutheran Home	Los Angeles	Type C CCRC	Solheim Lutheran Home 1923	61	58	76	
Morningside	Fullerton	Type A CCRC	Life Care Services 1990	327	54	99	26

Name	Location	Product Type	Owner/Operator Year Opened	ILUs	ALUs	SNFs	Dementia
Brighton Gardens	San Dimas	Assisted Living Special Care Skilled Nursing	Marriott Senior Living 1999		90	29	25
Christian Heritage Care Center	Upland	Assisted Living Skilled Nursing Dementia Care	Christian Heritage Care 1971		88	70	15
Claremont Place	Claremont	Assisted Living	Local Partnership 2000		76		
Montclair Royale	Montclair	Assisted Living	Residential Care Group 1990		119		
Rancho Park Villa	San Dimas	Assisted Living Dementia Care Skilled Nursing	ARV Assisted Living 1988		149		
Sunrise Assisted Living	Claremont	Assisted Living Dementia Care	Sunrise Assisted Living 2000		43		11
Sunrise Assisted Living	Rancho Cucamonga	Assisted Living Dementia Care	Sunrise Assisted Living 2000		59	14	
The Gables	Monrovia	Assisted Living	MBK Senior Living Services 1998		101		
The Gardens at Hillsborough Village	Chino	Assisted Living	Family owned 1999	63	90		
Victorian Court	Ontario	Assisted Living	Summerville Senior Living 1997		97		
Wellington Court	Arcadia	Assisted Living	Leisure Care 1988		98		

INDEPENDENT (RESIDENTIAL) LIVING PRICING

RANCHO PARK VILLA

Unit Style	Entrance Fee	Monthly Rent	2nd Person Fee
Studio	\$1,000	\$1,590	\$750
1 Bedroom	\$1,000	\$2,590	\$750

MT. SAN ANTONIO GARDENS

Unit Style	Monthly Fee
Studio	\$1,798
1 Bedroom	\$1,798

*Entrance fee is actuarial, based on age and type of unit, monthly fee is the same for everyone under the Lifecare contract.

CLAREMONT MANOR

Unit Style (Main Bldg)	Monthly Fee
Studio	\$2,700
Semi-Suite	\$2,935
1 Bedroom	\$3,165 - \$3,700

Unit Style (Garden Villas/Campus Homes)	Monthly Fee
1 Bedroom	\$3,890 & up
2 Bedroom	\$4,100

ROYAL OAKS MANOR

Unit Style	Entrance Fee	Monthly Fee
Studio	\$47,000 - \$50,000	\$1,300
Alcove	\$54,500 - \$57,000	\$1,568
1 Bedroom	\$79,000 - \$105,000	\$2,183
1 Bedroom Special	\$145,000	\$2,183
1 Bedroom/Den	\$175,000	\$2,664
2 Bedroom	\$130,000 - \$205,000	\$3,023
2 Bedroom Cottage	\$245,000 - \$315,000	\$3,130

WINDSOR MANOR

Unit Style	Entrance Fee	Monthly Rent	2nd Person Fee
Studio	\$35,000 - \$45,000	\$1,385	\$350
1 Bedroom	\$110,000	\$2,415	\$350
2 Bedroom	\$150,000	\$3,200	\$350

*No entrance fee for second person

SOLHEIM LUTHERAN HOME

Unit Style	Entrance Fee	Monthly Rent	Price for Couple
Studio	\$34,000 – 39,000	\$1,725	\$3,350
Parlor Suite	\$43,500	\$1,725	\$3,350
1Bedroom	\$57,200- \$67,580	\$1,725	\$3,350

ASSISTED LIVING PRICING

BRIGHTON GARDENS

Unit Style	Monthly Fee	2nd Person Fee
Studio	\$2,600 - \$3,100	\$850
1 Bedroom	\$3,300 - \$3,500	\$850
2 Bedroom	\$4,100	\$850

*Entrance fee is first month's rent.

CLAREMONT PLACE

Unit Style	One-Time Community Fee	Monthly Fee
Companion Suite (2 Beds in Studio Apt., price per resident)	\$2,000	\$1,695
Studio	\$2,000	\$2,445
1 Bedroom	\$2,000	\$3,145
Additional Person In Unit		\$700

RANCHO PARK VILLA

Unit Style	Entrance Fee	Monthly Rent	2nd Person Fee
Studio	\$1,000	\$2,015- \$3,015	\$750
1 Bedroom	\$1,000	\$3,015 - \$4,015	\$750

SUNRISE ASSISTED LIVING (CLAREMONT)

Unit Style	Daily Fee	Entrance Fee
Studio	\$108 - \$119	\$1,000
Large 2 room	\$138- \$143 Shared - \$79 - \$91	\$1,000
Largest 2 room	\$153- \$158	\$1,000

*Second person fee is around \$800 per month

VICTORIAN COURT

Unit Style	Monthly Fee
Shared Suite	\$1,240 - \$1,302
Private	\$1,519 - \$1,767
2 Room	\$2,759 - \$2,852
2 nd Person Fee	\$750

*No entrance fee, month to month

WELLINGTON COURT

Unit Style	Monthly Fee	2nd Person Fee	Entrance Fee
Studio	\$1,850	\$400	\$250
Studio Deluxe	\$2,200	\$400	\$250
1 Bedroom	\$3,800	\$400	\$250

MT. SAN ANTONIO GARDENS

Unit Style	Monthly Fee
Studio	\$3,350

*This price is for residents that entered at this level of care and did not sign a Lifecare contract.

CLAREMONT MANOR

Unit Style	Monthly Fee
Studio	\$3,245
1 Bedroom	\$4,560
2 Bedroom/2Bath	\$5,565
2 nd Person Fee	\$710

Levels of Care	Addition to Monthly Fee
Level I	\$350
Level II	\$675
Level III	\$1,025
Level IV	\$1,375

ROYAL OAKS MANOR

Unit Style	Monthly Fee
Studio	\$2,841

WINDSOR MANOR

Unit Style	Entrance Fee	Monthly Rent	2nd Person Fee
Studio	None	\$2,815	N/A

SOLHEIM LUTHERAN HOME

Unit Style	Entrance Fee	Monthly Rent	Price for Couple
Studio	\$34,000 – 39,000	\$2,980	\$5,420
Parlor Suite	\$43,500	\$2,980	\$5,420
1Bedroom	\$57,200- \$67,580	\$2,980	\$5,420

NURSING CARE PRICING

BRIGHTON GARDENS

Unit Style	Daily Fee
Semi-Private	\$151-\$165
Private	\$190
Dementia	\$4,380/month

SUNRISE ASSISTED LIVING (CLAREMONT)

Unit Style	Daily Fee
Single	\$122
Large 2 Room	\$158
Largest 2 Room	\$165 - \$170

*Does not provide skilled nursing. Dementia care only.

MT. SAN ANTONIO GARDENS

Unit Style	Daily Fee
Semi – Private	\$162
Private	\$198

*This price is for residents that entered at this level of care and did not sign a Lifecare contract.

ROYAL OAKS MANOR

Unit Style	Daily Fee
Studio	\$133

WINDSOR MANOR

Unit Style	Daily Fee
Semi-Private	\$135
Private	\$155

SOLHEIM LUTHERAN HOME

Unit Style	Entrance Fee	Monthly Rent	Price for Couple
Studio	\$34,000 – 39,000	\$3,500	\$6,800
Parlor Suite	\$43,500	\$3,500	\$6,800
1Bedroom	\$57,200- \$67,580	\$3,500	\$6,800

APPENDIX D

FINANCIAL FEASIBILITY STUDY

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BRETHREN HILLCREST HOMES
FINANCIAL FORECAST
FOR FISCAL YEARS ENDING
JUNE 30, 2003 THROUGH JUNE 30, 2013

**BRETHREN HILLCREST HOMES
FINANCIAL FORECAST
FOR FISCAL YEARS ENDING
JUNE 30, 2003 THROUGH JUNE 30, 2013**

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VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAS

Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAJREAU

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CARL PON

MARY ANN QUAY

LINDA M. SADDLEMIRE

Principal

JEFF A. WENGER

Senior Managers

TIMOTHY D. EVANS

PHILIP M. MCCUTCHEON

WADE N. McMULLEN

KARIN HECKMAN NELSON

ARVEE ROBINSON

COLLEEN K. TAYLOR

Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have compiled the accompanying summarized financial forecast of Brethren Hillcrest Homes (“Hillcrest”), for the fiscal years ending June 30, 2003 through June 30, 2013, in accordance with standards established by the American Institute of Certified Public Accountants. The financial forecast is presented on the accounting basis used by Brethren Hillcrest Homes.

The accompanying forecast and this report were prepared for the purpose of obtaining tax-exempt bond financing for construction projects, and should not be used for any other purpose.

A compilation is limited to presenting in the form of a forecast information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement of assumptions. Furthermore, even if the financing is obtained, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the summary of significant accounting policies required by the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants. If the omitted disclosures were included in the forecast, they might influence the user’s conclusions about Hillcrest’s assets, liabilities, equity, revenues, and expenses for the forecast period. Accordingly, this forecast is not designed for those who are not informed about such matters.

The historical financial statements information for the years ended June 30, 1999, 2000, 2001 and 2002 have been included with the forecast for comparative purposes only. The examinations of the historical financial statements are covered under separate reports dated August 27, 1999, September 1, 2000, August 24, 2001, and August 16, 2002, respectively.

Vicenti, Lloyd & Stutzman LLP

Vicenti, Lloyd & Stutzman LLP
December 20, 2002

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Brethren Hillcrest Homes
Statements of Financial Position
Audited and Forecasted
For the Years Ending June 30,

	Audited 1999	Audited 2000	Audited 2001	Audited 2002	Forecasted 2003	Forecasted 2004	Forecasted 2005	Forecasted 2006
Assets								
Current Assets								
Cash and cash equivalents:								
Unrestricted	\$ 320,135	\$ 764,766	\$ 167,664	\$ 389,514	\$ 6,720,329	\$ 14,106,990	\$ 20,014,678	\$ 23,043,523
Specific purpose	262,016	236,251	342,508	377,713	377,713	377,713	377,713	377,713
Gift annuity	63,744	53,264	290,689	243,860	243,860	243,860	243,860	243,860
Endowment (unrestricted portion)	263,901	125,151	258,533	143,639	143,639	143,639	143,639	143,639
Endowment (restricted portion)	470,824	533,283	767,849	446,003	446,003	446,003	446,003	446,003
Accounts receivable	479,183	525,887	772,131	995,843	995,843	995,843	995,843	995,843
Interest receivable	58,860	71,417	69,424	60,811	60,811	60,811	60,811	60,811
Inventories	35,803	42,085	42,502	43,690	43,690	43,690	43,690	43,690
Prepaid expenses & deposits	28,177	22,077	35,307	184,769	184,769	184,769	184,769	184,769
Total Current Assets	1,982,663	2,374,201	2,746,607	2,885,842	9,216,657	16,603,318	22,511,006	25,539,851
Noncurrent Assets								
Bond debt cash reserves					3,469,048	3,469,048	3,469,048	3,469,048
Construction cash funds					27,281,072	10,511,216		
Investments - unrestricted	1,632,027	1,691,296	1,137,220	890,649	890,649	890,649	890,649	890,649
Investments - restricted Funds	7,210,566	7,735,467	9,224,378	7,128,327	7,128,327	7,128,327	7,128,327	7,128,327
Notes receivable	100,000	98,566	109,224					
Property, plant & equipment:								
Exclusive of new project	24,993,575	27,597,964	31,304,122	34,766,436	36,486,436	38,206,436	39,746,436	40,746,436
New project					7,041,923	21,125,769	30,515,000	30,515,000
Capitalized interest					1,360,170	4,092,654	6,825,138	7,286,624
Accumulated depreciation	(12,160,546)	(13,189,070)	(14,172,749)	(15,261,433)	(16,494,204)	(16,195,730)	(20,402,672)	(23,023,943)
Debt issuance costs, net of amortization					2,305,917	2,227,750	2,149,683	2,071,417
New land				2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Noncurrent Assets	21,775,620	23,934,213	26,602,195	29,503,979	71,469,338	71,456,119	72,321,509	71,083,558
Total Assets	\$ 23,758,283	\$ 26,308,414	\$ 29,348,802	\$ 32,389,821	\$ 80,685,995	\$ 88,059,437	\$ 94,832,515	\$ 96,623,409
Liabilities and Net Assets								
Current Liabilities								
Accounts payable	\$ 510,879	\$ 508,902	\$ 530,401	\$ 362,843	\$ 362,843	\$ 362,843	\$ 362,843	\$ 362,843
Accrued expenses	550,001	612,292	586,191	659,894	596,112	596,112	596,112	596,112
Accrued interest					1,360,170	1,026,200	1,026,200	1,026,200
Line of credit			340,000	1,969,000				
Current portion of long term debt	111,971	56,214	62,107	64,591				735,000
Refundable deposits	18,824	25,497	18,356	9,890	9,890	9,890	9,890	9,890
Total Current Liabilities	1,191,675	1,203,906	1,537,055	3,056,218	2,329,015	1,995,045	1,995,045	2,730,045
Noncurrent Liabilities								
Long term debt, less current portion	631,147	605,579	538,741	472,475	47,000,000	47,000,000	47,000,000	46,265,000
Other long term liability	89,117	78,898	73,145	67,671	67,671	67,671	67,671	67,671
Annuities payable	412,694	529,522	814,094	919,221	919,221	919,221	919,221	919,221
Refundable fees	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Deferred revenue from entrance fees	8,801,667	8,456,525	9,856,172	11,414,407	13,331,947	19,497,363	24,833,221	26,871,541
Total Noncurrent Liabilities	8,144,625	9,880,524	11,492,152	13,063,774	61,528,839	67,694,255	73,030,113	74,333,433
Total Liabilities	9,336,300	11,084,429	13,029,207	16,149,992	63,857,854	69,689,300	75,025,158	77,063,478
Net Assets								
Unrestricted	6,510,828	7,042,460	7,481,156	7,372,739	7,951,051	9,503,047	10,940,267	10,692,841
Temporarily Restricted	3,681,442	3,456,721	3,494,987	3,260,760	3,260,760	3,260,760	3,260,760	3,260,760
Permanently Restricted	4,229,713	4,724,804	5,343,452	5,606,330	5,606,330	5,606,330	5,606,330	5,606,330
Total Net Assets	14,421,983	15,223,985	16,319,595	16,239,829	16,828,141	18,370,137	19,807,357	19,559,931
Total Liabilities and Net Assets	\$ 23,758,283	\$ 26,308,414	\$ 29,348,802	\$ 32,389,821	\$ 80,685,995	\$ 88,059,437	\$ 94,832,515	\$ 96,623,409

See accompanying summaries of significant assumptions and accounting policies and accountants' report

Brethren Hillcrest Homes
Statements of Financial Position
Audited and Forecasted
For the Years Ending June 30,

	Forecasted 2007	Forecasted 2008	Forecasted 2009	Forecasted 2010	Forecasted 2011	Forecasted 2012	Forecasted 2013
Assets							
Current Assets							
Cash and cash equivalents:							
Unrestricted	\$ 24,923,129	\$ 27,504,579	\$ 31,040,438	\$ 35,205,781	\$ 40,060,521	\$ 45,664,023	\$ 52,079,077
Specific purpose	377,713	377,713	377,713	377,713	377,713	377,713	377,713
Gift annuity	243,860	243,860	243,860	243,860	243,860	243,860	243,860
Endowment (unrestricted portion)	143,639	143,639	143,639	143,639	143,639	143,639	143,639
Endowment (restricted portion)	446,003	446,003	446,003	446,003	446,003	446,003	446,003
Accounts receivable	995,843	995,843	995,843	995,843	995,843	995,843	995,843
Interest receivable	60,811	60,811	60,811	60,811	60,811	60,811	60,811
Inventories	43,690	43,690	43,690	43,690	43,690	43,690	43,690
Prepaid expenses & deposits	184,769	184,769	184,769	184,769	184,769	184,769	184,769
Total Current Assets	27,419,457	30,000,907	33,536,766	37,702,109	42,556,849	48,160,351	54,575,405
Noncurrent Assets							
Bond debt cash reserves	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048
Construction cash funds							
Investments - unrestricted	890,649	890,649	890,649	890,649	890,649	890,649	890,649
Investments - restricted Funds	7,128,327	7,128,327	7,128,327	7,128,327	7,128,327	7,128,327	7,128,327
Notes receivable							
Property, plant & equipment:							
Exclusive of new project	41,746,436	42,746,436	43,746,436	44,746,436	45,746,436	46,746,436	47,746,436
New project	30,515,000	30,515,000	30,515,000	30,515,000	30,515,000	30,515,000	30,515,000
Capitalized interest	7,286,624	7,286,624	7,286,624	7,286,624	7,286,624	7,286,624	7,286,624
Accumulated depreciation	(25,711,880)	(28,466,484)	(31,287,754)	(34,175,692)	(37,130,296)	(40,151,566)	(43,239,504)
Debt issuance costs, net of amortization	1,993,250	1,915,083	1,836,917	1,758,750	1,680,583	1,602,417	1,524,250
New land	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Noncurrent Assets	69,317,454	67,484,683	65,585,247	63,619,142	61,586,371	59,486,935	57,320,830
Total Assets	\$ 96,736,911	\$ 97,485,590	\$ 99,122,013	\$ 101,321,251	\$ 104,143,220	\$ 107,647,286	\$ 111,896,235
Liabilities and Net Assets							
Current Liabilities							
Accounts payable	\$ 362,843	\$ 362,843	\$ 362,843	\$ 362,843	\$ 362,843	\$ 362,843	\$ 362,843
Accrued expenses	596,112	596,112	596,112	596,112	596,112	596,112	596,112
Accrued interest	1,017,587	1,007,677	996,638	984,413	970,946	956,591	933,735
Line of credit							
Current portion of long term debt	755,000	785,000	815,000	845,000	880,000	920,000	980,000
Refundable deposits	9,890	9,890	9,890	9,890	9,890	9,890	9,890
Total Current Liabilities	2,741,432	2,761,522	2,780,483	2,798,258	2,819,791	2,845,436	2,882,580
Noncurrent Liabilities							
Long term debt, less current portion	45,510,000	44,725,000	43,910,000	43,065,000	42,185,000	41,265,000	40,285,000
Other long term liability	67,671	67,671	67,671	67,671	67,671	67,671	67,671
Annuities payable	919,221	919,221	919,221	919,221	919,221	919,221	919,221
Refundable fees	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Deferred revenue from entrance fees	28,011,627	29,444,622	31,188,329	33,040,127	35,010,325	37,112,259	39,356,423
Total Noncurrent Liabilities	74,718,519	75,366,514	76,295,221	77,302,019	78,392,217	79,574,151	80,838,315
Total Liabilities	77,459,951	78,128,036	79,075,704	80,100,277	81,212,008	82,419,587	83,720,895
Net Assets							
Unrestricted	10,409,870	10,490,464	11,179,219	12,353,884	14,064,122	16,360,609	19,308,250
Temporarily Restricted	3,260,760	3,260,760	3,260,760	3,260,760	3,260,760	3,260,760	3,260,760
Permanently Restricted	5,606,330	5,606,330	5,606,330	5,606,330	5,606,330	5,606,330	5,606,330
Total Net Assets	19,276,960	19,357,554	20,046,309	21,220,974	22,931,212	25,227,699	28,175,340
Total Liabilities and Net Assets	\$ 96,736,911	\$ 97,485,590	\$ 99,122,013	\$ 101,321,251	\$ 104,143,220	\$ 107,647,286	\$ 111,896,235

See accompanying summaries of significant assumptions and accounting policies and accountants' report

**Brethren Hillcrest Homes
Statements of Activities
Audited and Forecasted
Years Ending June 30,**

	Audited 1999	Audited 2000	Audited 2001	Audited 2002	Forecasted 2003	Forecasted 2004	Forecasted 2005	Forecasted 2006
Revenue								
Monthly resident fees	\$ 4,245,918	\$ 4,692,673	\$ 5,000,643	\$ 4,987,693	\$ 5,477,232	\$ 5,793,094	\$ 6,124,748	\$ 6,472,986
Monthly resident fees - new project						415,586	916,010	1,357,969
Monthly skilled nursing facility fees	3,335,441	3,308,066	3,415,116	3,678,020	3,961,921	4,055,017	4,257,768	4,470,656
Amortization of entrance fees	1,193,900	1,387,432	1,510,575	1,357,302	1,660,400	1,481,813	1,393,775	1,305,097
Amortization of entrance fees-incremental						270,098	764,866	1,276,414
Donations	164,733	91,435	290,757	26,723	190,000	90,000	90,000	90,000
Investment income on debt service reserves					76,318	152,636	152,636	152,636
Investment income - all other unrestricted	387,598	249,632	33,781	113,009	1,055,074	1,850,854	1,312,424	1,255,146
Unrealized gain (loss) on unrestricted investments	(175,572)	(212,084)	49,024	(148,910)				
Other revenue	171,613	74,453	61,199	291,938	60,000	60,000	60,000	60,000
Net assets released from restrictions	142,297	169,779	89,115	77,909				
Total Revenue	9,465,928	9,761,406	10,450,210	10,385,684	12,380,945	13,968,896	15,072,227	16,440,904
Expenses								
Monthly operating expenses	3,034,918	3,537,070	3,923,093	4,191,151	4,849,177	5,096,260	5,354,820	5,625,363
Monthly skilled nursing facility expenses	3,164,068	3,411,020	3,838,471	3,747,625	3,860,054	3,975,856	4,095,131	4,217,985
Management and general	1,199,677	1,199,853	1,368,223	1,409,270	1,451,548	1,495,094	1,539,947	1,586,145
Marketing expenses - new project					80,000	80,000	80,000	
Electricity costs - additional for new project					100,000	200,000	280,000	288,400
Property taxes					200,000	(200,000)		
Depreciation - including routine capitalized	1,065,672	1,028,522	979,252	1,108,684	1,212,771	1,297,438	1,377,605	1,444,272
Depreciation - new project						404,087	829,337	1,176,999
Amortization expense					39,083	78,167	78,167	78,167
Interest expense	92,396	53,309	102,475	37,371	1,360,170	2,732,484	2,732,484	2,732,484
Less: capitalized interest					(1,360,170)	(2,732,484)	(2,732,484)	(461,486)
Total Expenses	8,556,731	9,229,774	10,011,514	10,494,101	11,792,633	12,426,902	13,635,007	16,688,330
Net Increase (Decrease) in Unrestricted Net Assets	909,197	531,632	438,696	(108,417)	588,312	1,541,996	1,437,220	(247,426)
Change in Temporarily Restricted Net Assets	268,523	(224,721)	38,296	(234,227)				
Change in Permanently Restricted Net Assets	638,001	495,091	618,648	262,878				
Total Increase (Decrease) in Net Assets	1,815,721	802,002	1,095,610	(79,766)	588,312	1,541,996	1,437,220	(247,426)
Net Assets - Beginning of Year	12,606,262	14,421,983	15,223,985	16,319,595	16,239,829	16,828,141	18,370,137	19,807,357
Net Assets - End of Year	\$ 14,421,983	\$ 15,223,985	\$ 16,319,595	\$ 16,239,829	\$ 16,828,141	\$ 18,370,137	\$ 19,807,357	\$ 19,559,931

See accompanying summaries of significant assumptions and accounting policies and accountants' report

Brethren Hillcrest Homes
Statements of Activities
Audited and Forecasted
Years Ending June 30,

	Forecasted 2007	Forecasted 2008	Forecasted 2009	Forecasted 2010	Forecasted 2011	Forecasted 2012	Forecasted 2013
Revenue							
Monthly resident fees	\$ 6,838,635	\$ 7,222,567	\$ 7,625,695	\$ 8,048,980	\$ 8,493,429	\$ 8,960,100	\$ 9,450,105
Monthly resident fees - new project	1,464,068	1,537,272	1,814,135	1,894,842	1,779,584	1,868,563	1,961,991
Monthly skilled nursing facility fees	4,694,189	4,928,899	5,175,343	5,434,111	5,705,816	5,991,107	6,280,662
Amortization of entrance fees	1,213,096	1,116,062	1,019,322	925,074	832,854	739,368	647,218
Amortization of entrance fees-incremental	1,512,326	1,722,508	1,945,538	2,167,121	2,388,140	2,609,454	2,831,910
Donations	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Investment income on debt service reserves	152,636	152,636	152,636	152,636	152,636	152,636	152,636
Investment income - all other unrestricted	1,365,781	1,451,132	1,749,344	1,904,922	2,088,197	2,301,805	2,548,359
Unrealized gain (loss) on unrestricted investments							
Other revenue	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Net assets released from restrictions							
Total Revenue	17,390,731	18,281,078	19,432,013	20,477,886	21,590,656	22,773,031	24,032,881
Expenses							
Monthly operating expenses	5,908,420	6,204,539	6,514,297	6,838,292	7,177,149	7,531,520	7,902,087
Monthly skilled nursing facility expenses	4,344,525	4,474,860	4,609,106	4,747,379	4,888,801	5,036,495	5,187,590
Management and general	1,633,730	1,682,742	1,733,224	1,785,221	1,838,777	1,893,941	1,950,759
Marketing expenses - new project							
Electricity costs - additional for new project	297,052	305,964	315,142	324,597	334,335	344,365	354,696
Property taxes							
Depreciation - including routine capitalized	1,510,939	1,577,605	1,644,272	1,710,939	1,777,605	1,844,272	1,910,939
Depreciation - new project	1,176,999	1,176,999	1,176,999	1,176,999	1,176,999	1,176,999	1,176,999
Amortization expense	78,167	78,167	78,167	78,167	78,167	78,167	78,167
Interest expense	2,723,871	2,899,806	2,672,051	2,641,427	2,607,585	2,570,785	2,524,004
Less: capitalized interest							
Total Expenses	17,673,702	18,200,482	18,743,258	19,303,021	19,890,418	20,476,544	21,085,240
Net Increase (Decrease) in Unrestricted Net Assets	(282,971)	80,594	688,755	1,174,665	1,710,238	2,296,487	2,947,641
Change in Temporarily Restricted Net Assets							
Change in Permanently Restricted Net Assets							
Total Increase (Decrease) in Net Assets	(282,971)	80,594	688,755	1,174,665	1,710,238	2,296,487	2,947,641
Net Assets - Beginning of Year	19,559,931	19,276,960	19,357,554	20,046,309	21,220,974	22,931,212	25,227,699
Net Assets - End of Year	\$ 19,276,960	\$ 19,357,554	\$ 20,046,309	\$ 21,220,974	\$ 22,931,212	\$ 25,227,699	\$ 28,175,340

See accompanying summaries of significant assumptions and accounting policies and accountants' report

Brethren Hillcrest Homes
Statements of Cash Flows
Audited and Forecasted
Years Ending June 30,

	Audited 1999	Audited 2000	Audited 2001	Audited 2002	Forecasted 2003
Cash Flows From Operating Activities:					
Cash received from monthly operations	\$ 7,399,611	\$ 7,820,404	\$ 8,209,936	\$ 9,056,043	\$ 9,339,153
Contributions-restricted funds	382,884	487,778	703,004	-	-
Investment income on debt service reserves				-	76,318
Investment income - all other unrestricted	213,170	87,562	216,435	113,009	1,055,074
Donations	164,733	91,435	290,757	26,723	190,000
Other revenues	171,181	75,897	50,553	291,938	60,000
Cash paid to suppliers & employees	(7,128,063)	(8,091,029)	(8,944,818)	(9,348,046)	(10,842,627)
Cash paid for interest expense	(92,399)	(53,309)	(102,475)	(37,371)	-
Net cash provided (used) by operating activities	1,110,120	418,738	423,392	102,296	77,918
Cash Flows From Investing Activities:					
Capital expenditures	(2,042,472)	(2,804,388)	(3,706,158)	(5,462,992)	(8,761,923)
Proceeds from sales of marketable securities	2,844,303	1,313,783	1,980,920	1,544,754	-
Purchase of marketable securities	(3,106,333)	(1,911,162)	(2,170,810)	(1,106,229)	-
Net cash provided (used) in investing activities	(2,304,502)	(3,201,768)	(3,896,048)	(5,024,467)	(8,761,923)
Cash Flows From Financing Activities:					
Entrance fees received	854,797	3,054,320	2,910,222	2,961,530	3,577,940
Proceeds from new annuity obligations	209,575	238,231	441,867	243,897	-
Payments on annuity obligations	(66,853)	(96,081)	(104,725)	(139,770)	-
Proceeds from loans	289,442	155,000	1,190,000	1,989,000	46,659,000
Principal payments on loans	(349,950)	(236,325)	(850,000)	(340,000)	(2,468,000)
Debt Issuance Costs					(2,004,000)
Net cash provided (used) in financing activities	937,111	3,115,145	3,587,164	4,695,657	45,764,940
Net Increase (Decrease) in Cash and Cash Equivalents	(257,271)	332,115	114,508	(226,514)	37,080,935
Beginning Cash	1,637,891	1,380,620	1,712,735	1,827,243	1,600,729
Ending Cash	\$ 1,380,620	\$ 1,712,735	\$ 1,827,243	\$ 1,600,729	\$ 38,681,664
Summary of Cash Balances					
Cash and cash equivalents:					
Unrestricted	\$ 301,311	\$ 738,269	\$ 149,308	\$ 379,624	\$ 6,710,439
Specific purpose	262,016	236,251	342,508	377,713	377,713
Gift annuity	63,744	53,284	290,689	243,860	243,860
Endowment (unrestricted portion)	263,901	126,151	258,533	143,639	143,639
Endowment (restricted portion)	470,824	533,283	767,849	446,003	446,003
Resident cash deposits	18,824	26,497	18,356	9,890	9,890
Bond debt cash reserves					3,469,048
Construction cash funds					27,281,072
Ending Cash	\$ 1,380,620	\$ 1,712,735	\$ 1,827,243	\$ 1,600,729	\$ 38,681,664
Change in Net Assets				\$ (79,766)	\$ 588,312
Less: Entrance fees amortization				(1,357,302)	(1,660,400)
Plus: amortization expense				-	39,083
Plus: depreciation expense				1,108,684	1,212,771
Plus: realized and unrealized losses on investments				898,750	-
Plus (Less): net change in assets and liabilities				(468,070)	(101,848)
Less: difference of interest expense and paid					
Cash provided (used) from operating activities				\$ 102,296	\$ 77,918

See accompanying summaries of significant assumptions and accounting policies and accountants' report

Brethren Hillcrest Homes
Statements of Cash Flows
Audited and Forecasted
Years Ending June 30,

	Forecasted 2004	Forecasted 2005	Forecasted 2006	Forecasted 2007	Forecasted 2008
Cash Flows From Operating Activities:					
Cash received from monthly operations	\$ 10,222,095	\$ 11,281,458	\$ 12,264,541	\$ 12,959,822	\$ 13,842,192
Contributions-restricted funds					
Investment income on debt service reserves	152,636	152,636	152,636	152,636	152,636
Investment income - all other unrestricted	1,650,854	1,312,424	1,255,146	1,365,781	1,451,132
Donations	90,000	90,000	90,000	90,000	90,000
Other revenues	60,000	60,000	60,000	60,000	60,000
Cash paid to suppliers & employees	(10,647,210)	(11,349,898)	(11,717,894)	(12,183,726)	(12,868,105)
Cash paid for interest expense	(3,024,853)	(2,695,414)	(2,695,414)	(2,695,414)	(2,662,970)
Net cash provided (used) by operating activities	(1,496,478)	(1,168,796)	(590,985)	(250,901)	64,885
Cash Flows From Investing Activities:					
Capital expenditures	(15,803,846)	(10,929,231)	(1,000,000)	(1,000,000)	(1,000,000)
Proceeds from sales of marketable securities					
Purchase of marketable securities					
Net cash provided (used) in investing activities	(15,803,846)	(10,929,231)	(1,000,000)	(1,000,000)	(1,000,000)
Cash Flows From Financing Activities:					
Entrance fees received	7,917,129	7,494,499	4,619,830	3,865,507	4,271,565
Proceeds from new annuity obligations					
Payments on annuity obligations					
Proceeds from loans					
Principal payments on loans				(735,000)	(755,000)
Debt Issuance Costs					
Net cash provided (used) in financing activities	7,917,129	7,494,499	4,619,830	3,130,507	3,516,565
Net Increase (Decrease) in Cash and Cash Equivalents	(9,383,195)	(4,603,528)	3,028,845	1,879,606	2,581,450
Beginning Cash	38,881,664	29,298,469	24,694,941	27,723,786	29,603,392
Ending Cash	\$ 29,298,469	\$ 24,694,941	\$ 27,723,786	\$ 29,603,392	\$ 32,184,842
Summary of Cash Balances					
Cash and cash equivalents:					
Unrestricted	\$ 14,097,100	\$ 20,004,788	\$ 23,033,633	\$ 24,913,239	\$ 27,494,889
Specific purpose	377,713	377,713	377,713	377,713	377,713
Gift annuity	243,860	243,860	243,860	243,860	243,860
Endowment (unrestricted portion)	143,639	143,639	143,639	143,639	143,639
Endowment (restricted portion)	446,003	446,003	446,003	446,003	446,003
Resident cash deposits	9,890	9,890	9,890	9,890	9,890
Bond debt cash reserves	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048
Construction cash funds	10,511,216				
Ending Cash	\$ 29,298,469	\$ 24,694,941	\$ 27,723,786	\$ 29,603,392	\$ 32,184,842
Change in Net Assets	\$ 1,541,996	\$ 1,437,220	\$ (247,426)	\$ (282,971)	\$ 80,594
Less: Entrance fees amortization	(1,751,711)	(2,158,841)	(2,581,511)	(2,725,422)	(2,838,570)
Plus: amortization expense	78,167	78,167	78,167	78,167	78,167
Plus: depreciation expense	1,701,525	2,206,942	2,621,271	2,687,938	2,754,604
Plus: realized and unrealized losses on investments					
Plus (Less): net change in assets and liabilities					
Less: difference of interest expense and paid	(3,066,455)	(2,732,484)	(461,486)	(8,613)	(9,910)
Cash provided (used) from operating activities	\$ (1,496,478)	\$ (1,168,796)	\$ (590,985)	\$ (250,901)	\$ 64,885

See accompanying summaries of significant assumptions and accounting policies and accountants' report

Brethren Hillcrest Homes
 Statements of Cash Flows
 Audited and Forecasted
 Years Ending June 30,

	Forecasted 2009	Forecasted 2010	Forecasted 2011	Forecasted 2012	Forecasted 2013
Cash Flows From Operating Activities:					
Cash received from monthly operations	\$ 14,360,072	\$ 15,114,396	\$ 15,907,729	\$ 16,741,798	\$ 17,616,856
Contributions-restricted funds					
Investment income on debt service reserves	152,636	152,636	152,636	152,636	152,636
Investment income - all other unrestricted	1,749,344	1,904,922	2,088,197	2,301,805	2,548,359
Donations	90,000	90,000	90,000	90,000	90,000
Other revenues	60,000	60,000	60,000	60,000	60,000
Cash paid to suppliers & employees	(13,171,769)	(13,695,489)	(14,240,062)	(14,806,320)	(15,395,131)
Cash paid for interest expense	(2,627,988)	(2,590,114)	(2,549,952)	(2,507,170)	(2,460,855)
Net cash provided (used) by operating activities	<u>612,295</u>	<u>1,036,351</u>	<u>1,508,548</u>	<u>2,032,749</u>	<u>2,611,765</u>
Cash Flows From Investing Activities:					
Capital expenditures	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Proceeds from sales of marketable securities					
Purchase of marketable securities					
Net cash provided (used) in investing activities	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Cash Flows From Financing Activities					
Entrance fees received	4,708,564	4,943,992	5,191,192	5,450,753	5,723,289
Proceeds from new annuity obligations					
Payments on annuity obligations					
Proceeds from loans					
Principal payments on loans	(785,000)	(815,000)	(845,000)	(880,000)	(920,000)
Debt Issuance Costs					
Net cash provided (used) in financing activities	<u>3,923,564</u>	<u>4,128,992</u>	<u>4,346,192</u>	<u>4,570,753</u>	<u>4,803,289</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,535,859	4,165,343	4,854,740	5,603,502	6,415,054
Beginning Cash	32,184,842	35,720,701	39,886,044	44,740,784	50,344,286
Ending Cash	<u>\$ 35,720,701</u>	<u>\$ 39,886,044</u>	<u>\$ 44,740,784</u>	<u>\$ 50,344,286</u>	<u>\$ 56,759,340</u>
Summary of Cash Balances					
Cash and cash equivalents:					
Unrestricted	\$ 31,030,548	\$ 35,195,891	\$ 40,050,631	\$ 45,654,133	\$ 52,069,187
Specific purpose	377,713	377,713	377,713	377,713	377,713
Gift annuity	243,860	243,860	243,860	243,860	243,860
Endowment (unrestricted portion)	143,639	143,639	143,639	143,639	143,639
Endowment (restricted portion)	446,003	446,003	446,003	446,003	446,003
Resident cash deposits	9,890	9,890	9,890	9,890	9,890
Bond debt cash reserves	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048
Construction cash funds					
Ending Cash	<u>\$ 35,720,701</u>	<u>\$ 39,886,044</u>	<u>\$ 44,740,784</u>	<u>\$ 50,344,286</u>	<u>\$ 56,759,340</u>
Change in Net Assets	\$ 888,755	\$ 1,174,665	\$ 1,710,238	\$ 2,296,467	\$ 2,947,641
Less: Entrance fees amortization	(2,964,860)	(3,092,195)	(3,220,994)	(3,348,820)	(3,479,128)
Plus: amortization expense	78,167	78,167	78,167	78,167	78,167
Plus: depreciation expense	2,821,271	2,887,938	2,954,604	3,021,271	3,087,938
Plus: realized and unrealized losses on investments					
Plus (Less): net change in assets and liabilities					
Less: difference of interest expense and paid	(11,038)	(12,224)	(13,467)	(14,356)	(22,853)
Cash provided (used) from operating activities	<u>\$ 612,295</u>	<u>\$ 1,036,351</u>	<u>\$ 1,508,548</u>	<u>\$ 2,032,749</u>	<u>\$ 2,611,765</u>

See accompanying summaries of significant assumptions and accounting policies and accountants' report

BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013

OVERVIEW:

The columns for the years ending in 1999, 2000, 2001, and 2002 labeled as “audited” contain amounts taken from the audited financial statements for those years, and include certain reclassifications intended to provide a comparison to the forecasted years. This presentation does not constitute an audit in accordance with auditing standards generally accepted in the United States of America.

This summarized financial forecast is based on Brethren Hillcrest Homes (Hillcrest) obtaining long-term tax-exempt bond financing for purposes of capital improvements to its campus. To the best of management’s knowledge and belief, this is a summary of Hillcrest’s expected financial position and results of operations and changes in cash flows for the forecast period if such financing is obtained. Accordingly, the forecast reflects its judgment, as of December 3, 2002, the date of this forecast, of the expected conditions and its expected course of action if the financing were obtained. The presentation is designed to provide information to potential lenders concerning results if the bonds were obtained and should not be considered to be a presentation of expected future results. Accordingly, this presentation may not be useful for other purposes. The assumptions disclosed herein are those that management believes are significant to the forecast. Even if the financing is obtained, there will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations – Brethren Hillcrest Homes (Hillcrest) incorporated in 1947 as a tax exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 380 residents.

Net Asset Classes – Hillcrest classifies its net assets into three categories; unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets generally result from revenues from providing services raising contributions, and performing administrative functions. The only limits on the use of

BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the elapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity. Earnings from investments can be used for the purposes specified by donors.

Board Designated Amounts – The Board of Directors has designated certain unrestricted amounts for specific purposes. Inasmuch as these amounts have no donor restrictions, the Board may rescind the designation of these amounts at any time.

Accounting Method – The accrual method of accounting is used.

Inventory Valuation – Inventory is recorded at cost based on the first-in/first-out method.

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

Investments – Hillcrest considers its marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold.

Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Accounts Receivable – Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was \$40,000 at June 30, 1999, 2000, 2001 and 2002, and is set at \$40,000 for each of the forecasted years.

BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Amortization of Entrance Fees – Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by Statement of Position (SOP) 90-8, issued by the American Institute of Certified Public Accountants. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.6 of the State of California Continuing Care Contract Statutes are used in making the above computations. The net unamortized portion is shown on the statement of financial position as deferred revenue from entrance fees. The amount shown for deferred revenue from entrance fees has been reduced by the estimate of liability for refunds of \$210,000 at June 30, 1999, 2000, 2001 and 2002, and for each forecasted year.

Refundable Fees – Hillcrest is obligated to refund a portion of entrance fees on existing contracts to residents who withdraw before five years. If the resident withdraws within three months, all of the entrance fee is refunded. After three months, the amount to be refunded is the entrance fee less 1.67% of the entrance fee per month. However, the maximum amount refunded cannot exceed 90% after the initial three month period. The actual average of entrance fees refunds for the fiscal years ended June 30, 1999, 2000, 2001, and 2002 was \$94,000 per year.

Net Patient Service Revenue – Hillcrest has agreements with third-party payers that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Obligation to Provide Future Services – Hillcrest annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. For the years ended June 30, 1999, 2000, 2001 and 2002, the calculation resulted in no future service liability. For the forecasted years presented, no future service liability has been estimated.

Gift Annuities – Hillcrest sponsors a charitable gift annuity program as part of its fund raising activities. All amounts received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the unrestricted net asset class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and is adjusted accordingly. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

Concentration of Credit Risk - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. Hillcrest charges monthly fees on open accounts to its residents, all of whom live on campus.

Hillcrest has reserve funds, comprised of cash and cash equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the \$100,000 federally insured limit.

NOTE 1:

Hillcrest expects to issue tax-exempt bonds, through the City of La Verne, California, in the amount of \$47,000,000, in January, 2003. A summary of the sources and uses is shown on Exhibit 1.

BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013

NOTE 2:

Hillcrest expects the costs of construction to be \$30,515,000. Straight-line depreciation for buildings on the "New Project" begins when the portions of the project are completed, based on a 40-year useful life. Hillcrest expects construction to begin in December, 2002 and conclude by March, 2005. This forecast assumes that a weighted average, based on estimates of completion dates, of the construction costs will be placed in service in fiscal years 2004 and 2005, and the full cost will have been placed in service by fiscal year 2006. Equipment is depreciated straight-line using a 7-year useful life.

Also included as a use of proceeds is repayment of \$1,978,613 line of credit and \$489,373 of other long term debt, reimbursements for project costs already expended of \$1,127,971 and other reimbursements totaling \$1,000,000. The other reimbursements are for the partial repayment of intra-company loans from restricted funds of \$1,996,000 for land that was purchased during the fiscal year ended June 30, 2002. The land was acquired for \$2,000,000 for future use and will not be used for the Village Center project.

NOTE 3:

Beginning in November, 2002, Hillcrest expects to construct ten additional units on Park Avenue. Hillcrest plans to complete three units by June 30, 2003, and seven units during fiscal year June 30, 2004. Hillcrest intends to use its line of credit to fund the construction, estimated to cost \$180,000 per unit, totaling \$1,800,000. Entrance fees received from the residents of these units will be used to pay down the line of credit. Entrance fees are expected to be \$281,235 per unit for the first three units, \$343,870 per unit for the next four units and \$282,333 per unit for the final three units, for a total of \$3,066,184. In addition, Hillcrest expects to continue to expend and capitalize \$1,000,000 per year in routine refurbishing. The Park Avenue units and the capitalized costs will be depreciated on a straight-line basis over a 40-year useful life.

NOTE 4:

The details of the debt service schedule are shown on Exhibit 2. Total interest to be repaid over the 30-year term is expected to be \$58,587,499. Total principal to be repaid is expected to be \$47,000,000. In the fiscal year 2033, the final principal payment will be funded in part by the Debt Service Reserve Fund of \$3,469,048. Interest expense during the construction period will be capitalized, at which point the capitalized interest of \$7,286,624 will be depreciated straight-line over 40 years, while the interest paid after construction is complete will be expensed. The amount of capitalized interest that is estimated to be included as a use in the bond financing is \$6,076,133. Estimated interest earnings of the bond funds during the construction period is \$1,210,490.

**BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013**

NOTE 5:

Deferred financing costs, rounded to \$2,003,000, will be amortized over 30 years, the term of the bonds. The bond discount of \$386,937 will be amortized over 30 years. Accrued interest earnings of \$45,541 will also be amortized over 30 years. For presentation purposes, these three items have been combined on the Statements of Financial Position and are shown net of accumulated amortization.

NOTE 6:

Revenues for years after fiscal year ended June 30, 2003 have been increased at a 5% annual rate, plus an additional \$40,000 per year to reflect higher fees expected for new residents as existing residents with contracted lower monthly fees vacate units. Expenses have been increased at a 4% annual rate. Hillcrest intends to increase revenues at a rate of 1% per year more than expenses rise. If expenses rise by more than 4%, additional revenue increases for monthly fees and entrance fees will be increased to maintain the 1% margin.

NOTE 7:

Hillcrest expects additional revenues will be generated upon the completion of the various phases of the project. Exhibits 4 and 5 show these calculations. Occupancy of the new units is estimated at 95% and is calculated by using 95% of the entrance fees and monthly fees in the forecast calculations. Hillcrest expects to increase monthly resident and skilled nursing fees from 5% to 7% per year. For this forecast, 5% annual increases have been used. For fiscal year ending June 30, 2003, the monthly revenues are increased to reflect additional units placed back in service after being taken out of service during fiscal year 2002.

New entrance fees received for existing units for the fiscal year ending June 30, 2002 is the actual amount received. New entrance fees for all units from turnover for the fiscal years ending June 30, 2003 and thereafter are calculated based on estimates of turnover rates, multiplied by number of units and by average entrance fees. Management has established the estimated turnover percentages based on past experience for the 161 existing units (9% annual turnover), a range of 5% to 9% for the 17 Courtyard Homes, and a range of 5% to 9% for the 66 new units. Turnover is rounded to whole units. Management believes these rates are conservative and appropriate for this forecast.

Amortization (recognition of revenue) for all new entrance fees is estimated based on 15 years. Unamortized balances of deferred entrance fees of expired contracts of deceased residents are recognized as revenue in the year a resident becomes deceased. This forecast does not include

**BRETHREN HILLCREST HOMES
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES
FISCAL YEARS ENDING JUNE 30, 2003 THROUGH 2013**

NOTE 7: (continued)

recognition of additional revenues for expired contracts, based on the fact that expired contracts will be replaced by contracts with higher entrance fees, and these higher entrance fees are already built into the calculations of recognition of revenue, as shown on Exhibits 4, 5, and 6.

For amortization of entrance fees for the 161 existing units, fiscal year ending June 30, 2003 is estimated by management, based on the current life expectancies of the residents. For years beginning after June 30, 2003, Exhibit 7 shows the calculation of the decreasing annual amortization, based on the average life expectancy at June 30, 2001, with Hillcrest's life expectancy table used to amortize the net unamortized entrance fees for these contracts. Replacement entrance fees are included in calculations shown on Exhibit 4.

For fiscal years after June 30, 2003, other revenues and donations are estimated at \$150,000 per year, based on the historical minimums received for unrestricted donations, registration fees, vending, bus, photocopy and other miscellaneous revenues. Investment earnings for the cash in the Debt Service Reserve Fund have been estimated based on 5% per year on the balance of \$3,469,048, assuming earnings begin on January 1, 2003. Investment earnings for all other cash and investments have been estimated at 3% per year for the fiscal years ending June 30, 2003 and 2004, 4% for 2005 and 2006, and 5% for 2007 and beyond, based on the approximate average of beginning and ending balances.

NOTE 8:

Estimated amounts used for operating expenses have been calculated using an annual increase of 4%. The amounts for additional marketing expenses for the fiscal years ending June 30, 2003, 2004 and 2005 are based on an estimate from the marketing study, and are estimated at \$80,000 per year. For fiscal year 2003, the figure of \$200,000 for property taxes is present due to an issue with the processing of Hillcrest's property tax exemption. This payment is expected to be refunded in fiscal year 2004, after the Los Angeles County Tax Assessor's office resolves the issue of exempt property. Additional electricity costs have been estimated by an outside engineering consultant.

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

SOURCES AND USES OF FUNDS

Sources of Funds:

Bonds	\$ 47,000,000
Accrued Interest	45,541
Original Issue Discount	<u>(386,937)</u>
Total	<u>\$ 46,658,604</u>

Uses of Funds:

Project Fund Deposits:	
Project Costs - GMP	\$ 21,416,097
Project Costs	9,098,433
Reimburse Corporation	2,127,971
Pay off Existing Loans	<u>2,467,986</u>
Subtotal	35,110,487

Other Fund Deposits:	
Debt Service Reserve Fund	3,469,048
Net Capitalized Interest	<u>6,076,133</u>
Subtotal	9,545,181

Delivery Date Expenses:	
Cost of Issuance	388,000
Underwriter's Discount	352,500
Bond Insurance	<u>1,262,436</u>
Subtotal	<u>2,002,936</u>

Total	<u>\$ 46,658,604</u>
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BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

BOND DEBT SERVICE
 Schedule of payments due within fiscal years

Fiscal Year Ending	Principal	Interest	Debt Service
06/30/2004		\$ 3,066,454	\$ 3,066,454
06/30/2005		2,732,484	2,732,484
06/30/2006		2,732,484	2,732,484
06/30/2007	\$ 735,000	2,732,484	3,467,484
06/30/2008	755,000	2,709,515	3,464,515
06/30/2009	785,000	2,683,090	3,468,090
06/30/2010	815,000	2,653,652	3,468,652
06/30/2011	845,000	2,621,052	3,466,052
06/30/2012	880,000	2,585,140	3,465,140
06/30/2013	920,000	2,546,860	3,466,860
06/30/2014	980,000	2,485,910	3,465,910
06/30/2015	1,045,000	2,420,985	3,465,985
06/30/2016	1,115,000	2,351,754	3,466,754
06/30/2017	1,190,000	2,277,885	3,467,885
06/30/2018	1,270,000	2,199,048	3,469,048
06/30/2019	1,350,000	2,114,910	3,464,910
06/30/2020	1,440,000	2,025,472	3,465,472
06/30/2021	1,535,000	1,930,073	3,465,073
06/30/2022	1,640,000	1,828,379	3,468,379
06/30/2023	1,745,000	1,719,729	3,464,729
06/30/2024	1,860,000	1,604,122	3,464,122
06/30/2025	1,985,000	1,480,897	3,465,897
06/30/2026	2,115,000	1,350,160	3,465,160
06/30/2027	2,235,000	1,231,720	3,466,720
06/30/2028	2,360,000	1,106,560	3,466,560
06/30/2029	2,490,000	974,400	3,464,400
06/30/2030	2,630,000	834,960	3,464,960
06/30/2031	2,780,000	687,680	3,467,680
06/30/2032	2,935,000	532,000	3,467,000
06/30/2033	6,565,000	367,640	6,932,640
	<u>\$ 47,000,000</u>	<u>\$ 58,587,499</u>	<u>\$ 105,587,499</u>

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

CAPITALIZED INTEREST SCHEDULE

Date	Deposit	Interest @ 1.85	Principal	Interest Earnings			Scheduled Draws	Balance
				Debt Service Reserve Fund	Project Costs - GMP	Other Project Costs		
01/07/2003	\$ 6,076,134							\$ 6,076,134
02/15/2003		\$ 11,822	\$ (29,582)	\$ 17,760				6,105,715
04/01/2003			(81,249)		\$ 81,249			6,186,964
06/20/2003			(60,842)			\$ 60,842		6,247,807
08/15/2003		56,314	1,559,774	84,124			\$ 1,700,212	4,688,033
10/01/2003			(141,079)		141,078			4,829,111
12/20/2003			(56,172)			56,172		4,885,283
02/15/2004		43,364	1,238,753	84,124			1,366,242	3,646,530
04/01/2004			(101,941)		101,941			3,748,471
06/20/2004			(40,437)			40,438		3,788,908
08/15/2004		33,730	1,248,387	84,124			1,366,242	2,540,521
10/01/2004			(58,252)		58,252			2,598,773
12/20/2004			(30,840)			30,840		2,629,613
02/15/2005		23,500	1,258,618	84,125			1,366,242	1,370,995
04/01/2005			(12,743)		12,743			1,383,738
06/20/2005			(6,028)			6,028		1,389,766
08/15/2005		12,682	1,269,436	84,125			1,366,242	120,331
02/15/2006		1,113	120,331				121,443	-
	<u>\$ 6,076,134</u>	<u>\$ 182,525</u>	<u>\$ 6,076,134</u>	<u>\$ 438,382</u>	<u>\$ 395,263</u>	<u>\$ 194,320</u>	<u>\$ 7,286,623</u>	

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013
REVENUE ASSUMPTIONS

	June 30					
	Forecasted 2003	Forecasted 2004	Forecasted 2005	Forecasted 2006	Forecasted 2007	Forecasted 2008
Entrance Fees from New Units	843,705	5,341,479	4,790,066	1,517,395		
3 Park Avenue Units	843,705					
20 Resident Apartments		3,119,000				
7 Park Avenue Units		2,222,479				
10 Meeting House Apartments			1,527,600	1,070,580		
26 North Manor Facility			3,282,466	446,815		
Total Entrance Fees Received from 66 New Units	843,705	5,341,479	4,790,066	1,517,395		
Entrance Fees from Turnover of 66 New Units					607,950	851,130
Entrance Fees from Turnover 17 Courtyard Homes Existing Units	227,000	238,350	250,268	525,562	551,840	579,432
Entrance Fees from Turnover of 16 Existing Units	2,507,235	2,337,300	2,454,165	2,576,873	2,705,717	2,841,003
Subtotal: Entrance Fees from Turnover of All Units	2,734,235	2,575,650	2,704,433	3,102,435	3,865,507	4,271,565
Combined Entrance Fees Received (new project plus existing)	3,577,940	7,917,129	7,494,499	4,619,830	3,865,507	4,271,565
Years entrance fee amortized = 15						
Amortization of Initial Entrance Fee on new units						
20 Resident Apartments		44,012	212,068	204,494	196,921	189,347
7 Park Avenue Units		54,376	149,524	144,184	138,844	133,504
North Manor Facility 2005			43,135	222,023	214,093	206,164
North Manor Facility 2006				18,976	29,506	28,452
Meeting House Apartments 2005			14,055	104,382	100,655	96,927
Meeting House Apartments 2006				47,383	70,565	68,045
Total amortization of entrance fee on new units		98,388	418,782	741,442	750,584	722,439
Amortization of Turnover Entrance Fees of All Units						
<i>Beginning with Continuing Care Contracts executed after June 30, 2003</i>						
2004		171,710	165,788	159,868	153,948	148,026
2005			180,296	168,275	157,055	146,584
2006				206,829	193,039	180,169
2007					257,700	240,519
2008						284,771
2009						
2010						
2011						
2012						
2013						
Total amortization from turnover contracts executed after June 30, 2003		171,710	346,084	534,972	781,742	1,000,069
Total amortization of entrance fees on contracts executed after June 30, 2003		270,098	764,866	1,276,414	1,512,326	1,722,508
MONTHLY FEES						
Monthly Fees for Park Ave Phase I (3 units)	80,064	84,067	88,271	92,683	97,319	
Monthly Fees for 20 Resident Apartments	259,467	352,800	370,440	388,962	408,410	
South Manor (replaces existing units-no additional revenue)						
Monthly Fees for 7 Park Avenue New Units	76,055	222,050	233,152	244,810	257,050	
North Manor Facility		223,909	451,610	477,405	501,275	
Meeting House Apartments		33,184	214,496	260,208	273,218	
Total Monthly Revenue Effect	415,586	916,010	1,357,969	1,464,068	1,537,272	

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013
 REVENUE ASSUMPTIONS

	June 30				
	Forecasted 2009	Forecasted 2010	Forecasted 2011	Forecasted 2012	Forecasted 2013
Entrance Fees from New Units					
3 Park Avenue Units					
20 Resident Apartments					
7 Park Avenue Units					
10 Meeting House Apartments					
26 North Manor Facility					
Total Entrance Fees Received from 66 New Units					
Entrance Fees from Turnover of 66 New Units	1,117,108	1,172,993	1,231,811	1,293,192	1,357,853
Entrance Fees from Turnover 17 Courtyard Homes Existing Units	608,403	638,824	670,765	704,303	739,518
Entrance Fees from Turnover of 161 Existing Units	2,983,053	3,132,206	3,288,816	3,453,257	3,625,919
Subtotal: Entrance Fees from Turnover of All Units	4,708,564	4,943,993	5,191,192	5,450,752	5,723,290
Combined Entrance Fees Received (new project plus existing)	4,708,564	4,943,993	5,191,192	5,450,752	5,723,290
Years entrance fee amortized = 15					
Amortization of Initial Entrance Fee on new units					
20 Resident Apartments	181,771	174,198	166,625	159,051	151,478
7 Park Avenue Units	128,164	122,824	117,483	112,143	106,803
North Manor Facility 2005	198,235	190,305	182,376	174,447	166,517
North Manor Facility 2006	27,399	26,345	25,291	24,237	23,183
Meeting House Apartments 2005	93,199	89,471	85,743	82,015	78,287
Meeting House Apartments 2006	65,525	63,005	60,485	57,964	55,444
Total amortization of entrance fee on new units	694,293	666,148	638,003	609,857	581,712
Amortization of Turnover Entrance Fees of All Units					
<i>Beginning with Continuing Care Contracts executed after June 30, 2003</i>					
2004	142,105	136,184	130,263	124,342	118,420
2005	136,811	127,689	119,176	111,229	103,813
2006	188,157	156,945	146,481	136,715	127,600
2007	224,484	209,517	195,548	182,511	170,342
2008	265,784	248,064	231,526	216,090	201,683
2009	313,904	292,974	273,442	255,211	238,196
2010		329,600	307,622	287,113	267,971
2011			346,079	323,003	301,468
2012				363,383	339,152
2013					381,553
Total amortization from turnover contracts executed after June 30, 2003	1,251,245	1,500,973	1,750,137	1,999,597	2,250,198
Total amortization of entrance fees on contracts executed after June 30, 2003	1,945,538	2,167,121	2,388,140	2,609,454	2,831,910
MONTHLY FEES					
Monthly Fees for Park Ave Phase I (3 units)	102,183	107,294	112,658	118,291	124,205
Monthly Fees for 20 Resident Apartments	428,831	450,272	472,786	496,425	521,246
South Manor (replaces existing units-no additional revenue)					
Monthly Fees for 7 Park Avenue New Units	269,903	283,398	297,568	312,446	328,069
North Manor Facility	526,339	552,655	580,288	609,303	639,768
Meeting House Apartments	286,879	301,223	316,284	332,098	348,703
Total Monthly Revenue Effect	1,614,135	1,694,842	1,779,584	1,888,563	1,961,991

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013
 CONSTRUCTION COMPLETION TIMETABLE FOR ENTRANCE FEES AND MONTHLY FEES

15 years EP amortization period			Average Entrance Fee	Entrance Fee Cumulative	Amortization of Entrance Fees	Average Monthly Fee	Monthly Fee
Fiscal Year 2003			6/30/2003				
PARK AVENUE HOMES							
1.00	6/30/2003	281,235	281,235	281,235	-	2,224	2,224
1.00	6/30/2003	281,235	281,235	281,235	-	2,224	2,224
1.00	6/30/2003	281,235	281,235	281,235	-	2,224	2,224
		843,705		843,705	-	6,672	6,672
		3.00					
Fiscal Year 2004			6/30/2004				
RESIDENT APARTMENTS							
6.00	8/1/2003	935,700	155,950	935,700	9,501	1,400	8,400
6.00	9/1/2003	935,700	155,950	935,700	8,635	1,400	8,400
2.00	10/1/2003	311,900	155,950	311,900	7,769	1,400	2,800
2.00	11/1/2003	311,900	155,950	311,900	6,902	1,400	2,800
2.00	12/1/2003	311,900	155,950	311,900	6,036	1,400	2,800
2.00	1/1/2004	311,900	155,950	311,900	5,169	1,400	2,800
		3,119,000		3,119,000	44,012		
Total Apartments		20.00					
PARK AVENUE HOMES							
1.00	12/15/2003	343,870	343,870	343,870	12,418	2,656	2,656
1.00	12/15/2003	343,870	343,870	343,870	12,418	2,656	2,656
1.00	12/15/2003	343,870	343,870	343,870	12,418	2,656	2,656
1.00	12/15/2003	343,870	343,870	343,870	12,418	2,656	2,656
1.00	6/15/2004	282,333	282,333	282,333	1,568	2,333	2,333
1.00	6/15/2004	282,333	282,333	282,333	1,568	2,333	2,333
1.00	6/15/2004	282,333	282,333	282,333	1,568	2,333	2,333
		2,222,479		2,222,479	54,376		
Total Park Avenue Homes		7.00					
Fiscal Year 2005			6/30/2005				
Meeting House Apartments							
2.00	3/1/2005	508,900	254,450	508,900	5,609	1,967	3,933
2.00	4/1/2005	508,900	254,450	508,900	4,198	1,967	3,933
1.00	5/1/2005	254,900	254,900	254,900	2,832	1,967	1,967
1.00	6/1/2005	254,900	254,900	254,900	1,416	1,967	1,967
		1,527,600		1,527,600	14,055		
Total Meeting House Apartments		6.00					
North Manor Facility							
5.00	9/1/2004	709,231	141,846	709,231	7,855	1,388	6,939
5.00	10/1/2004	709,231	141,846	709,231	7,066	1,388	6,939
4.00	11/1/2004	567,386	141,846	567,386	6,278	1,388	5,551
1.00	12/1/2004	141,848	141,848	141,848	5,490	1,388	1,388
1.00	1/1/2005	141,848	141,848	141,848	4,702	1,388	1,388
2.00	2/1/2005	283,692	141,846	283,692	3,914	1,388	2,776
1.00	3/1/2005	141,846	141,846	141,846	3,126	1,388	1,388
1.00	4/1/2005	141,846	141,846	141,846	2,340	1,388	1,388
2.00	5/1/2005	283,692	141,846	283,692	1,576	1,388	2,776
1.00	6/1/2005	141,846	141,846	141,846	788	1,388	1,388
Total AL (north)		23.00	3,262,466	3,262,466	43,135		

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013
 CONSTRUCTION COMPLETION TIMETABLE FOR ENTRANC

15 years EIP amortization period		Months on Income Statement	Monthly Revenue Effect	Annual Monthly Fees
Fiscal Year 2003		6/30/2003		
PARK AVENUE HOMES				
1.00	6/30/2003	0	-	26,688
1.00	6/30/2003	0	-	26,688
1.00	6/30/2003	0	-	26,688
				80,064
		3.00		
Fiscal Year 2004		6/30/2004		
RESIDENT APARTMENTS				
6.00	8/1/2003	11	92,120	100,800
6.00	9/1/2003	10	83,720	100,800
2.00	10/1/2003	9	25,106	33,600
2.00	11/1/2003	8	22,307	33,600
2.00	12/1/2003	7	19,507	33,600
2.00	1/1/2004	6	16,707	33,600
				259,467
Total Apartments				20.00
PARK AVENUE HOMES				
1.00	12/15/2003	7	17,264	31,872
1.00	12/15/2003	7	17,264	31,872
1.00	12/15/2003	7	17,264	31,872
1.00	12/15/2003	7	17,264	31,872
1.00	6/15/2004	1	2,333	27,996
1.00	6/15/2004	1	2,333	27,996
1.00	6/15/2004	1	2,333	27,996
				76,055
Total Park Avenue Homes				7.00
Fiscal Year 2005		6/30/2005		
Meeting House Apartments				
2.00	3/1/2005	4	15,602	47,196
2.00	4/1/2005	3	11,681	47,196
1.00	5/1/2005	2	3,934	23,604
1.00	6/1/2005	1	1,967	23,604
				33,184
Total Meeting House Apartments				6.00
North Manor Facility				
5.00	9/1/2004	10	69,158	83,268
5.00	10/1/2004	9	62,220	83,268
4.00	11/1/2004	8	44,223	66,812
1.00	12/1/2004	7	9,670	16,656
1.00	1/1/2005	6	8,282	16,656
2.00	2/1/2005	5	13,788	33,312
1.00	3/1/2005	4	5,506	16,656
1.00	4/1/2005	3	4,122	16,656
2.00	5/1/2005	2	5,552	33,312
1.00	6/1/2005	1	1,388	16,656
				223,909
Total AL (north)				23.00

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013
 CONSTRUCTION COMPLETION TIMETABLE FOR ENTRANCE FEES AND MONTHLY FEES

		15 years EF amortization period		Average Entrance Fee	Entrance Fee Cumulative	Amortization of Entrance Fees	Average Monthly Fee	Monthly Fee
Fiscal Year 2006		3/30/2006						
Meeting House Apartments								
	1.00	8/1/2005	267,645	267,645	267,645	16,306	2,065	2,065
	1.00	10/1/2005	267,645	267,645	267,645	13,333	2,065	2,065
	1.00	12/1/2005	267,645	267,645	267,645	10,359	2,065	2,065
	1.00	2/1/2006	267,645	267,645	267,645	7,385	2,065	2,065
			1,070,580		1,070,580	47,383		
Total Meeting House Apartments		4.00						
North Manor Facility								
	1.00	7/1/2005	148,938	148,938	148,938	9,902	1,457	1,457
	2.00	8/1/2005	297,877	148,938	297,877	9,074	1,457	2,915
Total AL (north)		3.00	446,815		446,815	18,976		

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013
 CONSTRUCTION COMPLETION TIMETABLE FOR ENTRANC

		Months on Income Statement	Monthly Revenue Effect	Annual Monthly Fees	
15 years EF amortization period					
Fiscal Year 2006					
6/30/2006					
Meeting House Apartments					
	1.00	8/1/2005	11	22,650	24,784
	1.00	10/1/2005	9	18,519	24,784
	1.00	12/1/2005	7	14,389	24,784
	1.00	2/1/2006	5	10,258	24,785
			65,816	99,137	
Total Meeting House Apartments		4.00			
North Manor Facility					
	1.00	7/1/2005	12	17,440	17,488
	2.00	8/1/2005	11	31,966	34,978
			49,406	52,466	
Total AL (north)		3.00			

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

ENTRANCE FEES TURNOVER

	Forecasted <u>2003</u>	Forecasted <u>2004</u>	Forecasted <u>2005</u>	Forecasted <u>2006</u>
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66 New Units

Assumption: beginning in year after fill-up is complete (fy 2007), turnover is estimated as follows:

Turnover Pct.	n/a	n/a	n/a	n/a
Turnover in Number of Units	n/a	n/a	n/a	n/a
Average Entrance Fees in 2006 Dollars = \$193,000; annual increases of 5%				

17 Courtyard Homes

Assumption: beginning in fy 2005, turnover is estimated as follows:

Turnover Pct.	5%	5%	5%	6%
Turnover in Number of Units	1	1	1	2
Average Entrance Fees in 2003 Dollars = \$227,000; annual increases of 5%	\$ 227,000	\$ 238,350	\$ 250,268	\$ 525,562

161 Existing Units

Assumption: beginning in fy 2003, turnover is estimated as follows:

Turnover Pct.	9%	9%	9%	9%
Turnover in Number of Units	14	14	14	14
Average Entrance Fees in 2003 Dollars = \$159,000; annual increases of 5%	\$ 2,226,000	\$ 2,337,300	\$ 2,454,165	\$ 2,576,873
Plus, turnover of one existing Park Ave. Home	281,235			
	<u>\$ 2,507,235</u>			

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

ENTRANCE FEES TURNOVER

	Forecasted <u>2007</u>	Forecasted <u>2008</u>	Forecasted <u>2009</u>	Forecasted <u>2010</u>
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66 New Units

Assumption: beginning in year after fill-up is complete fy 2007), turnover is estimated as follows:

Turnover Pct.	6%	7%	8%	9%
Turnover in Number of Units	3	4	5	6
Average Entrance Fees in 2006 Dollars = \$193,000; annual increases of 5%	\$ 607,950	\$ 851,130	\$ 1,117,108	\$ 1,172,963

17 Courtyard Homes

Assumption: beginning in fy 2005, turnover is estimated as follows:

Turnover Pct.	7%	8%	8%	8%
Turnover in Number of Units	2	2	2	2
Average Entrance Fees in 2003 Dollars = \$227,000; annual increases of 5%	\$ 551,840	\$ 579,432	\$ 608,403	\$ 638,824

161 Existing Units

Assumption: beginning in fy 2003, turnover is estimated as follows:

Turnover Pct.	9%	9%	9%	9%
Turnover in Number of Units	14	14	14	14
Average Entrance Fees in 2003 Dollars = \$159,000; annual increases of 5%	\$ 2,705,717	\$ 2,841,003	\$ 2,983,053	\$ 3,132,206

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

ENTRANCE FEES TURNOVER

	Forecasted <u>2011</u>	Forecasted <u>2012</u>	Forecasted <u>2013</u>
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66 New Units

Assumption: beginning in year after fill-up is complete (fy 2007), turnover is estimated as follows:

Turnover Pct.	9%	9%	9%
Turnover in Number of Units	6	6	6
Average Entrance Fees in 2006 Dollars = \$193,000; annual increases of 5%	\$ 1,231,611	\$ 1,293,192	\$ 1,357,853

17 Courtyard Homes

Assumption: beginning in fy 2005, turnover is estimated as follows:

Turnover Pct.	8%	8%	8%
Turnover in Number of Units	2	2	2
Average Entrance Fees in 2003 Dollars = \$227,000; annual increases of 5%	\$ 670,765	\$ 704,303	\$ 739,518

161 Existing Units

Assumption: beginning in fy 2003, turnover is estimated as follows:

Turnover Pct.	9%	9%	9%
Turnover in Number of Units	14	14	14
Average Entrance Fees in 2003 Dollars = \$159,000; annual increases of 5%	\$ 3,288,816	\$ 3,453,257	\$ 3,625,919
Plus, turnover of one existing Park Ave. Home			

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2002 THROUGH 2013
 AMORTIZATION ON EXISTING UNITS

Amortization on 161 Existing Units

Recap of net deferred entrance fees

Balance of net deferred entrance fees, June 30, 2001	\$ 10,066,172
New entrance fees for fiscal year 2002	2,961,530
Amortization revenue/refunds	<u>(1,403,295)</u>
Balance of net deferred entrance fees, June 30, 2002	11,624,407
New entrance fees for fiscal year 2003	3,577,940
Amortization revenue	<u>(1,660,400)</u>
Balance of net deferred entrance fees, June 30, 2003	\$ 13,541,947

Average Life Expectancy (June 30, 2000) for Hillcrest Residents was 9.07 years.
 Will use Life Expectancy Table, starting at 9.146 years for FY 2003

<u>Fiscal Year</u>	<u>Life Expectancy</u>	
2004	9.146	\$ 1,481,613
2005	8.653	1,393,775
2006	8.173	1,305,097
2007	7.717	1,213,096
2008	7.301	1,116,062
2009	6.899	1,019,322
2010	6.500	925,074
2011	6.109	832,854
2012	5.755	739,366
2013	5.432	647,218

BRETHREN HILLCREST HOMES
FORECAST EXHIBITS
YEARS ENDED JUNE 30, 2003 THROUGH 2013

Description	Audited FYE 6/30/99	Audited FYE 6/30/00	Audited FYE 6/30/01	Audited FYE 6/30/2002	Forecasted 6/30/2003	Forecasted 6/30/2004	Forecasted 6/30/2005	Forecasted 6/30/2006
Days Cash on Hand Ratio								
Cash	320,135	764,766	167,664	389,514	6,720,329	14,106,960	20,014,678	23,043,523
Cash-enclosed unrestricted	263,901	125,151	258,533	143,639	143,639	143,639	143,639	143,639
Investments-unrestricted	1,632,027	1,691,296	1,137,220	890,649	890,649	890,649	890,649	890,649
Restricted cash and investments	6,945,332	7,485,547	9,625,424	8,195,903	8,195,903	8,195,903	8,195,903	8,195,903
Investments-Board designated endowment&life income	1,061,818	1,072,736	0	0	0	0	0	0
Total Cash, Excluding Bond Proceeds	10,223,213	11,139,498	11,168,841	9,619,705	15,950,520	23,337,181	29,244,869	32,273,714
Divided by Daily Operating Expenses								
Total Operating Expenses	8,556,731	8,228,774	10,011,514	10,484,101	11,792,633	12,426,902	13,635,007	16,688,330
Less depreciation/amortization	(1,065,672)	(1,028,522)	(979,252)	(1,108,684)	(1,251,855)	(1,779,692)	(2,285,109)	(2,699,437)
Cash Operating Expenses	7,491,059	8,201,252	9,032,262	9,385,417	10,540,778	10,647,210	11,349,898	13,988,893
Daily Expenses	20,523	22,469	24,746	26,713	28,879	29,170	31,096	38,326
Days Cash on Hand Ratio:	498	496	452	374	552	800	940	842
Debt Service Coverage Ratio (based on Maximum Annual Debt Service)								
CHANGE IN UNRESTRICTED NET ASSETS	909,197	531,632	438,696	(108,417)	588,312	1,541,995	1,437,220	(247,427)
Plus interest expense	92,396	53,309	102,475	37,371	0	0	0	2,270,998
Plus depreciation & amortization	1,065,672	1,028,522	979,252	1,108,684	1,251,854	1,779,692	2,285,109	2,699,438
Less amortization of entrance fees	(1,193,900)	(1,399,462)	(1,510,575)	(1,357,302)	(1,660,400)	(1,751,711)	(2,158,641)	(2,581,511)
Net receipts of entrance fees	854,797	3,054,320	2,910,222	2,961,530	3,577,940	7,917,129	7,484,499	4,619,830
Income available for debt service	1,728,162	3,268,321	2,920,070	2,641,866	3,757,706	9,487,105	9,058,187	6,761,328
Maximum Annual Debt Service (MADS)	442,246	289,634	202,080	37,371	3,469,048	3,469,048	3,469,048	3,469,048
Debt Service Coverage Ratio:	3.91	11.28	14.45	70.69	1.08	2.73	2.61	1.95

BRETHREN HILLCREST HOMES
 FORECAST EXHIBITS
 YEARS ENDED JUNE 30, 2003 THROUGH 2013

Description	Forecasted 6/30/2007	Forecasted 6/30/2008	Forecasted 6/30/2009	Forecasted 6/30/2010	Forecasted 6/30/2011	Forecasted 6/30/2012	Forecasted 6/30/2013
Days Cash on Hand Ratio							
Cash	24,923,129	27,504,579	31,040,438	35,205,781	40,060,521	45,664,023	52,079,077
Cash-endowed unrestricted	143,639	143,639	143,639	143,639	143,639	143,639	143,639
Investments-unrestricted	890,649	890,649	890,649	890,649	890,649	890,649	890,649
Restricted cash and investments	8,195,903	8,195,903	8,195,903	8,195,903	8,195,903	8,195,903	8,195,903
Investments-Board designated endowment&lfe income	0	0	0	0	0	0	0
Total Cash, Excluding Bond Proceeds	34,153,320	36,734,770	40,270,629	44,435,972	49,290,712	54,894,214	61,309,268
Divided by Daily Operating Expenses							
Total Operating Expenses	17,673,701	18,200,481	18,743,257	19,303,019	19,880,418	20,476,543	21,085,238
Less depreciation/amortization	(2,766,104)	(2,832,771)	(2,899,437)	(2,966,104)	(3,032,771)	(3,099,437)	(3,166,104)
Cash Operating Expenses	14,907,597	15,367,710	15,843,820	16,336,915	16,847,647	17,377,106	17,919,134
Daily Expenses	40,843	42,103	43,408	44,759	46,158	47,609	49,094
Days Cash on Hand Ratio:	836	872	928	993	1,068	1,153	1,249
Debt Service Coverage Ratio (based on Maximum Annual De							
CHANGE IN UNRESTRICTED NET ASSETS	(282,971)	80,594	688,755	1,174,665	1,710,239	2,296,487	2,947,640
Plus interest expense	2,723,871	2,899,606	2,672,051	2,641,427	2,607,585	2,570,785	2,524,004
Plus depreciation & amortization	2,766,105	2,832,771	2,899,438	2,966,105	3,032,771	3,099,438	3,166,105
	0	0	0	0	0	0	0
Less amortization of entrance fees	(2,725,422)	(2,938,570)	(2,964,860)	(3,092,195)	(3,220,994)	(3,348,821)	(3,479,127)
Net receipts of entrance fees	3,865,507	4,271,565	4,708,564	4,943,992	5,191,191	5,450,753	5,723,289
Income available for debt service	6,347,090	7,045,966	8,003,948	8,633,993	9,320,791	10,068,642	10,881,911
Maximum Annual Debt Service (MADS)	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048	3,469,048
Debt Service Coverage Ratio:	1.83	2.03	2.31	2.49	2.69	2.90	3.14

APPENDIX E

SUMMARY OF PRINCIPAL DOCUMENTS

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SUMMARY OF PRINCIPAL DOCUMENTS

The following are summaries of certain provisions of the Installment Purchase Agreement, the Installment Sale Agreement, the Trust Agreement and the Deed of Trust. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of such documents.

DEFINITIONS OF CERTAIN TERMS

“Accountant” means any independent certified public accountant or firm of such accountants selected by the Corporation and reasonably acceptable to the Insurer.

“Act” means Section 37350 *et seq.* of the California Government Code, as now in effect and as it may from time to time hereafter be amended, supplemented or recodified.

“Adjusted Annual Operating Revenues” means, unless the context provides otherwise, as to any period, operating revenues, plus interest income that is not restricted to a purpose inconsistent with payment of operating expenses, of the Corporation for such period, less any adjustments to revenue, all as determined in accordance with GAAP (including without limitation, adjustments to exclude unrealized gains and losses on investments, Interest Rate Agreements and extraordinary items) and in such a manner that no portion of operating revenues is included more than once.

“Affiliate” means a person which directly controls or is directly controlled by the Corporation.

“Annual Operating Revenues” means revenues comprising program service fees, other income and investment income for any Fiscal Year, all as determined in accordance with GAAP.

“Architect” means an architect, engineer or supervisory contractor selected by the Corporation in connection with the acquisition, construction, installation or repair of the facilities or a portion thereof.

“Architect’s Statement” means a statement signed by a duly authorized officer or agent of the architects, engineers or supervisory contractors selected by the Corporation in connection with the acquisition, installation, construction, or repair of the Facilities or a portion thereof.

“Authorized Representative” means, (1) with respect to the Issuer, the City Manager or the Finance Officer and or any other person designated as an Authorized Representative of the Issuer by a Statement of the Issuer signed by any of the foregoing and filed with the Trustee and (2) with respect to the Corporation, its president, vice president, treasurer, secretary or executive director or any other person designated as an Authorized Representative of the Corporation by a Statement of the Corporation signed by any of the foregoing and filed with the Trustee.

“Business Day” means any day other than a Saturday, Sunday, or a day on which banking institutions in the city in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed or are closed, or a day on which the Federal Reserve System is closed.

“Certificate Payment Date” means, with respect to a Certificate, the date on which principal evidenced and represented by such Certificate becomes due and payable.

“Certificate Year” means the period of twelve consecutive months ending on February 15 of any year in which Certificates are Outstanding.

“Certificates Purchase Agreement” means that certain Certificates Purchase Agreement by Cain Brothers & Company, LLC and approved by the Issuer and the Corporation.

“Collateral” has the meaning set forth in the Sale Agreement.

“Construction Monitor” means Levien-Rich Associates, Inc. Los Angeles, California.

“Consultant” means a firm which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or any affiliate of the Corporation, and which is a professional consultant and having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears, and which is reasonably acceptable to the Insurer.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the Corporation and the Dissemination Agent dated as of January 1, 2003, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Control Agreement” means that certain Deposit Account Control Agreement between the Corporation, the Trustee and PFF Bank and Trust Company, as Depository Bank dated as of January 1, 2003, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Days Cash On Hand” means, with respect to any particular evaluation date, the result, in number of days of the following calculation based on the Corporation’s unaudited accounting records for its most recent Fiscal Year: cash and marketable securities owned by or credited to the Corporation not restricted to a purpose inconsistent with payment of operating expenses and debt service (excluding unrealized gains and losses), divided by operating expenses (including, without limitation, any interest expense during the applicable period), minus depreciation, amortization and, to the extent included in operating expenses, bad debts and other non-cash and extraordinary expenditures for the twelve (12) months ending on such date, times three hundred sixty-five (365).

“Debt Service” means, for any Certificate Year,

(i) the sum of:

(1) the interest payable during the Certificate Year with respect to all outstanding Certificates, assuming that all outstanding serial Certificates are retired as scheduled and that all outstanding term Certificates are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);

(2) That portion of the principal amount with respect to all outstanding Certificates maturing in such Certificate Year or scheduled to be prepaid from Sinking Account installments;

(3) That portion of the payments on other Long-Term Indebtedness, including but not limited to Parity Debt, or capital leases (“Payments”) required to be made by, or guaranteed by, the Corporation during such Certificate Year (except to the extent that the interest portion of such Payments is capitalized provided that if the primary obligor on the guaranteed debt has produced a ratio of net revenues to Maximum Annual Debt Service on all of its long-term debt equal to at least 1.40 for each of the 2 most recent fiscal years preceding the date of calculation and the Corporation has made no payments under the guaranty in the two-year period ending on the date of calculation, then only 20% of the guaranteed debt service must be included in the Corporation’s Debt Service);

(ii) provided that, as to any such Certificates or Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will be one hundred ten percent (110%) of the average interest rate on such Certificates or Payments during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current Certificate Year that such Certificates or Payments have borne interest) or, if such Certificates or Payments were not outstanding during such twelve (12) calendar month period, the daily average interest rate on bonds with a similar basis for calculating interest;

provided that if any series or issue of such Certificates or Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, demand debt (debt payable upon demand of the Owner), and tender debt (debt which may be tendered for purchase at the option of the Owner or under specified conditions) Debt Service will be determined for the Certificate Year of determination as if the principal of and interest on such series or issue of such Certificates or Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 20 years or the actual term to maturity so long as there is in effect a credit facility or other binding commitment to refinance such debt from a financial institution with a long term credit rating of at least “A” from S&P from the date of calculation;

provided that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Certificates or Payments for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that with respect to Payments under any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or any similar agreement or arrangement, each an “Interest Rate Agreement,” during the term of such Interest Rate Agreement and so long as the provider of such Interest Rate Agreement is not in default thereunder, for purposes of any calculation of interest on Long-Term Indebtedness, the interest rate (or portion thereof) on the Indebtedness of such maturity or maturities will be determined as if such Indebtedness bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Corporation after giving effect to such Interest Rate

Agreement. Any obligations under an Interest Rate Agreement will not be separately included in any calculation of interest on Long-Term Indebtedness.

“Debt Service Coverage Ratio” means for any period of time the ratio determined by dividing the Income Available for Debt Service, for such period by the Maximum Annual Debt Service calculated as of the commencement of such period.

“Deed of Trust” means that certain deed of trust to be executed by the Corporation, as trustor, in favor of Commonwealth Land Title Company, as trustee thereunder, creating a lien on the Facilities for the benefit of the Trustee, as assignee of the Issuer, on behalf of the Owners and the owners of any Parity Debt, as beneficiaries, or any subsequent deed of trust executed by the Corporation pursuant to the Trust Agreement.

“Event of Default” means any of the events specified in the Trust Agreement.

“Facilities” means (i) the real property described in Exhibit A to the Sale Agreement, (ii) all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired and (iii) all tangible personal property owned by the Corporation, whether now existing or hereafter installed or acquired, and used in, around or about the aforesaid real property, including but not limited to the personal property described in Exhibit B attached hereto.

“Financing Documents” means the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Deed of Trust, the Control Agreement and the Tax Agreement.

“Fiscal Year” means the 12-month period selected as designated and designated as the official fiscal year of the Corporation.

“GAAP” means generally accepted accounting principles in effect as of the date of the original execution of the Certificates provided that, with respect to the Sale Agreement or any other provision as the Corporation may elect, generally accepted accounting principles in effect as of the date of such calculation.

“Gross Revenues” means all revenues, income, receipts and money received in any period by the Corporation (other than donor-restricted gifts, grants, bequests, donations and contributions), including, but without limiting the generality of the foregoing (a) gross revenues derived from its operation and possession of and pertaining to its properties, (b) proceeds with respect to, arising from, or relating to its properties and derived from (i) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required pursuant to the Sale Agreement to be used for purposes inconsistent with their use for payment of Installment Payments or Supplemental Payments), (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and intangible property, (v) medical and health payment/reimbursement programs and agreements, and (vi) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and (c) rentals received from the lease of the Corporation’s properties or space in its facilities.

“Income Available for Debt Service” means, unless the context provides otherwise, with respect to the Corporation as to any period of time, net income, or excess of revenues excluding unrealized gains on investments and Interest Rate Agreements over expenses amortized and losses on investments and Interest Rate Agreements (including unrealized losses and including entrance fees collected net of refunds) before depreciation, amortization, and interest expense, as determined in accordance with GAAP; provided, that no determination thereof will take into account:

(a) any gain or loss resulting from either the early extinguishment or refinancing of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business,

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses,

(c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards, and

(d) extraordinary noncash items.

“Indebtedness” means all obligations for borrowed money, installment sales and capitalized lease obligations, guaranties, long-term indebtedness, short-term indebtedness or any other obligation for payments of principal and interest with respect to money borrowed. Indebtedness will include any swap, hedge or similar Obligations of the Corporation.

“Information Services” means Financial Information, Inc.’s “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 “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and S&P’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or to such other addresses and/or such other services providing information with respect to called bonds or certificates of participation as the Issuer may designate.

“Installment Payments” means all of the payments so designated and required to be made by the Issuer pursuant to the Purchase Agreement.

“Insurer” means ACA Financial Guaranty Corporation, a Maryland stock insurance corporation and its successors and assigns, as long as it is not in default under the Policy or if only Series B Certificates are outstanding.

“Investment Securities” means any of the following which at the time are legal investments under the laws of the State for moneys held under the Trust Agreement and then proposed to be invested therein (the Trustee being entitled to rely upon any investment direction received by it as a certification that such investment constitutes an Investment Security):

(a) The following obligations, for all purposes, including defeasance investments in refunding escrow accounts:

1. Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in the next paragraph).

2. Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America. (In the event these securities are used for defeasance, they will be non-callable and non-prepayable.)

(b) The following obligations, for all purposes other than defeasance investments in refunding escrow accounts:

1. Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:

- (1) U.S. Export-Import Bank (Eximbank)
- (2) Rural Economic Community Development Administration
- (3) Federal Financing Bank
- (4) U.S. Maritime Administration
- (5) U.S. Department of Housing and Urban Development (PHAs)
- (6) General Services Administration
- (7) Small Business Administration
- (8) Government National Mortgage Association (GNMA)
- (9) Federal Housing Administration
- (10) Farm Credit System Financial Assistance Corporation

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

(1) Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

(2) Senior debt obligations of the Federal Home Loan Bank System.

(3) Senior debt obligations of other Government Sponsored Agencies approved by the Insurer.

3. U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which either (a) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (b) are insured at all times by the Federal Deposit Insurance Corporation, or (c) are collateralized with direct obligations of the United States of America at on 102% valued daily. All such certificates must mature no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of bank).

4. Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two nationally recognized rating agencies and which matures not more than 270 days after the date of purchase.

5. Investments in (a) money market funds subject to SEC Rule 2a-7 and rated in the highest short-term rating category of at least two nationally recognized rating agencies and (b) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the Issuer's deposit will not exceed five percent (5%) of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services.

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

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest long-term rating category of at least two nationally recognized rating agencies; or which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and

(ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

7. General obligations of states with a short-term rating in one of the two highest rating categories and a long-term rating in one of the two highest rating categories of at least two nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

8. Investment agreements approved in writing by the Insurer.

9. Other forms of investments (including repurchase agreements) approved in writing by the Insurer.

The value of the above investments, other than cash (and amounts held in the Reserve Fund which will be valued as described in the Sale Agreement), will be determined as of the end of each month, and will be calculated as follows:

1. As to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

2. As to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at such price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

3. As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and

4. As to any investment not specified above, the value thereof established by prior agreement between the Insurer, the Trustee and Insurer.

Alternatively, the value of the above investments will be determined as of the end of each month by any other manner employed by the Trustee at such time which is consistent with corporate trust industry standard and is acceptable to the Insurer.

“Long-Term Indebtedness” means Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Corporation for a period greater than one (1) year from the date of original incurrence or issuance thereof and any other indebtedness unless, by the terms of such Indebtedness, such Indebtedness is not permitted to be outstanding for a period of at least 30 consecutive days during each calendar year.

“Mandatory Sinking Account Payment” means, with respect to Certificates of any Certificate Payment Date, the amount required by the Trust Agreement to be applied by the Trustee for the retirement of Certificates on such Mandatory Sinking Account Payment Date.

“Mandatory Sinking Account Payment Date” mean, with respect to the Certificates, the dates specified in Mandatory Sinking Account Payment Dates in the Trust Agreement.

“Maximum Annual Certificate Service” means, as of any date of calculation, the sum of (1) the interest falling due with respect to Certificates then Outstanding (assuming that all Certificates then Outstanding are retired at the times of and in the amounts provided for by Mandatory Sinking Account Payments), and (2) the amount of all Mandatory Sinking Account Payments required; all as computed for the Certificate Year in which such sum will be largest

“Maximum Annual Debt Service” when used with respect to any item of Long-Term Indebtedness, means, as of any date of calculation, the maximum amount of Debt Service to become due on such Long-Term Indebtedness in the current or any future Fiscal Year after the date of calculation.

“Non-Recourse Indebtedness” means any Indebtedness which is not a general obligation and which is secured by a lien on property, plant and equipment of the Corporation, liability for which is effectively limited to the property subject to such lien with no recourse, directly or indirectly, to any other property of the Corporation and which is incurred in connection with the purchase, acquisition, construction or equipping of property acquired after the date hereof.

“Outstanding,” when used as of any particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore, or thereupon being, executed and delivered by the Trustee under the Trust Agreement except (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates with respect to which all liability will have been discharged in accordance with the Trust Agreement, including Certificates (or portions of Certificates) referred to in the Trust Agreement; and (3) Certificates for the transfer or exchange of or in lieu of or in substitution for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“Payment Dates” means August 15 and February 15 in each year, commencing August 15, 2003, so long as any Certificate is Outstanding.

“Permitted Encumbrances” means and includes:

(a) undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Corporation will have set aside reserves or provided a bond with respect thereto which, in the reasonable opinion of the Board, are adequate and if the amount secured by the lien exceeds \$200,000, the Corporation will notify the Trustee thereof;

(b) notices of *lis pendens* or other notices of or liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Corporation will have set aside reserves or provided a bond with respect thereto which, in the reasonable opinion of the Board, is adequate and if the amount secured by the lien exceeds \$200,000, the Corporation will notify the Trustee thereof;

(c) the lien of taxes and assessments which are not delinquent, or, if delinquent, are being contested in good faith, provided that the Corporation will have set aside reserves with respect thereto which, in the reasonable opinion of the Board, are adequate;

(d) minor defects and irregularities in title to the Facilities which in the aggregate do not materially adversely affect the value or operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

(e) easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, including the Colorado River Aqueduct owned and operated by the Metropolitan Water District and related water lines, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

(f) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities which do not materially impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

(g) present or future valid zoning laws and ordinances;

(h) the rights of the Issuer, the Corporation, the Trustee and owners of Parity Debt under the Installment Purchase Agreement, the Installment Sale Agreement, the Trust Agreement, the Deed of Trust and the lien and charge of the Trust Agreement, and the Deed of Trust;

(i) liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount will have been deposited in trust with a trustee or other Owner of such indebtedness;

(j) purchase money security interests and security interests existing on any property prior to the time of its acquisition by the Corporation through purchase, merger, consolidation or otherwise, whether or not assumed by the Corporation, or placed upon property being acquired by the Corporation to secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with GAAP;

(k) statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by the Corporation;

(l) the lease or license of the use of a part of the Facilities for use in performing professional or other services necessary for the proper and economical operation of the Facilities in accordance with customary business practices in the health care industry;

(m) liens or encumbrances existing as of the date of initial execution and delivery of the Certificates as listed in the Trust Agreement;

(n) liens securing Parity Debt on a parity with the obligations of the Corporation;

(o) statutory rights, if any, of residents of the facilities under any residency agreements pursuant to Section 1793.9 (or any successor provision) of the California Health and Safety Code; provided that the recordation of a lien pursuant to Section 1793.15 (or any successor provision) of the California Health and Safety Code will not be a Permitted Encumbrance;

(p) statutory rights of the United States of America to recover against the Corporation by reason of federal funds made available under 42 U.S.C. §291 et seq., and similar rights under other federal and state statutes;

(q) liens or encumbrances arising from the incurrence of subordinate Indebtedness; and

(r) any other lien or charge approved by the Insurer.

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

“Project Plans” means the plans for the Project, as such plans may be revised from time to time prior to the completion date in accordance with the provisions of the Sale Agreement.

“Purchase Agreement Default” means any of the events specified in the Purchase Agreement.

“Purchase Payments” means the payments so designated and required to be made by the Corporation pursuant to the Sale Agreement.

“Real Property” means the real estate described in Exhibit A (the Grant Deed) to the Purchase Agreement and all buildings and structures thereon and fixtures and improvements thereto.

“Record Date” means, with respect to any interest payment date, the first (1st) day of the calendar month of such interest payment date, whether or not such day is a Business Day.

“Repair and Replacement Amount” means the amount required to be deposited in such Fiscal Year to the Repair and Replacement Fund, which amount will be \$160,000, and, thereafter, the amount will be increased annually based on any increase in the Consumer Price Index for the Los Angeles-Riverside-Orange County area as certified to the Trustee by the Corporation.

“Required Owners” will mean the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding.

“Reserve Requirement” means, as of any date of calculation, an amount equal to Maximum Annual Certificate Service (as calculated by the Corporation and certified to the Trustee).

“Revenues” means and is limited to all amounts received by the Trustee under the Trust Agreement pursuant or with respect to the Sale Agreement, including, without limiting the generality of the foregoing, Installment Payments (including both timely and delinquent payments and any late charges, regardless of source), prepayments, insurance proceeds,

condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including amounts received or on deposit in the Rebate Fund.

“Securities Depositories” means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039; or 4190; or such other addresses and/or such other securities depositories as the Issuer may designate.

“Semiannual Evaluation Date” means the last day of the first six months of each Fiscal Year and the last day of each Fiscal Year.

“Short-Term Indebtedness” means any Indebtedness other than Long-Term Indebtedness.

“Special Record Date” means the date established by the Trustee pursuant to the Trust Agreement as a record date for the payment of defaulted interest with respect to Certificates.

“State” means the State of California.

“Statement,” “Request,” “Requisition” and “Order” of the Issuer or the Corporation mean, respectively, a written statement, request, requisition or order signed in the name of the Issuer or the Corporation by an Authorized Representative of the Issuer or the Corporation, respectively. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Sale Agreement, each such instrument will include the statements provided for in the Sale Agreement.

“Supplemental Payments” means the payments so designated and required to be made by the Corporation pursuant to the Sale Agreement.

“Supplemental Purchase Agreement” means any installment purchase agreement hereafter duly authorized and entered into between the Issuer and the Corporation, supplementing, modifying or amending the Purchase Agreement; but only if and to the extent that such Supplemental Purchase Agreement is specifically authorized under the Purchase Agreement and the Trust Agreement.

PURCHASE AGREEMENT

The Purchase Agreement provides the terms of the purchase of the Real Property by the Issuer and the payment of the Installment Payments from the sources and to the extent required under the Purchase Agreement.

Purchase and Sale of the Real Property

Pursuant to the Purchase Agreement, the Corporation agrees to sell to the Issuer, and the Issuer agrees to purchase from the Corporation, the Real Property at the purchase price set forth in the Purchase Agreement. The Issuer and the Corporation agree that the legal and equitable title to the Real Property will be deemed conveyed to and vested in the Issuer.

Payment Provisions

The purchase price of the Real Property under the Purchase Agreement is equal to the face amount of the Certificates (the “principal component”) plus the interest to accrue on the unpaid balance of such principal component over the term of the Purchase Agreement. All amounts attributable to interest (the “interest component”) will be calculated and determined in accordance with the Purchase Agreement and will be paid by the Issuer as and constitute interest.

Under the Purchase Agreement, the Issuer will pay the purchase price through the Installment Payments over a period of approximately 30 years; provided, however, that the Issuer’s obligation to make Installment Payments is limited exclusively to the payments and other moneys and assets received by the Trustee on behalf of the Issuer pursuant to the Sale Agreement, and the Issuer is not directly or indirectly or contingently or morally obligated to make Installment Payments from any other moneys or assets of the Issuer. In the event the Issuer should fail to make any of the Installment Payments, the Installment Payments so unpaid will continue as an obligation of the Issuer until such amount will have been fully paid and the Issuer agrees to pay the same with interest thereon at a rate of interest equal to the rate of interest on the unpaid principal components of such unpaid Installment Payments, subject to the limitation described below.

The Corporation will make each Purchase Payment due under the Sale Agreement directly to the Trustee in satisfaction of the Issuer’s Installment Payment obligations under the Purchase Agreement. The Issuer grants to the Corporation a security interest in the Purchase Payments for the purpose of securing the Installment Payments due from the Issuer under the Purchase Agreement.

The Issuer will have the right at any time or from time to time to prepay all or any part of the Installment Payments from prepayments received from the Corporation pursuant to and subject to the terms of the Sale Agreement.

The obligations of the Issuer to make the foregoing payments will be absolute and unconditional except as otherwise provided in the Purchase Agreement. Until such time as all of the Installment Payments have been fully paid (or provision for the payment thereof will have been made), the Issuer (i) will not suspend or discontinue any payments required under the Purchase Agreement, (ii) will perform and observe all of its other agreements contained in the Purchase Agreement and (iii) will not terminate the Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Real Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Purchase Agreement, the Sale Agreement or the Trust Agreement.

Notwithstanding anything to the contrary contained in the Purchase Agreement, the Issuer will not be obligated to pay any Installment Payment or any portion of the purchase price or make any other payments or advance any moneys or be liable for any other costs or expenses except from the payments and other moneys and assets received by the Issuer pursuant to the

Sale Agreement. The Issuer will not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the Issuer for all or any portion of the purchase price or for all or any portion of such other costs or expenses.

Purchase Agreement Defaults and Remedies

The following are “Purchase Agreement Defaults” under the Purchase Agreement:

(a) Failure by the Issuer to pay or cause to be paid any Installment Payment required to be paid at the time specified in the Purchase Agreement;

(b) Failure by the Issuer to observe and perform any covenant, condition or agreement in the Purchase Agreement on its part to be observed or performed (other than as referred to in clause (a) of this paragraph) for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer by the Corporation or the Trustee (as assignee of the Corporation), unless the Corporation or the Trustee (as assignee of the Corporation) will agree in writing to an extension of such time prior to its expiration;

(c) Any representation or warranty made by the Issuer in the Purchase Agreement or in any document, instrument or certificate furnished to the Trustee, the Corporation or to the initial purchasers of the Certificates in connection with the execution and delivery of the Certificates will at any time prove to have been incorrect in any material respect as of the time made; and

(d) The occurrence of a Sale Agreement Default under the Sale Agreement and as defined therein.

Whenever any Purchase Agreement Default will have happened and be continuing, the Trustee (as assignee of the Corporation) may take any one or more of the following remedial steps:

(a) The Trustee may, if the Certificates have been accelerated pursuant to the Trust Agreement and upon notice to the Issuer, declare the principal component of all Installment Payments, plus all accrued and unpaid interest thereon to be immediately due and payable, whereupon the same will become immediately due and payable; provided, however, that if acceleration of the certificates has been rescinded and annulled pursuant to the Trust Agreement, acceleration of the Installment Payments will be rescinded and annulled, but no such rescission and annulment will extend to or affect any subsequent default or will impair or exhaust any right or power consequent thereto;

(b) The Trustee may exercise and enforce all or any of the rights and remedies provided for in the Sale Agreement;

(c) The Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due or thereafter to become due under the Purchase Agreement or to enforce performance and observance of any obligation, condition or covenant of the Issuer under the Purchase Agreement.

SALE AGREEMENT

The Sale Agreement provides the terms of the repurchase of the Real Property by the Corporation and the payment of the Purchase Payments and the security for such payments by the Corporation. In connection with such repurchase, the Corporation is subject to the terms and conditions of the Sale Agreement.

Purchase and Sale of the Real Property

Under the Sale Agreement, the Issuer agrees to sell to the Corporation, and the Corporation agrees to purchase from the Issuer, the Real Property at the purchase price (payable in installments) as described in the Sale Agreement. Under the Sale Agreement, the Issuer and the Corporation agree that legal and equitable title to the Real Property will immediately be deemed conveyed to and vested in the Corporation.

Payment Provisions

The Corporation agrees to pay the purchase price for the Real Property by making installment payments, to be referred to herein as “Purchase Payments,” which the Corporation will pay to the Trustee, as assignee of the Issuer, for deposit in the Revenue Fund held by the Trustee and which, in the aggregate, will be in an amount sufficient for the payment in full of all obligations to the Owners of the Certificates from time to time Outstanding under the Trust Agreement. The Purchase Payments will be due and payable in monthly installments on or before the 1st day of each month. Each Purchase Payment will be in an amount equal to the amount required by the Trustee to make the deposits required in such month by the Trust Agreement, (see “TRUST AGREEMENT - Pledge and Assignment of Revenues and - Revenue Fund”) taking into account any other funds available for such deposits (including any amounts transferred to the Revenue Fund and/or Principal Fund in accordance with the terms of the Trust Agreement). Notwithstanding the foregoing, if by the 5th day of any month, the Trustee has not received moneys sufficient to make the transfers and deposits required in such month by the Trust Agreement, the Trustee will immediately notify the Corporation and the Issuer of such insufficiency by telephone, telegram or teletype and confirm such notification by written notice, and the Corporation will forthwith pay the amount of any such deficiency to the Trustee.

Supplemental Payments

In addition to the Purchase Payments, the Corporation will also pay to the Issuer or the Trustee, as the case may be, “Supplemental Payments,” as follows:

(a) All taxes and assessments of any type or character charged to the Issuer or the Trustee affecting the amount available to the Issuer or the Trustee from payments to be received under the Sale Agreement or in any way arising due to the transactions contemplated thereby but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Corporation will have the right to protest and contest any such taxes or assessments as provided in the Sale Agreement;

(b) The annual (or other regular) fees and expenses of the Trustee, and all fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Trust Agreement as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Issuer or the Trustee to prepare audits, financial statements, reports or opinions or to provide such other services required; and

(d) The fee of the Issuer in the amount of \$40,000, and any reasonable fees and expenses of the Issuer, including without limitation, attorney's fees.

(e) Within 120 days of receipt of a Trustee notice of a deficiency in the Reserve Fund pursuant to the Trust Agreement, the amount of such deficiency through the four monthly payments specified therein.

Obligations of the Corporation Unconditional

The obligations of the Corporation to make the Purchase Payments and Supplemental Payments required under the Sale Agreement and to perform and observe the other agreements on its part contained in the Sale Agreement are absolute and unconditional.

Prepayment

The Corporation will have the right at any time or from time to time to prepay all or any part of the Purchase Payments, and the Issuer will accept such prepayments when the same are tendered by the Corporation. All prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the prepayment of Certificates) made by the Corporation will be deposited upon receipt in the Optional Prepayment Account and, at the request of the Corporation, credited against Purchase Payments in order of their due date or used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement. The Corporation also will have the right to surrender Certificates acquired by it to the Trustee for cancellation, and such Certificates, upon such surrender and cancellation, will be deemed to be paid and retired, and will be applied as set forth in the Trust Agreement. Notwithstanding any such prepayment or surrender of Certificates, as long as any Certificates remain Outstanding or any Supplemental Payments remain unpaid, The Corporation will not be relieved of its obligations under the Sale Agreement.

Pledge of Gross Revenues

Under the Sale Agreement, the Corporation agrees that, as long as any of the Certificates remain Outstanding or any Supplemental Payments remain unpaid, all of the Gross Revenues of the Corporation will be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Corporation will establish and maintain, subject to the provisions of the Corporation will from time to time designate for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Sale Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation

pledges, and to the extent permitted by law grants a security interest to the Trustee, as assignee of the Issuer (for the benefit of the Owners and the holders of any Parity Debt, as and to the extent provided in the Sale Agreement) in, the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Purchase Payments and Supplemental Payments and the performance by the Corporation of its other obligations under the Sale Agreement and the payment and performance of all obligations of the Corporation under any agreement securing the Parity Debt.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as hereinafter provided. In the event that the Corporation is delinquent for more than five Business Days in the payment or required prepayment of any Purchase Payment or there is a delinquency regarding any, Supplemental Payment or any payment with respect to the Parity Debt known to the Trustee, the Trustee will notify the Corporation and the Insurer, and the Depository Bank(s) of such delinquency, and, unless such Purchase Payment, Supplemental Payment or payment with respect to the Parity Debt is paid within ten days after receipt of such notice, the Corporation will cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the Issuer. The Gross Revenue Fund will remain in the name and to the credit of the Trustee, until the amounts on deposit in such fund are sufficient to pay in full (or have been used to pay in full) all Purchase Payments and Supplemental Payments in default and payments required with respect to the Parity Debt in default and until all other Sale Agreement Defaults and events of default with respect to the Parity Debt known to the Trustee will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) will be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee will use and withdraw from time to time amounts in such fund, to make Purchase Payments, Supplemental Payments and the other payments required of the Corporation under the Sale Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, prepayment, acceleration or otherwise), and, if such amounts will not be sufficient to pay in full all such payments due on any date, then to the payment of Purchase Payments, Supplemental Payments and debt service on such Parity Debt, ratably, according to the amounts due respectively for Purchase Payments, Supplemental Payments and such debt service, without any discrimination or preference, and to such other payments in the order which the Trustee, in its discretion, will determine to be in the best interests of the owners of the Certificates, and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation will not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Trustee so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation will be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues.

Notwithstanding the foregoing, the Corporation may pledge or grant security interests in its accounts receivable, which interests may be superior to the interest granted the Trustee as described in the preceding paragraph to secure Short-Term Indebtedness issued pursuant to the

Sale Agreement, provided that the aggregate principal amount of such Indebtedness does not at the time of issuance or incurrence exceed 5% of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year as shown in the audited financial statements of the Corporation for such Fiscal Year. The Trustee (as assignee of the Issuer) will, from time to time, execute and deliver such documents as may be necessary or reasonably requested by the Corporation to effectuate the provision of the Sale Agreement described in this paragraph.

The Issuer will, and will cause the Trustee to, execute and deliver any documents reasonably requested by the Corporation in connection with the pledge or grant of security interests in the accounts receivable of the Corporation superior to the interest granted the Trustee as described in the second paragraph above under the heading "Pledge of Gross Revenues" to secure Indebtedness upon receipt of a Statement of the Corporation stating that such Indebtedness does not at the time of issuance or incurrence exceed 5% of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year as shown in the audited financial statements of the Corporation for such Fiscal Year.

The Sale Agreement creates a valid and binding lien in favor of the Trustees as security for payment of the Certificates, enforceable by the Trustee in accordance with the terms hereof.

Under the laws of the State of California such Certificates, and each pledge, assignment, lien, or other security interest made to secure any prior obligations of Corporation which, by the terms hereof, ranks on a parity with or prior to the lien granted hereby, is and will be prior to any judicial lien hereafter imposed on the Collateral to enforce a judgment against the Corporation a simple contract. By the date of delivery of the Certificates, the Corporation will have filed all financing statements describing, and transferred such possession or control over, the Collateral (and for so long as any Certificates are outstanding the Corporation will file, continue, and amend all such financing statements and transfer such possession and control) as may be necessary to establish and maintain such priority in the State or the County in which the Collateral may be located or that may otherwise be applicable pursuant to the Uniform Commercial Code §§9.301 – 9.306 as currently in effect in the State (the "UCC").

The Corporation has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the Collateral that ranks on parity with or prior to the lien granted hereby except for Permitted Liens. The Corporation has not described the Collateral in a UCC financing statement that will remain effective when the Certificates are issued except in connection with the foregoing pledges, assignments, liens, and security interests and the lien securing Certificates and Permitted Liens. The Corporation will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in such collateral that ranks prior to or on a parity with the lien granted hereby, or file any financing statement describing any such pledge, assignment, lien, or security interest, except as expressly permitted hereby.

Accounting Records, Financial Statements and Budget

The Corporation will, at all times, keep, books and records, prepared in accordance with GAAP, in which complete and accurate entries will be made of all transactions of or in relation to the business, properties and operations of the Corporation. Such books of record and account

will be available for inspection by the Issuer, the Insurer and the Trustee (who will have no duty to inspect) at reasonable hours and under reasonable circumstances.

The Corporation will furnish the Trustee, the Insurer, each Rating Agency then rating the Certificates, any Owner holding Certificates in the aggregate principal amount of \$1,000,000 or more upon such Owner's request, within 30 days of the receipt by the Corporation of its audited financial statements, and in any event within 120 days after the end of each Fiscal Year, with copies of its complete financial statements (including a balance sheet and the related statements of support, revenue, expenses and changes in fund balances and functional the Corporation in connection with such financial statements), together with (1) the report and opinion of an Accountant stating that the financial statements have been prepared in accordance with GAAP and that their examination was performed in accordance with GAAP, and (2) in the case of the Trustee, a statement of the chief executive officer or the chief financial officer of the Corporation stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Corporation to cure such default. The Trustee will have no duty to review such financial statements. The Corporation will submit to the Insurer within 120 days after the close of each Fiscal Year, a certificate of an Authorized Representative (i) calculating compliance with all financial ratios required under the Sale Agreement and the Trust Indenture as of the end of such Fiscal Year or for such Fiscal Year stating that the Corporation has reviewed its operations for the year and that in the course of that review, no Event of Default has come to its attention or, if such an Event of Default has appeared, a description of the Event of Default and a plan for its remedy; and (ii) detailed occupancy statistics for such Fiscal Year, including (without limitation) occupancy, waiting lists, and rate schedules for each level of care and other relevant occupancy data maintained by the Corporation.

The Corporation will furnish to the Insurer, and if requested by any Owner holding Certificates in an aggregate principal amount of \$1,000,000 or more, the Corporation will furnish to such Owner within 45 days after the end of each quarter (i) one copy of its quarterly unaudited financial statements, prepared on an accrual basis with reasonable due diligence; and (ii) detailed occupancy statistics for each quarter, consistent with the annual occupancy statistics required under the provisions of the Sale Agreement.

In order to assure the efficient management and operation of the Corporation's facilities and to assure and protect the Owners, the Corporation will each year prepare a preliminary budget, not later than 30 days prior to the close of the Fiscal Year, setting forth the estimated revenues and expenses anticipated for the ensuing Fiscal Year. This budget will be approved by the Board no later than 30 days before the close of the Fiscal Year, a certified copy filed with the Insurer, and will forthwith be made available for inspection by any Owner at the office of the Corporation. The Corporation will submit to the Insurer within 120 days after the close of each Fiscal Year, a report comparing actual results for such Fiscal Year against the budget for such Fiscal Year, with an explanation of adverse line item variances in excess of ten percent; and

The Corporation will furnish to the Insurer from time to time such reports and information concerning the condition of the Corporation's facilities, finances or operations or

compliance with the Sale Agreement, the Trust Agreement and the Deed of Trust as the Insurer may reasonably request, promptly upon such request. Without limiting the generality of the foregoing, the Corporation will provide the Insurer with the following reports at the following times:

(i) Promptly upon its receipt by the Corporation, copies of any correspondence from the Internal Revenue Service as to an audit or potential audit of the tax-exempt status of the Corporation or the tax-exempt status of the Certificates.

(ii) Prompt written notice of any litigation or proceeding in which the Corporation is a party if such litigation, if decided against the Corporation and taking into account available insurance, would materially and adversely affect the facilities, operations, financial condition, property or business of the Corporation, and, to the extent feasible, the status of the defense of such claim.

(iii) Prompt written notice of: (A) any Default, and (B) the occurrence or nonoccurrence any event that would cause any of the representations and warranties contained in the Financing Documents to be incorrect if made at such time of such event. "Default" will mean an event which with the giving of notice or passage of time or both would constitute an event of default under the applicable document.

(iv) At least 15 days prior to the implementation thereof, any material change in the fees and charges (including, particularly entrance fees and monthly service fees) imposed by the Corporation for the use of its facilities and services and any material change in the terms and conditions under which such services are rendered or such fees and charges are collected or refunded.

(v) At least 10 days prior to the incurrence of any Long-Term Indebtedness by the Corporation, notice of such incurrence, together with evidence that the applicable financial covenants and other requirements of the Sale Agreement have been satisfied in connection with such incurrence.

(vi) Promptly upon receipt or filing thereof, any material correspondence to or from, or any filing with any state or federal office or regulatory agency regulating or having jurisdiction over the Corporation or its facilities, which is outside of the ordinary course of business.

(vii) Promptly upon receipt thereof, a copy of any notice or other correspondence from any governmental or professional accreditation or licensing body (including, without limitation, Medi-Cal and other governmental reimbursement programs) stating that any material accreditation or license of the Corporation may be withdrawn, suspended or limited.

The Insurer by its respective duly authorized representatives, at reasonable times and upon reasonable notice, may (i) discuss the financial affairs of the Corporation with a member of the board of directors, the president and chief financial officer and other officers and employees thereof, the accountant reporting on the audited financial statements of the Corporation or any consultant retained by the Corporation to analyze its operations or financial affairs and (ii) have access to and examine and inspect the Facility and the books and records of the Corporation.

Without limiting the generality of the foregoing provisions, the Insurer will receive a copy of any notice, report, certificate, opinion, filing or other document or information required to be provided by any party to any Financing Document no later than the date on which such notice, report, certificate, opinion, filing or other document or information is required to be provided to such other party.

Liquidity Covenant

At the end of each Fiscal Year, as shown in its audited financial statement for such Fiscal Year, the Corporation will maintain cash and cash equivalents equal to at least 90 Days Cash On Hand as of June 30, 2003, equal to at least 120 days as of June 30, 2004 and equal to at least 150 days as of June 30, 2005, and as of each June 30 and December 31 thereafter until the Certificates are paid.

If at the end of any Fiscal Year the requirement of the above paragraph is not met, the Corporation will retain a Consultant to make recommendations to increase cash and cash equivalents for subsequent Fiscal Years to the level required in the provisions of the Sale Agreement or if, in the opinion of the Consultant, the attainment of such level is impracticable, to the highest practicable level. The Corporation will, to the extent permitted by law, follow the recommendations of the Consultant. So long as the Corporation will retain a Consultant and will follow such Consultant's recommendations to the extent permitted by law, the Liquidity Covenant as described under this caption will be deemed to have been complied with for such Fiscal Years.

Rate Covenant

The Corporation will operate the Facilities as revenue producing retirement housing and health care facilities. The Corporation will fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, produce Adjusted Annual Operating Revenues sufficient in each Fiscal Year, beginning in Fiscal Year 2006, to produce a Debt Service Coverage Ratio equal to at least 1.30 for such Fiscal Year. Such projection will be made on the last day of each Fiscal Year beginning in Fiscal Year 2005.

Within 30 days after the receipt of its audited financial statements each Fiscal Year, the Corporation will compute the Debt Service Coverage Ratio for such Fiscal Year and promptly furnish to the Issuer, the Insurer and the Trustee a Statement setting forth the results of such computation. The Corporation further covenants and agrees that if the Debt Service Coverage Ratio will have been less than 1.30 for such Fiscal Year, it will promptly employ a Consultant acceptable to the Insurer to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result in producing the Debt Service Coverage Ratio required by the paragraph above in the current Fiscal Year. The Corporation will to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and will take such other action as will be in conformity with such recommendations.

If the Corporation complies in all material respects with the recommendations of the Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the covenants described under the previous paragraph for such Fiscal Year notwithstanding that the Debt Service Coverage Ratio will be less than the amount required under the paragraph above; provided, that (1) this sentence will not be construed as in any way excusing the Corporation from taking any action or performing any duty required or be construed as constituting a waiver of any other event of default and (2) the Debt Service Coverage Ratio will be at least equal to 1.0 for such Fiscal Year.

The Corporation may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Corporation, to the extent necessary (i) to maintain its tax exempt status or (ii) to establish or maintain its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof or the State or any political subdivision or instrumentality thereof that off-set the free services, or (iii) in compliance with any recommendation for free services that may be made by the Consultant or (iv) so long as it complies with the Rate Covenant.

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

The Corporation will maintain its existence as a nonprofit public benefit corporation of the State, meeting the requirements of section 501(c)(3) of the Code, and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or affiliate with, consolidate with or merge into another Person or permit one or more other Persons to affiliate with, consolidate with or merge into it; provided, that the Corporation may, without violating the covenants described under this caption, affiliate with, consolidate with or merge into another Person, or permit one or more other Persons to affiliate with, consolidate with or merge into it, or sell or otherwise transfer to another Person such assets, if the Insurer consents thereto in writing and if there is no Insurer, or the Insurer is in default, then the Owners of a majority of the principal amount of the Certificates will consent thereto in writing, and if:

(i) The Issuer, the Insurer, and the Trustee will have received an Opinion of Special Counsel to the effect that such affiliation, merger, consolidation, sale or other transfer will not cause the interest on the Certificates to be included in gross income for federal income tax purposes under Section 103 of the Code;

(ii) The surviving, resulting or transferee Person:

(1) assumes in writing, if such Person is not the Corporation, all of the obligations of the Corporation under the Installment Sale Agreement and the Trust Agreement, and agrees to fulfill and comply with the terms, covenants and conditions thereof;

(2) is not, after such transaction, otherwise in default under any provision of the Installment Sale Agreement or the Trust Agreement;

(3) is an organization meeting the requirements of section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect; and

(4) will have fund balances at least equal to the fund balances of the Corporation prior to such transaction;

(iii) The Trustee and the Insurer will have either: (1) received the report of a Consultant to the effect that Income Available for Debt Service of the surviving, resulting or transferee Person (after giving effect to such merger, consolidation, sale or other transfer) for each of the first two full Fiscal Years following such merger, consolidation, sale or other transfer is projected to be not less than the greater of Income Available for Debt Service of the Corporation for each of the two most recent Fiscal Years for which audited financial statements are available, as certified by an Accountant; or (2) received a report of an Accountant to the effect that the surviving, resulting or transferee Person, after giving effect to such merger, consolidation, sale or other transfer, has a Debt Service Coverage Ratio (computed so as to consider Income Available for Debt Service and Maximum Annual Debt Service of the surviving, resulting or transferee person) equal to at least 1.30; and

(iv) The Trustee, the Insurer and the Issuer will have received an Opinion of Counsel to the effect that the Installment Sale Agreement and the Trust Agreement constitute the legal, valid and binding obligations of the surviving, resulting or transferee Person, as the case may be, enforceable against such Person in accordance with their respective terms; and

Notwithstanding the foregoing, with the Insurer's (or in the absence of an Insurer, or if the Insurer is in default, Owners of a majority of the principal amount of the Certificates) prior written consent which will not be unreasonably withheld or delayed, the Corporation may, without complying with the provisions of the Sale Agreement, transfer substantially all of its assets to an Affiliate provided that:

(i) The Issuer, the Insurer and the Trustee will have received an Opinion of Special Counsel to the effect that such proposed transfer(s) will not cause the interest on the Certificates to be included in the gross income for federal income tax purposes under Section 103 of the Code;

(ii) Such Affiliate agrees in writing to become a co-obligor and jointly and severally liable with the Corporation under the Sale Agreement; and

(iii) The Corporation and the Affiliate certify to the Issuer and the Trustee that immediately following the transaction they will be in compliance with the provisions of the Sale Agreement.

In the event of such a transfer to an Affiliate, references in the Sale Agreement to Indebtedness of the Corporation will apply to the combined Indebtedness of the Corporation and the Affiliate, and references to the financial condition or projected results of operations of the Corporation will apply to the consolidated financial condition or results of operations of the Corporation and the Affiliate.

If an affiliation, merger, consolidation, sale or other transfer is effected, as described under this caption, the provisions of this Section will continue in full force and effect, and no

further affiliation, merger, consolidation, sale or transfer will be effected except in accordance with the provisions of this Section.

Limitation on Encumbrances

The Corporation will not create, assume or suffer to exist and will immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facilities or the Gross Revenues; provided, however, that notwithstanding this clause, the Corporation may create, assume or suffer to exist Permitted Encumbrances.

Limitation on Indebtedness

The Corporation will not incur any Indebtedness or financial obligations, including without limitation, by borrowing money, by assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with GAAP, except the Corporation may incur the following:

(a) Obligations and liabilities under the Sale Agreement, or the Trust Agreement, including any supplements or amendments thereto or hereto in connection with the execution and delivery of any Parity Debt.

(b) Short-Term Indebtedness provided that no amount of short-term Indebtedness will be outstanding for a period of 30 consecutive days during each Fiscal Year. The aggregate amount incurred by the Corporation under this Subsection will not exceed at the time of incurrence 5% of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

(c) Liabilities for contributions to self-insurance programs permitted by the Sale Agreement;

(d) Long-Term Indebtedness (which may be Parity Debt) incurred for the purpose of refinancing outstanding Long-Term Indebtedness provided that the issuance of such Long-Term Indebtedness does not increase Maximum Annual Debt Service by more than ten percent (10%), as certified by a written report of an Accountant which will be filed with the Trustee;

(e) Long-Term Indebtedness (which may be Parity Debt), provided that the Corporation has obtained the prior written consent of the Insurer.

(i) Income Available for Debt Service, as certified by a written report of an Accountant or Consultant which will be filed with the Trustee for the two most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.50 times Maximum Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred; or

(ii) Income Available for Debt Service, as certified by a written report of an Accountant or Consultant which will be filed with the Trustee, for the two most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.50 times Maximum Annual Debt Service on all Long-Term Indebtedness then outstanding; and

(iii) Income Available for Debt Service, as shown in a written feasibility report prepared by a Consultant and filed with the Trustee, for each of the first two Fiscal Years following the later of: (i) the incurrence of such Long-Term Indebtedness (or, if such Long-Term Indebtedness is incurred to finance additional Facilities, in each of the first three Fiscal Years following the Fiscal Year when it is proposed that such Facilities will be completed and placed in service), (ii) thirty-three months after the initial delivery of the Certificates, or (iii) twelve months after completion of the Project, is projected to be at least 1.50 times Maximum Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

(f) Long-Term Indebtedness (which may be Parity Debt), incurred to complete the Project or any other project if the Board certifies that the Corporation cannot complete such project unless such Long-Term Indebtedness is incurred, provided that in the case of a project other than the Project, the aggregate principal amount of such indebtedness does not exceed ten percent (10%) of the principal amount of Long-Term Indebtedness incurred to finance such project;

(g) Long-Term Indebtedness (excluding Parity Debt) provided that the aggregate amount incurred by the Corporation under this Subsection, Subsection (c) and Subsection (i) of this Section and outstanding will not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

(h) Liabilities under capitalized lease agreements for the lease of, or Indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; provided that the aggregate amount incurred by the Corporation under this Section and outstanding will not exceed at the time of incurrence 10% of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

(i) Non-Recourse Indebtedness, provided that such indebtedness does not encumber the Facilities;

(j) Repayment obligations under reimbursement or similar agreements with banks or insurance companies relating to letters or lines of credit or other credit facilities used to secure Long-Term Indebtedness;

(k) Indebtedness, not for borrowed money, incurred in the ordinary course of business;

(l) Indebtedness representing loans to the Corporation from an Affiliate, provided that such Indebtedness is subordinated as to security and payment to obligations of the Corporation under the Sale Agreement and to Parity Debt;

(m) Any swap, hedge or similar obligation that is approved by the Insurer;

(n) A line of credit the proceeds of which is used to provide working capital for the Park Avenue units until such project has been completed and is 95% occupied, and, such other line of credit for other projects as has been approved by the Insurer; and

(o) Any other Indebtedness with the consent of the Insurer.

Limitation on Disposition and Acquisition of Facilities and Cash

The Corporation covenants and agrees that it will not sell, lease or otherwise dispose of any part of the Facilities in any Fiscal Year aggregating in excess of 3% of the book value of net property, plant and equipment (as shown in the Corporation's most recent audited financial statements), other than in the ordinary course of business or as part of a disposition of all or substantially all of its assets as permitted by the provisions of the Sale Agreement, unless:

(i) such property has become inadequate, obsolete, worn-out, unsuitable, undesirable, unprofitable or unnecessary, and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Facilities; or

(ii) such property will be replaced by property with a fair market value at least equal to the fair market value of the property so disposed of within two years of the date of disposition, no accounts receivable may be sold or otherwise disposed of unless (i) fair market value is received in return, and (ii) the amount of accounts receivable sold or otherwise disposed of in any fiscal year does not exceed 10% of the total unrestricted revenues of the Corporation for the most recent fiscal year; or

(iii) the proceeds of such disposition are transferred to the Trustee for deposit in the Prepayment Account; or

(iv) the Long-Term Indebtedness debt test described in the Sale Agreement may be satisfied.

The Corporation covenants and agrees that it will not dispose of any cash, cash equivalents or investments other than in the ordinary course of business; provided, however, that the Corporation may dispose of cash, cash equivalents or investments to any other Person to the extent and subject to the following conditions and limitations:

(i) prior to such disposition (which, for purpose of the following tests, will be assumed to constitute an expense of the Corporation), there is delivered to the Trustee a certification of a Consultant to the effect that either (a) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available next preceding such disposition would not be reduced below 1.5:1.0 (assuming such disposition had occurred at the

beginning of such Fiscal Year) or (b) the Debt Service Coverage Ratio, as forecasted in such certification of a Consultant for the two Fiscal Years immediately following such disposition, will not be less than 1.5:1.0; or

(ii) such disposition and all other dispositions of cash, cash equivalents or investments by the Corporation with respect to the Facilities in the then-current Fiscal Year pursuant to this subsection (b)(ii) do not exceed 1% of the cash and cash-equivalents and investments of the Corporation for the most recent Fiscal Year for which audited financial statements are available.

Notwithstanding the provisions of this Section, the Corporation may transfer all or any portion of the Facilities or cash, cash equivalents or investments to any other Person, provided that:

(i) such Person agrees in writing to be a co-obligor with the Corporation under the Agreement and bound by all of the provisions hereof and of the Installment Purchase Agreement, the Trust Agreement and the Deed of Trust;

(ii) such property remains subject to the security interests granted under the Agreement and the Deed of Trust;

(iii) the Trustee will have received an Opinion of Special Counsel to the effect that (a) the security interests granted under the Deed of Trust will not be adversely affected by such transaction, and (b) the Agreement, the Purchase Agreement and the Trust Agreement constitute the legal, valid and binding obligations of such Person enforceable against such Person in accordance with their respective terms; and

(iv) the Trustee will have received an Opinion of Special Counsel to the effect that such transaction will not cause the interest with respect to the Certificates to be includable in gross income for purposes of federal income taxation.

Repair and Replacement Fund

The Corporation will establish a separate fund designated as the "Repair and Replacement Fund." All amounts on deposit in the Repair and Replacement Fund will be invested in Investment Securities. For each of the Corporation's Fiscal Years beginning with the Corporation's Fiscal Year 2006, the Corporation will deposit on a quarterly basis one quarter of the Repair and Replacement Amount for the respective Fiscal Year; provided that if the Corporation has received grants for the purchase of, or has purchased equipment for capital purposes, or has expended sums for the repair or maintenance of the Facilities, such grants, the value of such equipment or expended sums may be credited against the amount to be deposited as specified in a Statement of the Corporation filed with the Trustee and the Insurer; provided further that the Corporation may reduce the deposit required to the Repair and Replacement Fund by a Repair and Replacement Fund credit which will be an amount equal to the expenditures of the Corporation for the previous Fiscal Year for property which is depreciable (in accordance with GAAP). In order to be entitled to receive such a credit, the Corporation must certify in

writing to the Insurer at least 15 days prior to a required deposit to the Repair and Replacement Fund:

- (i) the amount of such expenditure(s),
- (ii) the election of the Corporation to have the amount of the expenditure(s) credited against the then currently payable Repair and Replacement Fund deposit,
- (iii) with respect to donated or acquired equipment, that the equipment acquired is described in the paragraphs below, is depreciable in accordance with GAAP, and has been included as part of the Facilities, and
- (iv) such amount of expenditure(s) has not previously been paid from the Repair and Replacement Fund or used as a Repair and Replacement Fund deposit credit and has not and will not be paid or reimbursed from the proceeds of any Indebtedness.

Moneys held in the Repair and Replacement Fund may be used from time to time without the consent of the Insurer (except for the paragraphs (iv) above and (v) below from which the Insurer's consent is required) for any of the following purposes:

- (v) For the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property.
- (vi) For the performance of repairs with respect to the Facilities which are of an extraordinary and nonrecurring nature.
- (vii) For the construction of additions to or improvements, extensions, enlargements or remodeling of the Facilities.
- (viii) To provide working capital for the payment of current expenses if the Corporation will undertake in writing to repay the amount withdrawn for such purpose within fifty-two (52) weeks, provided that no such borrowing pursuant to this clause will be outstanding for a period of at least thirty (30) consecutive days during each period of thirteen (13) consecutive months beginning with the first deposit to the Repair and Replacement Fund.
- (ix) To pay or provide funds for payment of the principal (whether pursuant to stated maturity or mandatory sinking fund or other redemption requirement) or interest on any obligations of the Corporation, but only if and to the extent that the Corporation would otherwise be unable to make such payment or provide such funds without incurring additional Indebtedness.

The Corporation on or prior to July 1 in each year, commencing July 1, 2003, will calculate the Repair and Replacement Amount and send written notice of such amount to the Insurer.

The Repair and Replacement Fund will be maintained and held by the Corporation and will not constitute a Trustee-held fund, provided, however, that the Repair and Replacement

Fund, at the direction of the Insurer, will be transferred to and held by the Trustee if the Gross Revenue Fund is transferred to the name and credit of the Trustee pursuant to the Loan Agreement.

Construction Monitor

At all times prior to the delivery to the Trustee of a Certificate of the Corporation required by Section 3.3(b) of the Trust Agreement, the Corporation will cause a Construction Monitor to be retained.

Insurance Required

The Corporation agrees that it will maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to retirement housing activities and properties, customary for retirement housing corporations of similar size and character. Such insurance policies may include fire insurance, insurance coverage of boilers and other selected machinery items, general liability insurance and property damage coverage, comprehensive automobile liability insurance, workers' compensation coverage as required by the laws of the State, use and occupancy insurance covering loss of operating revenues by reason of the total or partial interruption of retirement housing and health care services provided by the Corporation, professional liability insurance protecting the Corporation against claims arising from any act or omission in the furnishing of retirement housing or health care services to any resident or patient, and fidelity bonds on officers and employees of the Corporation. The Corporation covenants and agrees that each insurance policy (except liability, worker's compensation and employee dishonesty) will name the Corporation, the Issuer and Trustee as insured parties, beneficiaries or loss payees; provided, however, that payments of the proceeds of such insurance will be made exclusively to the Corporation, if the amount of the proceeds in each instance is less than \$1,000,000. The Trustee will have no responsibility to monitor such insurance. Each policy of insurance will be written by an insurer licensed to do business in the State and rated in at least the "A" category by either S&P or A.M. Best Company, Inc. or any other insurer approved by the Insurer; provided, however, any insurance coverage required may be secured from an unrated insurer if approved by the Insurer. The Corporation will not self-insure for any property or casualty risks (other than automobile collision) under any circumstances, and may self-insure for liability only with the written consent of the Insurer. Any self-insurance will be subject to annual review by Consultant (which must also be a licensed actuary for these purposes) and funding of self-insurance reserves consistent with the recommendations of the Consultant. All insurance policies required will contain a standard mortgagee clause in favor of the Insurer and the general liability insurance policies will be endorsed to show the Insurer as additional insured. All such policies, or a certificate or certificates of insurers that such insurance is in full force and effect, will be deposited with the Insurer (together with receipts indicating that premiums are being paid on an annual or more frequent basis in accordance with the terms of each such policy) and, prior to expiration of any such policy, the Corporation will furnish to the Insurer satisfactory evidence that such policy has been renewed or replaced or is no longer required by the Financing Documents. All policies evidencing such required insurance will provide for 30 days prior written notice to the

Corporation and the Insurer of any cancellation, reduction in amount or material change in coverage, except in the event of nonpayment of premiums on such insurance in which case the policies may provide for ten (10) days for such prior written notice.

Proceeds of Hazard Insurance

Immediately after occurrence of loss or damage to the Facilities which is reasonably expected to exceed an amount equal to \$1,000,000, the Corporation will notify the Architect and the Trustee and the Insurer thereof. The Architect promptly will determine and advise the Trustee, the Insurer and the Corporation, in writing, whether it is practicable to repair, reconstruct or replace such damaged or destroyed or condemned or lost property and, if so, the estimated time and funds required for such repair, reconstruction or replacement; provided that the advice of the Architect will not be required if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate delivered to the Trustee and the Insurer, is less than \$1,000,000. The proceeds of insurance required by the Sale Agreement will be applied as provided in below.

If the Architect will advise that such repair, reconstruction or replacement is practicable, and if, within 90 days from the receipt of the Architect's report the Corporation delivers to the Trustee and the Insurer:

(i) a written report of a Consultant or, if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate of the Corporation delivered to the Trustee and the Insurer, is less than \$1,000,000, a Certificate of the Corporation, stating that, in the signer's opinion, based upon information provided by the Consultant or, if unavailable, based upon the Corporation's best judgment of the net insurance proceeds anticipated the Corporation will have sufficient funds from the net proceeds of insurance (including business income insurance and other available funds) to make purchase payments, to pay the cost of repairing, restoring or replacing the portion of the Facilities affected by such loss or damage and to pay all operating expenses until completion of the repair, reconstruction or replacement of such part of the Facilities which is affected by such loss or damage and for the first full Fiscal Year after such completion;

(ii) an executed construction contract for such work at a guaranteed maximum price or fixed price;

(iii) cash or an irrevocable letter of credit in an amount at least equal to the excess, if any, of the funds necessary for payment of the amounts due under such construction contract, over the available net insurance proceeds; and

(iv) the surety bonds and insurance during construction required under the Sale Agreement;

then the Corporation will promptly proceed to repair, reconstruct and replace such part of the Facilities, including all fixtures, furniture, equipment and affects, to its original condition insofar as possible. The moneys required for such repair, reconstruction and replacement will be paid:

(x) from the net proceeds of insurance (other than proceeds of business income insurance which

will be applied as provided in paragraph (v) below) received by reason of such occurrence, with net proceeds (after deducting any reasonable expenses incurred by the Trustee or the Corporation in collecting the same, the "Net Insurance Proceeds") will be deposited into the Insurance and Condemnation Proceeds Fund (referred to under this caption as the "Fund") or with any trustee selected by the Corporation which qualifies as a successor trustee under the Trust Agreement (in which case the term "Trustee", as used in this Section will refer to such trustee), and (y) to the extent that such Net Insurance Proceeds are not sufficient, from moneys to be provided by the Corporation, which will be deposited with the Trustee. The funds so deposited will be maintained in a separate account and will be disbursed by the Trustee only upon receipt by the Trustee of a requisition, numbered consecutively upwards from 1, signed by an Authorized Representative of the Corporation and the Architect (each a "Requisition") and which will state (i) the name and address of the Person to whom the payment is to be made, (ii) the amount to be paid, (iii) the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance, (iv) that the obligation was properly incurred and is a proper charge against the Fund, (v) that the amount requisitioned is due and unpaid, (vi) that with respect to items covered in the Requisition, there are no vendors', mechanics', or other liens, bailment leases or conditional sale contracts which should be satisfied or discharged before the payments as requisitioned therein are made, or which will not be discharged before the payments requisitioned therein are made, or which will not be discharged by such payment unless covered by the endorsement described below, (vii) that the amount remaining in the Fund after the payment of the Requisition will be sufficient to pay all remaining costs of the project, (viii) that the work can be completed within the time shown on the schedule, and (ix) that the work performed or materials supplied is satisfactory to the Corporation.

Such Requisition will be accompanied by a Certificate of the Corporation that it has received acknowledgments of payment and waivers of lien from all persons supplying labor or materials for all lienable work done and materials delivered through the date of the previous requisition and bills of sale or equivalent documentation for any personal property included in the Requisition.

Notwithstanding the foregoing, if the estimated cost of such repair, reconstruction or replacement is less than \$1,000,000, the Corporation will not be required to deliver the items referred to above, the Net Insurance Proceeds will be paid to the Corporation and the Corporation will promptly proceed with such repair, reconstruction or replacement. Any Net Insurance Proceeds remaining after the completion of such repair, replacement or reconstruction will promptly at the direction of the Corporation's Authorized Representative be transferred to the Special Prepayment Account.

Notwithstanding the foregoing, if the Consultant advises in a written report delivered to the Trustee and the Insurer that (i) the Facilities can continue to operate effectively with less than full repair, reconstruction and replacement thereof and the Corporation can continue to maintain the requirements of the Sale Agreement for the next two full Fiscal Years, and (iii) there are not deficiencies in any of the Funds established under the Trust Agreement, then any Net Insurance Proceeds remaining after the completion of partial repair, reconstruction or replacement (if any) will promptly be deposited in the Special Prepayment Account.

If the Architect advises that such repair, reconstruction or replacement is not practicable, or if the Architect's report is not received within 60 days of the occurrence or the Consultant's report and other documents described in the paragraph above are not delivered within the required time period, then all Net Insurance Proceeds will be deposited in the Special Prepayment Account; provided however, that in the case of damage to or destruction of all or substantially all of the Facilities the Corporation will pay to the Trustee an amount sufficient, together with the Net Insurance Proceeds, to prepay all Certificates Outstanding.

The proceeds of business income insurance required by the Sale Agreement will be applied for the purposes described in the Sale Agreement.

Sale Agreement Defaults

The following events will be "Sale Agreement Defaults":

(a) If the Corporation will fail to pay any Purchase Payments at least two Business Days prior to each Payment Date as required under the Trust Agreement;

(b) If the Corporation will fail to comply with the provisions of the Sale Agreement pertaining to Supplemental Payments, the Gross Revenue Fund, Maintenance of Existence and Insurance Required ;

(c) If any representation or warranty made by the Corporation in the Sale Agreement or in any document, instrument or certificate furnished to the Trustee or to the Issuer in connection with the execution and delivery of the Certificates will at any time prove to have been incorrect in any material respect as of the time made;

(d) If the Corporation will fail to observe or perform any covenant, condition, agreement or provision in the Sale Agreement on its part to be observed or performed, other than as referred to in subsection (a), (b) or (c) above, or will breach any warranty by the Corporation contained in the Sale Agreement, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Issuer, the Insurer or the Trustee; except that, if such failure or breach can be remedied but not within such sixty (60) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty day period, such failure or breach will not become a Sale Agreement Default for so long as the Corporation will diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee and the Insurer;

(e) If (i) any default will exist under any agreement governing any Parity Debt and such default will continue beyond the grace period, if any, provided for with respect to such default, or (ii) if the Debt Service payments on any Short-Term Indebtedness (with an outstanding principal amount in excess of \$100,000 are accelerated or (iii) any default will exist under any agreement with respect to Long-Term Indebtedness with an aggregate principal amount in excess of \$100,000 and resulting in a final judgment (from which no appeal may be taken) which will remain undischarged or unsatisfied for a period (during which execution will not be effectively stayed) of 60 days after such judgment becomes final;

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

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

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

(i) If any Event of Default under the Trust Agreement or a Purchase Agreement Default under the Purchase Agreement will occur or an Event of Default under the Deed of Trust.

Remedies on Default

If a Sale Agreement Default will occur, then, and in each and every such case during the continuance of such a Sale Agreement Default, the Trustee may take any one or more of the following remedial steps with written consent of the Insurer, and the Trustee will take such steps at the direction of the Insurer:

(a) The Trustee may, upon notice in writing to the Corporation, declare all installments of Purchase Payments and Supplemental Payments payable for the remainder of the term of the Sale Agreement to be immediately due and payable, whereupon the same will be immediately due and payable, anything in the Sale Agreement to the contrary notwithstanding; “all installments” as used in this subsection will mean an amount equal to the entire principal components of the Purchase Payments represented by the Certificates then Outstanding, together with any applicable redemption premiums and all interest components of the Purchase Payments accrued or to accrue on and prior to the next succeeding redemption date or dates on which the Certificates can be prepaid after giving notice to the Owners thereof as required by the Trust Agreement (less moneys available for such purpose then held by the Trustee) plus any other payments due or to become due, including, without limitation, any unpaid fees and expenses of the Trustee which are then due or will become due prior to the time that the Certificates are paid in full and the trust established by the Trust Agreement is terminated.

(b) The Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Purchase Payments, Supplemental Payments and any other payments then due and thereafter to become due under the Sale Agreement or to enforce the

performance and observance of any obligation, covenant, agreement or provision contained in the Sale Agreement to be observed or performed by the Corporation.

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

Any such action by the Trustee, however, is subject to the condition that if, at any time after such action and before any judgment or decree for the payment of the moneys due will have been obtained or entered, there will be deposited with the Trustee a sum sufficient to pay all Purchase Payments and Supplemental Payments the payment of which is overdue, with interest on such overdue principal component of such overdue Purchase Payments at the rate borne by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults or Events of Default known to the Issuer or the Trustee (other than in the payment of the Purchase Payments due and payable solely by reason of such action) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the Trustee will rescind and annul such action and its consequences and waive such default; but no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

TRUST AGREEMENT

General

The Trust Agreement sets forth the terms of the Certificates, the nature and extent of the security, various rights of the Owners of the Certificates, rights, duties and immunities of the Trustee and the rights and obligations of the Issuer and the Corporation. Certain provisions of the Trust Agreement are summarized below. Other provisions are summarized in the Official Statement under the captions "THE CERTIFICATES" and "SECURITY FOR THE CERTIFICATES." These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Trust Agreement.

Establishment of Funds and Accounts

The Trust Agreement creates the following funds and accounts which are to be held by the Trustee: a Project Fund; a Costs of Issuance Fund; an Insurance and Condemnation Proceeds Fund; a Revenue Fund; an Interest Fund; a Principal Fund and a Sinking Account therein; a

Reserve Fund; a Prepayment Fund and an Optional Prepayment Account and Special Prepayment Account thereunder; and a Rebate Fund.

Project Fund

The costs of the Project will be paid from moneys within the Project Fund. The Trust Agreement sets forth procedures whereby the moneys in the Project Fund may be withdrawn to pay Project costs pursuant to a requisition signed by an Authorized Representative of the Corporation.

Costs of Issuance Fund

The costs associated with the execution and delivery of the Certificates will be paid from moneys within the Costs of Issuance Fund. Moneys in the Costs of Issuance Fund may be withdrawn pursuant to requisition of the Corporation. At the end of one year from the date of initial execution and delivery of the Certificates or upon an earlier receipt of a Statement of the Corporation that amounts in such Costs of Issuance Fund are not necessary for the payment of any costs of the execution and delivery of the Certificates, such fund will be terminated and the amounts remaining in the fund will be transferred to the Project Fund.

Insurance and Condemnation Proceeds Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the “Insurance and Condemnation Proceeds fund” which will be administered as described under the caption “THE SALE AGREEMENT – PROCEEDS OF HAZARD INSURANCE” of this Appendix.

Revenue Fund

All revenues will be deposited by the Trustee upon receipt in the Revenue Fund which the Trustee will hold in trust and apply in accordance with the Trust Agreement, except as otherwise provided with respect to moneys required to be deposited in the Prepayment Fund or in the Reserve Fund.

Pledge and Assignment of Revenues

Pursuant to the Trust Agreement, the Issuer assigns to the Trustee, for the benefit of the Owners and the Insurer, all of its interests in the Revenues and other assets pledged pursuant to the Trust Agreement and all of its rights in any and all collateral securing the obligations of the Corporation under the Sale Agreement, including without limitation all its rights in the Gross Revenue Fund and under the Deed of Trust. The Corporation assigns to the Trustee for the benefit of the Owners and the Insurer all of its interests in the Installment Payments, the Revenues and other assets pledged under the Trust Agreement, and in the Purchase Agreement. The Trustee will be entitled to and will collect and receive all of the Revenues. The Trustee also will be entitled to and will take all steps, actions and proceedings following a Sale Agreement default reasonably necessary in its judgment to enforce all of the rights of the Issuer which have

been assigned to the Trustee and all of the obligations of the Corporation (other than with respect to any special services covenant) under the Sale Agreement.

Allocation of Revenues

On or before the 5th day of each month, the Trustee will transfer from the Revenue Fund, and deposit into the following respective funds (each of which the Trustee will establish and maintain) and then to the Rebate Fund, as directed by the Corporation, the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

First: To the Interest Fund, one-sixth of the aggregate amount of the interest component becoming due and payable during the next ensuing six months with respect to all Certificates then Outstanding, taking into account the amount deposited in payment of interest accrued to the date of delivery of the Certificates, until the balance in such account is equal to such aggregate amount of interest;

Second: To the Principal Fund, one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Certificates, in each case during the next ensuing twelve months, until the balance in such account is equal to such aggregate amount of principal and Mandatory Sinking Account Payments; provided that, from the date of delivery of the Certificates to the first Certificate Payment Date with respect thereto, transfers to the Principal Fund will be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on such Certificate Payment Date;

Third: To the Reserve Fund, one-twelfth of the aggregate amount of each prior withdrawal from the Reserve Fund for the purpose of making up a deficiency in the Interest Fund or the Principal Fund (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), provided that no deposit need be made into the Reserve Fund so long as the balance in such account will be at least equal to the Reserve Requirement; and

Fourth: To the Rebate Fund, as directed by the Corporation, such amounts as are required to be deposited therein by the Trust Agreement (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers will be transferred to the Corporation or as directed by the Corporation.

Application of Interest Fund and Principal Fund

All amounts in the Interest Fund will be used by the Trustee solely for the purpose of paying the interest component of the Installment Payments, and thereby interest with respect to the Certificates.

All amounts in the Principal Fund will be used by the Trustee solely for the purpose of paying the principal component of the Installment Payments, and thereby the principal with

respect to the Certificates, except that all amounts in the Sinking Accounts will be used and withdrawn by the Trustee solely to purchase, prepay or pay on their stated Certificate Payment Date, Term Certificates as provided in the Trust Agreement.

On or before the first day of each month, the Trustee will transfer the amount deposited in the Principal Fund for the purpose of making a Mandatory Sinking Account Payment from the Principal Fund to the applicable Sinking Account. On each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee will apply the Mandatory Sinking Account Payment required on that date to the prepayment (or payment on the Certificate Payment Date, as the case may be) of the Certificates for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to selection of Certificates for prepayment, the Trustee may apply moneys in such Sinking Account to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as directed in writing by the Corporation except that the purchase price (excluding accrued interest) will not exceed the Prepayment Price that would be payable for such Certificates upon prepayment by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding such Mandatory Sinking Account Payment date, the Trustee has purchased Certificates with moneys in such Sinking Account, or, during such period and prior to selection of Certificates for prepayment, the Corporation has deposited Certificates with the Trustee (together with a Request of the Corporation to apply such Certificates so deposited to the Mandatory Sinking Account Payment due on such date), or the Certificates were at any time purchased or prepaid by the Trustee from the Prepayment Fund and allocable to such Mandatory Sinking Account Payment, such Certificates so purchased or deposited or prepaid will be applied, to the extent of the full principal component thereof, to reduce such Mandatory Sinking Account Payment.

Any amounts remaining in a Sinking Account when all of the Certificates are no longer Outstanding will be withdrawn by the Trustee and transferred to the Revenue Fund.

Application of Reserve Fund

All amounts in the Reserve Fund will be used and withdrawn by the Trustee solely upon Order of the Corporation for the purpose of making up any deficiency in the Principal Fund or the Interest Fund, or (together with any other moneys available therefor) for the prepayment of all Installment Payments of the Issuer, and thereby the prepayment of all Certificates then Outstanding.

All Investment Securities in the Reserve Fund will be valued by the Trustee at their market value at least semi-annually on or before December 1 and May 1 (or more frequently as may be reasonably requested by the Corporation) and such valuation will be reported within 30 days to the Corporation and the Insurer. Any amount in the Reserve Fund in excess of 100% of the Reserve Requirement will then be transferred to the Project Fund, and after the Project Fund has been closed, to the Revenue Fund. To the extent that amounts in the Reserve Fund are less than 100% of the Reserve Requirement, the Corporation will, within 120 days after receiving notice of such annual valuation, pay to the Trustee, through 4 equal monthly payments beginning

on the date of receipt of the notice of such annual valuation, an amount sufficient to increase the balance in the Reserve Fund to the Reserve Requirement.

Application of Prepayment Fund

The Trustee will establish and maintain within the Prepayment Fund a separate Optional Prepayment Account and a separate Special Prepayment Account. All amounts deposited in the Optional Prepayment Account and in the Special Prepayment Account will be accepted and used and withdrawn by the Trustee for the purpose of prepaying the principal components of the Installment Payments of the Issuer and thereby prepaying Certificates, pursuant to the terms of the Trust Agreement, at the next succeeding date of prepayment for which notice has not been given and at Prepayment Prices then applicable to prepayments from the Optional Prepayment Account and the Special Prepayment Account, respectively; provided that, at any time prior to selection of Certificates for prepayment, the Trustee may apply such amounts to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Trustee may be directed by the Corporation, except that the purchase price (exclusive of accrued interest) may not exceed such applicable Prepayment Price.

Rebate Fund

The Corporation has covenanted not to use or permit the use of the proceeds of the Certificates or other funds in any manner which would cause the Purchase Agreement (and thereby the Certificates) to be an “arbitrage bond” within the meaning of the Code. To satisfy certain requirements of the Code, a Rebate Fund is established pursuant to the Trust Agreement and certain earnings on the funds and accounts and the proceeds of the Certificates are required to be deposited in the Rebate Fund and paid to the United States Government. The Issuer, the Corporation or the Owners of any Certificate will have no rights in or claim to amounts held in the Rebate Fund.

Investments

Subject to certain limitations, all moneys in any of the funds and accounts established pursuant to the Trust Agreement will be invested by the Trustee at the written direction of the Corporation solely in Investment Securities.

Moneys in the Reserve Fund may be invested in Investment Securities having weighted average maturities of not exceeding seven (7) years; provided, however, moneys in the Reserve Fund may be invested in Investment Securities with a nominal maturity date which is greater than 7 years as long as such Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Reserve Fund) the corpus thereof at no less than the purchase price thereof without loss in value. Moneys in the Project Fund will be invested in Investment Securities maturing not later than the date on which the Corporation estimates that such moneys will be expended on the Project. Moneys in the remaining funds and accounts will be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required by the Trustee.

Investment Securities acquired as an investment of moneys in any fund or account established under this Trust Agreement will be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account will be valued as provided in the definitions of Investment Securities. In making any valuation of Investment Securities hereunder, the Trustee may use computerized securities pricing services that may be available to it, including those available through its regular accounting system.

Events of Default; Remedies on Default

“Events of Default” under the Trust Agreement include:

(a) default in the due and punctual payment of the principal or Prepayment Price or interest with respect to the Certificates when and as the same will become due and payable;

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

(c) a Purchase Agreement Default or a Sale Agreement Default.

During the continuance of such Event of Default, the Trustee may, and upon the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, will, upon notice in writing to the Issuer, the Insurer and the Corporation, declare the principal component of all of the Installment Payments and the Certificates by which they are represented then Outstanding, and the interest accrued with respect thereto, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Trust Agreement or in the Certificates contained to the contrary notwithstanding.

No Owner will have the right to institute any proceeding for any remedy under the Trust Agreement, the Sale Agreement, the Purchase Agreement, the Deed of Trust or any applicable law with respect to such Certificate, unless: (1) such Owner will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Required Holders will have made written request upon the Trustee to institute such proceedings in its own name; (3) such Owner or Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee will have refused or omitted to comply with such request for a period of 10 days after receipt of such written notice, and tender of indemnity.

The Trustee is irrevocably appointed (and the successive respective Owners by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Certificates for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such

Owners under the provisions of the Certificates, the Trust Agreement, the Sale Agreement, the Purchase Agreement, the Deed of Trust and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Owners, the Trustee in its discretion may, and upon the written request of the Required Holders, and upon being indemnified to its satisfaction therefor, will, in each case (except in the case of an Event of Default arising under the provisions of the Trust Agreement) proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Trust Agreement, the Sale Agreement, the Purchase Agreement, the Deed of Trust or any law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Trust Agreement pending such proceedings. All rights of action under the Trust Agreement or the Certificates or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such Certificates, subject to the provisions of the Trust Agreement.

Anything in the Trust Agreement to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of Outstanding Certificates in each case (except in the case of an Event of Default arising under the provisions of the Trust Agreement) will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction will not be otherwise than in accordance with law and the provisions of the Trust Agreement.

Liability of Trustee

(a) The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct. The Trustee may become the owner of Certificates with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to any committee formed to protect the rights of Owners, whether or not such committee will represent the Owners of a majority in principal amount of the Certificates then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Insurer or the Owners of not less than a majority in aggregate principal amount of the Certificates at the time 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 Trust Agreement.

(d) The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request, order or direction of the Insurer or any of the Owners, pursuant to the provisions of the Trust Agreement, unless the Insurer or such Owners will have offered to the Trustee security or indemnity reasonable to it against the costs, expenses and liabilities which may be incurred therein or thereby.

(e) The Trustee makes no representations as to the legality, validity or sufficiency of the Trust Agreement or the Certificates, the Installment Purchase Agreement, the Deed of Trust, any amendment to any such documents, or insuring the Project or collecting any insurance proceeds, nor will it incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Certificates assigned to or imposed upon it. The Trustee will not be responsible for the legality, validity or sufficiency of the Sale Agreement. The Trustee will not be liable for the sufficiency or collection of any Purchase Payments or other moneys required to be paid to it under the Installment Sale Agreement (except as provided in the Trust Agreement), its right to receive moneys pursuant to the Sale Agreement, or the value of or title to the premises upon which the Project is located or the Project. The Trustee makes no representations and will have no responsibility for any official statement or other offering material prepared or distributed with respect to the Certificates. The Trustee will not incur any responsibility or duty with respect to the delivery of the Certificates for value or the application of any proceeds thereof or any Revenues.

(f) The Trustee will not be deemed to have knowledge of any Event of Default, Purchase Agreement Default, Sale Agreement Default, payment delinquency under any other indebtedness or event of default under the Deed of Trust unless and until it will have actual knowledge thereof, or will have received written notice thereof, at its Corporate Trust Office. As used herein, the term "actual knowledge" means the actual fact or statement of knowing, without any duty to make any investigation with regard thereto. Except as otherwise expressly provided herein, the Trustee will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Certificates or as to the existence of an Event of Default under the Trust Agreement.

(g) No provision of the Trust Agreement will require the Trustee to advance, expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement, or in the exercise of its rights or powers. The Trustee has no obligation or liability to the Owners for the payment of interest, principal or redemption premium, if any, with respect to the Certificates.

(h) The Trustee will not be bound to ascertain or inquire as to the validity or genuineness of any collateral given to or held by it. The Trustee will not be responsible for the recording or filing of any document relating to the Trust Agreement or of financing statements or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

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

(j) The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Issuer or the Corporation of the Project. In no event will the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Agreement or the Trust Agreement for the existence, furnishing or use of the Project.

(k) The rights given the Trustee under the Deed of Trust, the Purchase Agreement and the Sale Agreement are subject in all respects to the privileges and immunities afforded the Trustee under the Trust Agreement.

(l) Anything to the contrary notwithstanding, the Trustee will not be required to enter, take possession of, or take any other action whatsoever with respect to the Project, and will not be required to initiate foreclosure proceedings with respect to the Project and the Deed 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 Project relating to the presence, use, management, disposal of, or contamination by any environmentally hazardous materials or substances of any kind whatsoever. Upon a default in the due and punctual payment of the principal or Prepayment Price or interest with respect to the Certificates when and as the same become due and payable, funds held by the Trustee under the Trust Agreement may be used to pay the fees and expenses of an environmental auditor to determine (i) the existence and extent of any contamination and (ii) the expenses or obligations resulting from environmental liability and cleanup. The assets held in a fiduciary capacity by the Trustee under the Trust Agreement will alone determine the Trustee's liability for remediation of hazardous substances. In the event of such environmental audit Trustee will notify the Insurer prior to engagement of such environmental auditor (absent an emergency involving imminent harm) and will consult with the Insurer regarding the scope and cost of the effort and the identity of the proposed environmental auditor.

(m) The Trustee may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers and will not be answerable for the conduct of the same if appointed by it with reasonable care.

Replacement of Trustee

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within 30 days of giving notice of removal or resignation, the resigning Trustee or any Owner (on behalf of himself or herself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Trust Agreement will signify its acceptance of such appointment by executing and delivering to the Issuer and the Corporation and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, but nevertheless at the request of the Corporation or the request of the successor Trustee, such predecessor Trustee will

execute and deliver all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to the successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement. Upon request of the successor Trustee, the Issuer and the Corporation will execute and deliver all instruments as may be reasonably required for more fully and certainly vesting in and confirming to the successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this clause, the successor Trustee will mail such notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee.

Any Trustee appointed under the requirements of the paragraph above in succession to the Trustee will be a trust company or bank having the powers of a trust company having a combined capital and surplus (or the parent holding company of which has a combined capital and surplus) of at least \$50,000,000, and be subject to supervision and examination by a federal or state Issuer. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining Issuer above referred to, then the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with this clause, the Trustee will resign immediately in the manner specified in the paragraph above.

Amendment of Agreements

With the consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding, the Trust Agreement, the Purchase Agreement and the Sale Agreement may be modified or amended from time to time and at any time by trust agreement(s), purchase agreement(s) or sale agreement(s), each or all supplemental thereto, which the Issuer, the Corporation and the Trustee may enter into; provided that no such modification or amendment will (1) extend the Certificate Payment Date of any Certificate, or reduce the amount of principal represented thereby, or extend the time of payment of interest or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest with respect thereto, or extend the time of payment with respect thereto, or reduce any premium payable upon the prepayment thereof, without the consent of each affected Owner so affected, or (2) reduce the percentage of Certificates the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Trust Agreement prior to or on a parity with the lien created by the Trust Agreement, or deprive the Owners of the lien created by the Trust Agreement on such Revenues and other assets (except as expressly provided in the Trust Agreement), without the consent of the Owners of all the Certificates then Outstanding. For such consent to be effective, it will not be necessary that the Owners approve the particular form of any Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, but it will be sufficient if the Owners will approve the substance thereof. Promptly after the execution by the Issuer, the Corporation and the Trustee of any Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, pursuant to this paragraph, the Trustee will mail a notice, prepared by the Corporation, first class postage prepaid, setting forth in

general terms the substance of such Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, to each rating agency then rating the Certificates and, the Owners at the addresses listed on the registration books kept by the Trustee pursuant to the Trust Agreement. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement.

The Trust Agreement, the Sale Agreement and the Purchase Agreement and the rights and obligations of the Issuer, of the Corporation, of the Trustee and of the Owners of the Certificates may also be modified or amended from time to time and at any time by a supplemental trust agreement, sale agreement or purchase agreement, respectively, which the Issuer, the Corporation and the Trustee may enter into without the consent of any Owners, but only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Issuer or the Corporation contained in the Trust Agreement, the Sale Agreement, or the Purchase Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Certificates (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Issuer or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Trust Agreement, the Sale Agreement or the Purchase Agreement, or in regard to matters or questions arising under the Trust Agreement, the Sale Agreement or the Purchase Agreement, or to make any other revisions or additions to the Trust Agreement, the Sale Agreement or the Purchase Agreement as the Issuer or the Corporation may deem necessary or desirable, and which will not materially adversely affect the interests of the Owners;

(3) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such act or similar federal statute, and which will not materially adversely affect the interests of the Owners;

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Purchase Agreement and the Certificates, including the amendment of the Tax Agreement (or to the extent permitted under the Trust Agreement, to change certain tax covenants or the Tax Agreement); or

(5) to modify or add to the procedures providing for notice in the event of prepayment of the Certificates in order to comply with regulations promulgated by the United States Securities and Exchange Commission.

The Trustee may in its discretion, but will not be obligated to, enter into any Supplemental Trust Agreement, Supplemental Sale Agreement or Supplemental Purchase

Agreement authorized by the paragraphs above which adversely affects the Trustee's own rights, duties or immunities under the Trust Agreement or otherwise.

An Opinion of Counsel will be provided to the Trustee, stating that any proposed amendments or modifications to the Trust Agreement, Purchase Agreement or Sale Agreement conform to the requirements of this Section and that all conditions precedent, if any, have been complied with, before it consents to such amendments or modifications.

Effect of Supplemental Trust Agreement, Supplemental Purchase Agreement and Supplemental Sale Agreement.

Upon the execution of any Supplemental Trust Agreement, Supplemental Sale Agreement and Supplemental Purchase Agreement pursuant to the Trust Agreement, such agreements will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under such agreements of the Issuer, the Corporation, the Trustee and all Owners Outstanding will thereafter be determined, exercised and enforced under the Trust Agreement subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Trust Agreement, Supplemental Sale Agreement and Supplemental Purchase Agreement will be deemed to be part of the terms and conditions of the Trust Agreement, Sale Agreement and Installment Purchase Agreement, respectively, for any and all purposes.

Defeasance

When the obligations of the Issuer under the Purchase Agreement will cease (except for the right of the Trustee and the obligation of the Issuer to have the Defeasance Escrow applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by the Trust Agreement will thereupon cease, determine and become void, except for the right of the Owners to receive and the obligation of the Trustee to apply such Defeasance Escrow to the payment of the Certificates.

DEED OF TRUST

The obligations of the Corporation pursuant to the Sale Agreement are secured by the lien of a Deed of Trust with Assignments of Leases and Rents, Security Interest and Fixture Filing (the "Deed of Trust") upon the Facilities (including certain real property owned by the Corporation together with all permanent improvements thereon and all fixtures and equipment now or hereafter installed or situated thereon until such time as such purchase money obligation is paid in full).

To the extent permitted under the Sale Agreement, certain property may be removed from the lien and security interest of the Deed of Trust upon written request of the Issuer or the Corporation.

Upon the failure of the Corporation to perform its obligations as required under the Deed of Trust, the Trustee may elect to do any or all of the following: (1) make any such payment or do any such act in such manner and to the extent necessary to protect the security of the Deed of

Trust; (2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which may affect or appear to affect the security of the Deed of Trust; (3) take possession of, and manage, operate or lease, the Property.

Should an Event of Default have occurred and be continuing, the Trustee, upon written request by the Beneficiary, will provide and record such notices of default and of the election to cause the Property or any part of it to be sold as are required by law.

APPENDIX F

FORM OF OPINION OF SPECIAL COUNSEL

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APPENDIX F

FORM OF OPINION OF SPECIAL COUNSEL

[Date of Closing]

City Council
City of La Verne
3660 D Street
La Verne, CA 91750

Re: \$47,000,000 Revenue Certificates of Participation (Brethren Hillcrest Homes), Series 2003A (Insured) and Series 2003B, Evidencing Undivided Ownership Interests of the Owners Thereof in Installment Payments to be Paid by the City of La Verne, California, from Purchase Payments to be Received from Brethren Hillcrest Homes

Ladies and Gentlemen:

We have served as special counsel in connection with the issuance by the City of La Verne, a municipal corporation duly established and existing under the laws of the State of California (the "City"), pursuant to the execution and delivery of \$47,000,000 Revenue Certificates of Participation (Brethren Hillcrest Homes), Series 2003A (Insured) and Series 2003B, Evidencing Undivided Ownership Interests of the Owners Thereof in Installment Payments to be Paid by the City of La Verne, California, from Purchase Payments to be Received from Brethren Hillcrest Homes (the "Certificates"), each evidencing an undivided ownership interest of the registered owner thereof in the right to receive certain Installment Payments as defined in, and to be made by the City pursuant to, an installment purchase agreement (the "Installment Purchase Agreement"), dated as of January 1, 2003, by and between the City and Brethren Hillcrest Homes, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), all of which rights to receive such Installment Payments are assigned without recourse by the Corporation to the BNY Western Trust Company, as Trustee (the "Trustee").

The Certificates are being executed and delivered for the purpose of financing the acquisition, construction and equipping of the renovation and expansion of a continuing care retirement community and related site improvements (the "Project"). The Certificates are executed and delivered by the Trustee pursuant to the terms of a trust agreement (the "Trust Agreement"), dated as of January 1, 2003, by and among the City, the Corporation and the Trustee.

As special counsel, we have examined the Installment Purchase Agreement, an installment sale agreement (the "Installment Sale Agreement") dated as of January 1, 2003, by and between the City and the Corporation, the Trust Agreement, the opinion of counsel to the City, certifications of the City, the Trustee, the Corporation and such other resolutions, agreements, certificates and other documents as we have deemed necessary or appropriate for the

purposes of the opinions rendered below. In such examination we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have relied upon the representations and certifications made by the City and others in the aforesaid instruments, certificates and documents without undertaking to verify through independent investigation the accuracy of such representations and certifications. We note the existence of and actions by and status under Section 501(c)(3) of the Code of the Corporation are addressed in the opinion of counsel to the Corporation. We express no opinion with respect to those issues.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur. In examining the documents and matters referred to above, we have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified therein.

Furthermore, we have assumed compliance with all covenants contained in the Installment Purchase Agreement, the Installment Sale Agreement and the Trust Agreement, including (without limitation) covenants compliance which is necessary to assure that future actions or events will not cause the interest portion of each Installment Payment to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations pursuant to the Certificates, the Trust Agreement, the Installment Sale Agreement and the Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City of La Verne is a municipal corporation duly established and existing under the laws of the State of California.

2. The City has lawful authority for the execution and delivery of the Installment Purchase Agreement, the Installment Sale Agreement and the Trust Agreement under the laws of the State of California now in force, and the Installment Purchase Agreement, the Installment Sale Agreement and the Trust Agreement have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the Corporation and the Trustee (in the case of the Trust Agreement), the Installment Purchase Agreement, the Installment Sale Agreement and the Trust Agreement constitute valid, legal and binding obligations of the City, enforceable against the City in accordance with their respective terms.

3. The obligation of the City to make the Installment Payments, solely from Purchase Payments paid by the Corporation under the Installment Sale Agreement, is valid and enforceable in accordance with the terms of the Installment Purchase Agreement, subject to the limitations on legal remedies against political subdivisions in the State of California, does not

constitute a debt of the City or of the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or pledge any funds or property, or for which the City has levied or pledged any form of taxation or pledged any funds or property.

4. Assuming due authorization, execution and delivery of the Trust Agreement and the due execution and delivery of the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

5. Under existing law, the portion of each Installment Payment designated as and representing interest paid by the City under the Installment Purchase Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. The interest portion of each Installment Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that the interest portion of each Installment Payment is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other federal tax consequences related to the accrual or receipt of the interest portion of each Installment Payment.

In rendering the opinions expressed in paragraph 5 above, we have assumed continuing compliance by the City and the Corporation with covenants in the Installment Sale Agreement, the Trust Agreement and the Tax Certificate pertaining to those sections of the Code which affect the exclusion from gross income of the interest portion of each Installment Payment for federal income tax purposes, and we have relied upon the representations of the City and the Corporation with respect to matters solely within their knowledge and which we have not independently verified. In the event that the City or the Corporation fails to comply with the foregoing covenants in the Installment Sale Agreement, the Trust Agreement and the Tax Certificate, or in the event that representations of the City or the Corporation upon which we have relied are determined to be inaccurate or incomplete, the interest portion of each Installment Payment could become included in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

The rights of the owners of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint power authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Additionally, in rendering this opinion, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

As special counsel, we are passing only upon those matters set forth in this opinion and are not passing upon the accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Certificates or as to matters relating to the validity or

priority of any mortgage liens or security interests granted by the Corporation or title to any property. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit on the Certificates. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Installment Sale Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

This letter is limited to the above-referenced transaction. For the purposes of this letter, our services as special counsel have not extended beyond the examinations and expressions of the conclusions specifically referred to above and we have not been engaged for any other purpose. The opinions expressed herein are based upon existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation. We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof which may affect our legal opinions expressed herein. This letter is intended solely for the benefit of the addressees hereof and may not be relied upon by any other person or party or any purpose.

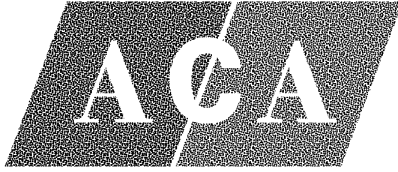
Very truly yours,

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP

APPENDIX G

FORM OF BOND INSURANCE POLICY

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ACA Financial Guaranty Corporation
140 Broadway, 47th Floor
For information, contact:
New York, NY 10005
(212) 375-2000
(888) 427-2833

BOND INSURANCE POLICY

Policy Number:

Effective Date:

Issuer:

Bonds:

ACA FINANCIAL GUARANTY CORPORATION (“ACA”), a Maryland stock insurance company, in consideration of the payment of the premium and subject to the terms and conditions contained in this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) (as designated in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of any Owner, or, at the election of ACA, directly to such Owner, that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City.

ACA will make such payments to or for the benefit of each Owner on the later of the day on which such principal or interest becomes Due for Payment or the Business Day next following the Business Day on which ACA shall have received Notice of Nonpayment. ACA will disburse to or for the benefit of the Owner the face amount of principal of and interest on the Bond which is then Due for Payment but is unpaid by reason of Nonpayment by the City but only upon receipt by ACA, in form reasonably satisfactory to it, of (i) evidence of the Owner’s right to receive payment of the principal or interest then Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights to payment of such principal or interest then Due for Payment shall thereupon vest in ACA. Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. Eastern prevailing time on such Business Day; otherwise, it will be deemed received on the next Business Day. Upon disbursement in respect of a Bond, ACA shall become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal of or interest on such Bond and shall be fully subrogated to all of the Owner’s rights thereunder, including the Owner’s right to payment thereof to the extent of any payment by ACA hereunder. Payment by ACA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of ACA under this Policy.

This Policy is non-cancelable for any reason and the premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity.

The following terms shall have the meanings specified for all purposes of this Policy. The term “Owner” means, as to a particular Bond, the person other than the City or any party whose direct or indirect obligation constitutes the underlying security for the Bonds, who at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. “Due for Payment” means (a) when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless ACA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a bond, the stated date for payment of interest. “Nonpayment” with respect to a Bond means the failure of the City to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Bond. “Nonpayment” shall also include any payment of principal or interest made to an Owner by or on behalf of the City of such Bond which has been recovered from such Owner pursuant to a final, non-appealable order of a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law. “Notice” means telephonic or electronic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to ACA, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. “Business Day” means any day other than a Saturday, Sunday or a day on which banking institutions in the State of Maryland or the Insurer’s Fiscal Agent are authorized or required by law to remain closed.

ACA may appoint a fiscal agent (the “Insurer’s Fiscal Agent”) for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer’s Fiscal Agent. From and after the date of receipt of

such notice by the Trustee and the Paying Agent (a) copies of all notices required to be delivered to ACA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to ACA and shall not be deemed received until received by both and (b) all payments required to be made by ACA under this Policy may be made directly by ACA or by the Insurer's Fiscal Agent on behalf of ACA. The Insurer's Fiscal Agent is the agent of ACA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of ACA to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

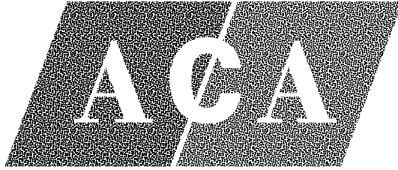
There shall be no acceleration payment due under this Policy except at the sole option of ACA.

IN WITNESS WHEREOF, ACA has caused this Policy to be affixed with its corporate seal and to be executed on its behalf by its duly authorized representative.

ACA FINANCIAL GUARANTY CORPORATION

[SEAL]

Authorized Representative



ACA Financial Guaranty Corporation
140 Broadway, 47th Floor
New York, NY 10005
For information, contact:
(212) 375-2000
(888) 427-2833

ENDORSEMENT No. _____

Attached to and forming a part of Policy No. _____

Effective Date: _____

Notwithstanding the provisions of the above-referenced Policy, notice is hereby given that the insurance provided thereby is not covered by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the aforementioned Policy other than as stated above.

In Witness Whereof, ACA Financial Guaranty Corporation has caused this Endorsement to be affixed with its corporate seal and to be executed on its behalf by its duly authorized representative.

ACA FINANCIAL GUARANTY CORPORATION

[SEAL]

Authorized Representative



ACA Financial Guaranty Corporation
140 Broadway, 47th Floor
New York, NY 10005
For information, contact:
(212) 375-2000
(888) 427-2833

ENDORSEMENT No. _____

Attached to and forming part of Policy No.

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "principal", as used in this Policy, means [Installment Principal Components] represented by the Bonds to be paid by the City under a certain [Installment Sale Agreement] dated as of _____ 20__ ("Agreement") and the term "interest," as used in this Policy, means [Installment Interest Components] represented by the Bonds to be paid by the City under the Agreement.

In Witness Whereof, ACA Financial Guaranty Corporation has caused this Endorsement to be affixed with its corporate seal and to be executed on its behalf by its duly authorized representative.

ACA FINANCIAL GUARANTY CORPORATION

[SEAL]

Authorized Representative

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