**NEW ISSUE – BOOK ENTRY ONLY**

**RATINGS: S&P: "A/A-1"**
**(*See* "PART 16 – RATING" herein)**

DASNY

DAC Bond

# $43,925,000
# DORMITORY AUTHORITY
# OF THE STATE OF NEW YORK
## CATHOLIC HEALTH SYSTEM OBLIGATED GROUP
## REVENUE BONDS, SERIES 2019B

**Dated:** Date of Delivery **Price:** 100% **Due:** July 1, 2048

Catholic Health

**Payment and Security:** The Catholic Health System Obligated Group Revenue Bonds, Series 2019B (the "*Series 2019B Bonds*"), are special limited obligations of the Dormitory Authority of the State of New York (the "*Authority*") payable from and secured by a pledge of (i) the payments to be made under the Loan Agreement dated as of March 6, 2019 (the "*Loan Agreement*"), between the Authority and Catholic Health System, Inc. (the "*Corporation*"); (ii) the funds and accounts (except the Arbitrage Rebate Fund, the Credit Facility Repayment Fund and any fund established for the payment of the Purchase Price of Option Bonds tendered for purchase) created under the Authority's Catholic Health System Obligated Group Revenue Bond Resolution, adopted by the Authority on March 6, 2019 (the "*General Resolution*"), and under the Series 2019B Resolution authorizing the issuance of the Series 2019B Bonds adopted on March 6, 2019 (the "*Series 2019B Resolution*" and together with the General Resolution, the "*Resolution*"); (iii) Obligation No. 15 (the "*Series 2019B-1 Obligation*"), issued by the Corporation pursuant to a Master Trust Indenture, dated as of November 26, 2006 (the "*Original Master Indenture*"), by and among the Corporation, Mercy Hospital of Buffalo ("*Mercy*"), Sisters of Charity Hospital of Buffalo, New York ("*Sisters of Charity*"), Kenmore Mercy Hospital ("*Kenmore*" and, together with the Corporation, Mercy and Sisters of Charity, the "*Existing Obligated Group Members*") and The Bank of New York Mellon, as master trustee (the "*Master Trustee*"), which Original Master Indenture will be amended and restated immediately following the issuance of the Series 2019 Bonds (as defined herein) pursuant to the terms of an Amended and Restated Master Trust Indenture (the "*Master Indenture*") by and among the Existing Obligated Group Members, Mount St. Mary's Hospital of Niagara Falls ("*Mount St. Mary's*"), McAuley-Seton Home Care Corporation ("*McAuley-Seton*"), and Niagara Homemaker Services, Inc. d/b/a Mercy Home Care ("*Mercy Home Care*" and together with the Existing Obligated Group Members, Mount St. Mary's and McAuley-Seton, the "*Obligated Group*" and each a "*Member*" and collectively, the "*Members*"), and the Master Trustee; (iv) a pledge of Gross Receipts (as defined herein); and (v) certain Mortgages (as defined herein) pursuant to which certain Members have granted to the Master Trustee a mortgage lien on and security interest in certain of their respective interests in certain real and personal property. ***As described herein, the Series 2019B Bonds will be secured by the Mortgages only for so long as the Existing Obligations (as defined herein) that are currently secured by the Mortgages remain outstanding***.

The Corporation's obligations under the Loan Agreement and the Series 2019B-1 Obligation are general obligations of the Corporation. The Loan Agreement requires the Corporation to pay, in addition to the fees and expenses of the Authority and The Bank of New York Mellon, as bond trustee (the "*Bond Trustee*"), amounts sufficient to pay the principal of, redemption price, if any, and interest on the Series 2019B Bonds, as such payments shall become due, and to make payments due under the Series 2019B-1 Obligation.

**The Series 2019B Bonds will not be a debt of the State of New York (the "*State*") nor will the State be liable thereon. The Authority has no taxing power.**

**Description:** Commencing on the date of the initial authentication and delivery of the Series 2019B Bonds, the Series 2019B Bonds will bear interest in the Weekly Rate Mode for a Weekly Rate Period until successfully converted to bear interest for a different Rate Period as described herein. The Weekly Rate for the Series 2019B Bonds will be initially determined by the Underwriter for and thereafter will be determined by Manufacturers and Traders Trust Company, as remarketing agent (the "*Remarketing Agent*").

As further described herein, the Series 2019B Bonds may be converted to bear interest for different Rate Periods. Owners of such Series 2019B Bonds will be mailed notice of such event. Thereafter, such Series 2019B Bonds shall be in the Rate Mode as provided in such notice. The Series 2019B Bonds will be subject to mandatory tender upon conversion to a different Rate Period. Detailed information with respect to Rate Modes, other than the Weekly Rate Mode, is not provided herein. As part of any conversion to such other Rate Periods, additional information describing such Rate Periods will be provided to prospective investors.

The Series 2019B Bonds will be issued as fully registered bonds in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. Interest on the Series 2019B Bonds will be payable on the first Business Day of each month, commencing May 1, 2019, and will be payable at the principal corporate trust office of the Bond Trustee, by check or draft mailed to the registered owner thereof. *See* "**PART 3 – THE SERIES 2019B BONDS**" herein.

The Series 2019B Bonds will be initially issued under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("*DTC*"). Individual purchases of beneficial interests in the Series 2019B Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2019B Bonds, payments of the principal and redemption price of and interest on such Series 2019B Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. *See* "**PART 3 – THE SERIES 2019B BONDS – Book-Entry Only System**" herein.

The Series 2019B Bonds operating in the Weekly Rate Period will be secured by an irrevocable transferable direct pay letter of credit (the "*Letter of Credit*") issued in favor of the Bond Trustee by the following letter of credit issuer (the "*Initial Credit Facility Issuer*")"

Manufacturers and Traders Trust Company

The Letter of Credit will terminate on April 25, 2029, subject to prior expiration upon the occurrence of certain specified events described herein, unless otherwise extended or replaced.

**Tender for Purchase and Redemption:** The Series 2019B Bonds are subject to redemption, tender and purchase in lieu of redemption prior to maturity as more fully described herein.

**Tax Matters:** In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2019B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and (ii) interest on the Series 2019B Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Hawkins Delafield & Wood LLP, under existing statutes, interest on the Series 2019B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). *See* "**PART 13 – TAX MATTERS**" herein regarding certain other considerations.

*This Official Statement summarizes certain terms of the Series 2019B Bonds only while the Series 2019B Bonds bear interest in a Weekly Rate Mode. Except as set forth herein, this Official Statement does not describe (i) any other interest rate mode into which the Series 2019B Bonds may be converted, (ii) any provision relating to the tender provisions applicable to the Series 2019B Bonds after any such conversion, or (iii) the remarketing of the Series 2019B Bonds upon any such conversion and the application of the proceeds thereof. A remarketing of the Series 2019B Bonds upon any such conversion will be made solely by a separate offering document or through a private placement to a limited number of institutional investors and not by this Official Statement.*

*The Series 2019B Bonds are offered when, as, and if received by the Underwriter. The offer of the Series 2019B Bonds is subject to the satisfaction of certain conditions and may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, as Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Corporation by its Counsel, Phillips Lytle LLP, Buffalo, New York. Certain legal matters will be passed upon for the Initial Credit Facility Issuer by its counsel, Nixon Peabody LLP, Buffalo, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Katten Muchin Rosenman LLP, New York, New York. The Authority expects the Series 2019B Bonds to be delivered in definitive form in New York, New York on or about April 25, 2019.*

**BofA Merrill Lynch**

April 17, 2019

**SUMMARY OF THE OFFERING**

**$43,925,000**
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**
**CATHOLIC HEALTH SYSTEM**
**OBLIGATED GROUP REVENUE BONDS, SERIES 2019B**

**CUSIP[†]: 64990GMH2**
**Initial Rate Period: Weekly Rate Period**
**Initial Credit Facility Issuer: Manufacturers and Traders Trust Company**
**Expiration Date: April 25, 2029**

**Remarketing Agent:**
**Manufacturers and Traders Trust Company**

**Underwriter:**
**Merrill Lynch, Pierce, Fenner & Smith Incorporated**

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("*CGS*") is managed on behalf of the American Bankers Association by S&P Capital IQ.  CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers have been assigned by an organization not affiliated with the Authority are provided for convenience of reference only. None of the Authority, the Corporation, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

## REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the Authority, the Corporation, the Initial Credit Facility Issuer, the Remarketing Agent or the Underwriter to give any information or to make any representations with respect to the Series 2019B Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the Corporation, the other Members of the Obligated Group or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be an offer, reoffer or sale of the Series 2019B Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, reoffer, solicitation or sale.

Other than with respect to the information concerning the Initial Credit Facility Issuer, the Letters of Credit, the Reimbursement Agreement and the Remarketing Agreement under the captions "**PART 4 – THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT**" and "**PART 5 – THE REMARKETING AGENT**" herein and "**INFORMATION REGARDING INITIAL CREDIT FACILITY ISSUER**" in **APPENDIX I** hereto, none of the information in this Official Statement has been supplied or verified by the Initial Credit Facility Issuer or the Remarketing Agent, and the Initial Credit Facility Issuer and the Remarketing Agent makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Series 2019B Bonds or (iii) the tax status of the interest on the Series 2019B Bonds. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority.

Certain information in this Official Statement has been supplied by the Corporation, on behalf of itself and the other Members of the Obligated Group (as defined herein), and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority. The Authority does not directly or indirectly guarantee, endorse or warrant (i) the creditworthiness or credit standing of the Corporation or the Obligated Group, (ii) the sufficiency of the security for the Series 2019B Bonds or (iii) the value or investment quality of the Series 2019B Bonds.

The Corporation has reviewed the parts of this Official Statement describing the Corporation, the Obligated Group, the Plan of Finance, Bondholders' Risks, Annual Debt Service Requirements, Source of Payment and Security for the Series 2019B Bonds, Estimated Sources and Uses of Funds, Continuing Disclosure, Legal Matters, Appendix A and Appendix B. The Corporation shall certify as of the dates of offering and delivery of the Series 2019B Bonds that such parts of this Official Statement relating to the Corporation do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Corporation makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

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

References in this Official Statement to the Act (as defined herein), the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Mortgages, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Series 2019B Obligations do not purport to be complete. Refer to the Act, the Resolution, the Loan Agreement, the Master Indenture,

the Supplemental Master Indentures, the Mortgages, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Series 2019B Obligations for full and complete details of their provisions. Copies of the Act, the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Mortgages, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Series 2019B Obligations are on file with the Authority and the Bond Trustee.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Authority or the Corporation have remained unchanged after the date of this Official Statement.

The CUSIP numbers are included on the inside front cover page of this Official Statement for the convenience of the holders and potential holders of the Series 2019B Bonds. No assurance can be given that the CUSIP numbers for the Series 2019B Bonds will remain the same after the date of issuance and delivery of the Series 2019B Bonds.

The Series 2019B Bonds have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state, nor have the Resolution or the Master Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Series 2019B Bonds have not been registered or qualified under the securities laws of any state in reliance upon the state securities law preemption provisions under the Securities Act of 1933, as amended. In certain states, however, the filing of a notice with the state securities commission is required for the public sale of the Series 2019B Bonds in such states. The fact that a notice may have been filed in certain states cannot be regarded as a recommendation. No states nor any of their respective agencies have passed upon the merits of the Series 2019B Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

In making an investment decision, investors must rely upon their own examination of the terms of the offering, including the merits and risks involved.

References to website addresses herein are for information purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into and are not a part of this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY EFFECT CERTAIN TRANSACTIONS THAT STABILIZE THE PRICE OF THE SERIES 2019B BONDS. SUCH TRANSACTIONS MAY CONSIST OF BIDS OR PURCHASES FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE SERIES 2019B BONDS. IN ADDITION, IF THE UNDERWRITER OVERALLOTS (THAT IS, SELLS MORE THAN THE AGGREGATE PRINCIPAL AMOUNT OF THE SERIES 2019B BONDS SET FORTH ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT) AND THEREBY CREATES A SHORT POSITION IN THE SERIES 2019B BONDS IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY REDUCE THAT SHORT POSITION BY PURCHASING SERIES 2019B BONDS IN THE OPEN MARKET. IN GENERAL, PURCHASES OF A SECURITY FOR THE PURPOSE OF STABILIZATION OR TO REDUCE A SHORT POSITION COULD CAUSE THE PRICE OF A SECURITY TO BE HIGHER THAN IT MIGHT OTHERWISE BE IN THE ABSENCE OF SUCH PURCHASES. THE UNDERWRITER MAKES NO REPRESENTATION OR PREDICTION AS TO THE DIRECTION OR THE MAGNITUDE OF ANY EFFECT THAT THE TRANSACTIONS DESCRIBED ABOVE MAY HAVE ON THE PRICE OF THE SERIES 2019B BONDS. IN ADDITION, THE UNDERWRITER

MAKES NO REPRESENTATION IT WILL ENGAGE IN SUCH TRANSACTIONS OR THAT SUCH TRANSACTIONS, IF COMMENCED, WILL NOT BE DISCONTINUED WITHOUT NOTICE.

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

Certain statements included or incorporated by reference in this Official Statement constitute projections or estimates of future events, generally known as forward-looking statements. These statements are generally identifiable by the terminology used such as "may," "believe," "will," "expect," "project," "intend," "estimate," "anticipate," "plan," "continue," "budget" or other similar words. These forward looking statements are based on the current plans and expectations of the Members of the Obligated Group and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the control of the Members of the Obligated Group, that could significantly affect current plans and expectations and the Obligated Group's future financial position and results of operations. These risk factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may affect reimbursements to health care providers and insurers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the implementation of health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against the Obligated Group, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions, (x) future divestitures or acquisitions which may result in additional changes, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund expansion plans of the Obligated Group and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments, (xv) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) the Obligated Group's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to their status as tax-exempt organizations as well as their ability to comply with the requirements of the Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xix) results of reviews of the Obligated Group's cost reports, (xx) the Obligated Group's ability to comply with recently enacted legislation and/or regulations, and (xxi) the risks set forth under the heading "**PART 9 – BONDHOLDERS' RISKS**" herein. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward looking statements made by or on behalf of the Obligated Group. Investors are cautioned not to unduly rely on such forward looking statements when evaluating the information presented in this Official Statement. In addition to those factors described specifically in connection with the forward-looking statements, *see* "**PART 9 – BONDHOLDERS' RISKS**" herein and "**FINANCIAL AND OPERATING INFORMATION – Management's Discussion of Recent Utilization Trends**" and "**– Management's Discussion of Operations**" in "**APPENDIX A"** hereto.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The Obligated Group does not plan to issue any updates or revisions to those forward-looking statements if or when changes in its expectations, or events, conditions or circumstances on which such statements are based, occur.

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DORMITORY AUTHORITY – STATE OF NEW YORK 515 BROADWAY, ALBANY, N.Y. 12207
GERRARD P. BUSHELL – PRESIDENT ALFONSO L. CARNEY, JR. – CHAIR

**OFFICIAL STATEMENT RELATING TO**

**$43,925,000**
**DORMITORY AUTHORITY**
**OF THE STATE OF NEW YORK**
**CATHOLIC HEALTH SYSTEM OBLIGATED GROUP**
**REVENUE BONDS, SERIES 2019B**

## PART 1 – INTRODUCTION

### Purpose of the Official Statement

The purpose of this Official Statement, including the cover page, the inside cover page and appendices hereto, is to provide information about the Dormitory Authority of the State of New York (the "*Authority*"), Catholic Health System, Inc. (the "*Corporation*") and the other Members of the Obligated Group (as each term is defined herein), in connection with the offering by the Authority of $43,925,000 aggregate principal amount of its Catholic Health System Obligated Group Revenue Bonds, Series 2019B (the "*Series 2019B Bonds*").

The following is a brief description of certain information concerning the Series 2019B Bonds, the Authority, the Corporation and the other Members of the Obligated Group. A more complete description of such information and additional information that may affect decisions to invest in the Series 2019B Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in **APPENDIX C** hereto, as well as in the Master Indenture (as defined herein), a substantially final form of which is attached as **APPENDIX F** hereto.

### The Authority

The Authority is a public benefit corporation of the State of New York (the "*State*"), created for the purpose of financing and constructing a variety of public-purpose facilities for certain governmental, educational and not-for-profit institutions. *See* "**PART 10 – THE AUTHORITY**" herein.

### Catholic Health System, Inc. and the Obligated Group

The Corporation, Mercy Hospital of Buffalo ("*Mercy*"), Sisters of Charity Hospital of Buffalo, New York ("*Sisters of Charity*"), Kenmore Mercy Hospital ("*Kenmore*"), Mount St. Mary's Hospital of Niagara Falls ("*Mount St. Mary's*"), McAuley-Seton Home Care Corporation ("*McAuley-Seton*"), and Niagara Homemaker Services, Inc. d/b/a Mercy Home Care ("*Mercy Home Care*"), are each part of an integrated health care delivery system comprised of the Corporation and its subsidiaries consisting

of hospitals, nursing homes, ambulatory care facilities, a home health care agency, and senior housing (the "*System*"). The Corporation provides administrative and management services for the System.

As described herein, the Corporation, Mercy, Sisters of Charity and Kenmore are currently members of an obligated group (the "*Existing Obligated Group Members*") established pursuant to the hereinafter defined Original Master Indenture, which Original Master Indenture is being amended and restated pursuant to the hereinafter defined Master Indenture. *See* "**PART 1 – INTRODUCTION – Amendment and Restatement of the Master Indenture; Deemed Consent**" herein. Upon issuance of the Series 2019B Bonds, the Existing Obligated Group Members, Mount St. Mary's, McAuley-Seton and Mercy Home Care will be the Members (collectively, the "*Members*" and each a "*Member*") of the Obligated Group (the "*Obligated Group*") established pursuant to the Master Indenture.

Each Member of the Obligated Group is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"). A more complete description of the Corporation, the other Members of the Obligated Group, certain of their affiliates and the System is contained in "**APPENDIX A"** hereto. No affiliates of the Corporation other than the Members of the Obligated Group are obligated in any way with respect to the Series 2019B Bonds.

The Corporation is, directly or indirectly, the sole corporate member of each Member of the Obligated Group and each entity within the System, and serves as the Obligated Group Representative under the Master Indenture (as hereinafter defined). The Members of the Obligated Group are jointly and severally obligated on all indebtedness evidenced or secured by Obligations (as defined in the Master Indenture) issued under the Master Indenture. *See* "**APPENDIX A"** hereto for a further description of the Members of the Obligated Group and their affiliates.

**Purpose of the Series 2019B Bonds**

The proceeds of the sale of the Series 2019B Bonds will provide funds which, together with other available funds, will be used to (i) finance portions of certain improvements, equipment and strategic investments, including, but not limited to, a new electronic medical records system, maternity services renovations and new sterile processing department (the "*Project*"); and (ii) pay costs of issuance on the Series 2019B Bonds. *See* "**PART 6 – PLAN OF FINANCE**" and "**PART 8 – ESTIMATED SOURCES AND USES OF FUNDS**" herein.

Concurrently with the issuance of the Series 2019B Bonds, the Authority intends to issue its Catholic Health System Obligated Group Revenue Bonds, Series 2019A (the "*Series 2019A Bonds*" and collectively with the Series 2019B Bonds, the "*Series 2019 Bonds*") for the benefit of the Corporation in an aggregate principal amount of $140,720,000 to (i) provide additional funds for the Project, (ii) refund in full certain existing bank credit facilities, currently outstanding in the aggregate principal amount of approximately $26,000,000; (iii) refund (a) all of the Authority's Catholic Health System Obligated Group Revenue Bonds, Series 2006A-D (the "*Refunded Series 2006 Bonds*"), currently outstanding in the aggregate principal amount of $29,735,000 and (b) all of the Authority's Catholic Health System Obligated Group Revenue Bonds, Series 2008 (the "*Refunded Series 2008 Bonds*" and together with the Refunded Series 2006 Bonds, the "*Refunded Bonds*"), currently outstanding in the principal amount of $19,220,000; and (iv) pay costs of issuance thereof. All of the Series 2019 Bonds will be considered part of a single bond issue for federal income tax purposes. It shall be a condition precedent for the issuance of the Series 2019B Bonds that the Series 2019A Bonds be issued concurrently therewith.

**Authorization of Issuance**

The Series 2019B Bonds will be issued pursuant to the Authority's Catholic Health System Obligated Group Revenue Bond Resolution adopted by the Authority on March 6, 2019 (the "*General Resolution*"), the Series Resolution authorizing the issuance of the Series 2019B Bonds adopted on March 6, 2019 (the "*Series 2019B Resolution*") and the Bond Series Certificate for the Series 2019B Bonds (the "*Bond Series Certificate*" and together with the General Resolution and the Series 2019B Resolution, the "*Resolution*") and the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, and constituting Title 4 of Article 8 of the Public Authorities Law), as amended from time to time, including, but not limited to, by the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of New York 1973, as amended (the "*Act*").

Additional Bonds may in the future be issued pursuant to the Resolution and each such series of Additional Bonds shall be separately secured by (i) the funds and accounts established pursuant to the applicable series resolutions, and (ii) the applicable Obligation (as defined herein) to be issued by the Obligated Group pursuant to the Master Indenture. The Series 2019B Bonds and all additional series of Additional Bonds hereafter issued pursuant to the Resolution are referred to herein as the "*Bonds*." *See* "**PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2019B BONDS**" herein. For a description of the long-term debt of the Corporation, *see* "**Catholic Health System, Inc. Audited Consolidated Financial Statements as of and for the Year Ended December 31, 2018**" in **APPENDIX B** hereto.

Payment of the principal of and interest on the Series 2019B Bonds are secured pursuant to Obligation No. 15A (the "*Series 2019B-1 Obligation*") with respect to the Series 2019B Bonds, issued under Supplemental Master Indenture No. 15 (as hereinafter defined). *See* "**PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2019B BONDS – Security for the Series 2019B Bonds – Series 2019B-1 Obligation**" herein.

The proceeds of the Series 2019B Bonds will be loaned by the Authority to the Corporation pursuant to the Loan Agreement, dated as of March 6, 2019, between the Authority and the Corporation (the "*Loan Agreement*"). The repayment obligations of the Corporation with regard to the Series 2019B Bonds under the Loan Agreement are secured by the Series 2019B-1 Obligation issued under the Master Indenture.

**The Series 2019B Bonds**

The Series 2019B Bonds will be issued as multimodal bonds, initially in the Weekly Rate Mode, will be dated their date of issuance, and will accrue interest from their date at the rates, and will mature at the time, as set forth on the cover page hereof. Interest on the Series 2019B Bonds will be payable on the first Business Day of each month, commencing May 1, 2019. *See* "**PART 3 – THE SERIES 2019B BONDS – Description of the Series 2019B Bonds**" herein.

**The Letter of Credit**

The Series 2019B Bonds operating in the Weekly Rate Mode will be secured by an irrevocable transferable direct pay letter of credit (the "*Letter of Credit*") issued in favor of the Bond Trustee by Manufacturers and Traders Trust Company, as initial credit facility issuer (the "*Initial Credit Facility Issuer*"). The Letter of Credit will be issued pursuant to a Letter of Credit and Reimbursement Agreement dated as of April 1, 2019 (the "*Reimbursement Agreement*") between the Corporation and the Initial Credit

Facility Issuer. *See* "**PART 4 – THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT**" herein and "**THE INITIAL CREDIT FACILITY ISSUER**" in **APPENDIX I** hereto.

Certain payments to be made to the Initial Credit Facility Issuer by the Corporation will be secured pursuant to Obligation No. 15B (the "*Series 2019B-2 Obligation*" and together with the Series 2019B-1 Obligation, the "*Series 2019B Obligations*"), issued under Supplemental Master Indenture No. 15 (as hereinafter defined).

**Amendment and Restatement of the Master Indenture; Deemed Consent**

The Obligated Group was initially established by a Master Trust Indenture dated as of November 29, 2006 (the "*Original Master Indenture*"), between the Existing Obligated Group Members and The Bank of New York Mellon, as master trustee (the "*Master Trustee*").

Concurrently with the issuance of the Series 2019B Bonds and pursuant to the Original Master Indenture, the Existing Obligated Group Members and the Master Trustee will enter into (i) Supplemental Indenture for Obligation No. 14 (the "*Supplemental Master Indenture No. 14*"), providing for the issuance thereunder of Obligation No. 14 (the "*Series 2019A Obligation*" and together with the Series 2019B Obligations, the "*Series 2019 Obligations*") related to the Series 2019A Bonds; (ii) Supplemental Indenture for Obligation No. 15 (the "*Supplemental Master Indenture No. 15*"), providing for the issuance thereunder of the Series 2019B Obligations; and (iii) Supplemental Indenture Amending and Restating the Master Indenture ("*Supplemental Master Indenture Amending and Restating*" and together with Supplemental Master Indenture No. 14 and Supplemental Master Indenture No. 15, the "*Supplemental Master Indentures*"), providing for the amendment and restatement of the Original Master Indenture pursuant to the terms of the Amended and Restated Master Trust Indenture dated as of April 25, 2019 (the "*Master Indenture*"), among the Members of the Obligated Group and the Master Trustee.

The provisions of the Original Master Indenture may be amended and restated by the Master Indenture with the consent of the holders of not less than 51% of the holders of the Obligations outstanding thereunder and with the consent of the Authority and the Buffalo and Erie County Industrial Land Development Corporation, as issuers of previously issued bonds secured by Obligations issued under the Original Master Indenture, as well as the holder of an outstanding Obligation related to a line of credit (the "*Required Consents*"). **By purchasing the Series 2019B Bonds, the purchasers shall be deemed to have consented to the amendment and restatement of the Original Master Indenture by the Master Indenture, and the Bond Trustee, by acceptance of the Series 2019B Obligation, shall be deemed to have consented to the amendment and restatement of the Original Master Indenture.** Such consent, together with the deemed consent by the purchasers of and bond trustee related to the Series 2019A Bonds, will constitute more than 51% in aggregate principal amount of the Obligations outstanding under the Original Master Indenture. In addition, the Required Consents will be delivered simultaneously with or prior to the issuance of the Series 2019B Bonds. As a result, the Master Indenture will become effective upon the issuance of the Series 2019 Bonds. *See* "**FORM OF MASTER INDENTURE**" in **APPENDIX F** hereto for a description of the provisions of the Master Indenture.

**Payment of the Series 2019B Bonds**

The Series 2019B Bonds are special limited obligations of the Authority payable solely from the Revenues. The Revenues include certain payments to be made by the Corporation under the Loan Agreement or to be made by the Obligated Group on the Series 2019B-1 Obligation, all of which payments are pledged and assigned to the Bond Trustee. The Corporation's payment obligations under the Loan Agreement with respect to the Series 2019B Bonds are general obligations of the Corporation secured by

the Series 2019B-1 Obligation issued under the Master Indenture. The Series 2019B-1 Obligation constitutes the joint and several general obligation of each Member of the Obligated Group. *See* "**PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2019B BONDS – Payment of the Series 2019B Bonds**," and "– **Obligations under the Master Indenture**" herein.

**Source of Payment and Security for the Series 2019B Bonds**

The Series 2019B Bonds will be secured by the payments described above to be made under the Loan Agreement, all funds and accounts authorized under and established by the General Resolution and established by the Series 2019B Resolution (with the exception of the Arbitrage Rebate Fund, the Credit Facility Repayment Fund and any fund established for the payment of the Purchase Price of Option Bonds tendered for purchase), payments to be made by the Obligated Group under the Series 2019B-1 Obligation, the Obligated Group's pledge of Gross Receipts and the Mortgages, all as described herein. Pursuant to the terms of the General Resolution, the funds and accounts established and pledged by the Series 2019B Resolution secure only the Series 2019B Bonds, and do not secure any other Series of Bonds issued under the General Resolution, regardless of their dates of issue. *The Series 2019B Bonds will be secured by the Mortgages only for so long as the Existing Obligations are currently secured by any of the Mortgages remain outstanding*. *See* "**PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2019B BONDS – Security for the Series 2019B Bonds**" herein.

**The Series 2019B Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.**

**Outstanding Obligations**

Upon issuance of the Series 2019 Bonds and the application of proceeds thereof, the Master Indenture will secure all previously issued and outstanding Obligations under the Master Indenture (collectively, the "*Existing Obligations*"), the Series 2019 Obligations and any Additional Obligations issued from time to time hereafter under the Master Indenture. Upon delivery of the Series 2019 Bonds, taking into account the application of the proceeds thereof, the aggregate principal amount of Obligations to be outstanding under the Master Indenture (excluding the Series 2019B-2 Obligation) will be $288,720,000. *See* "**Catholic Health System, Inc. Audited Consolidated Financial Statements as of and for the Year Ended December 31, 2018, with Report of Independent Auditors**" in **APPENDIX B** hereto.

**Additional Indebtedness**

In certain circumstances, any Member of the Obligated Group may issue other Additional Obligations under the Master Indenture which Additional Obligations will be equally and ratably secured (except as described herein) with the Existing Obligations, the Series 2019 Obligations and any other Additional Obligations issued under the Master Indenture. Under the terms of the Master Indenture, any Additional Obligations may be entitled to the benefit of security, including Liens (as defined in **APPENDIX C** hereto) on the Property (including health care facilities) of the Obligated Group, or letters or lines of credit or insurance, in addition to that securing the Existing Obligations and the Series 2019 Obligations, which additional security, liens, letters or lines of credit or insurance need not be extended to any other Obligation (including the Series 2019 Obligations). The Series 2019 Obligations, together with the Existing Obligations and any Additional Obligations issued under the Master Indenture, are collectively referred to herein as the "Obligations."

**Bondholders' Risks**

There are risks and other investment considerations associated with the purchase of the Series 2019B Bonds. *See* "**PART 9 – BONDHOLDERS' RISKS**" herein for a discussion of some of these risks and other investment considerations.

**Continuing Disclosure**

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended ("*Rule 15c2-12*"), the Corporation will enter into a written agreement (the "*Continuing Disclosure Agreement*") with Digital Assurance Certification LLC ("*DAC*"), as disclosure dissemination agent. The form of the Continuing Disclosure Agreement is attached as **APPENDIX H** hereto. *See* "**PART 20 – CONTINUING DISCLOSURE**" herein.

## PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2019B BONDS

*Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2019B Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement, the Series 2019B Obligations and the Mortgages. Copies of the Act, the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Series 2019B Obligations, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Mortgages are on file with the Authority and the Bond Trustee. See also "**SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT**" in **APPENDIX D** hereto, "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**" in **APPENDIX E** hereto and "**FORM OF MASTER INDENTURE**" in **APPENDIX F** hereto for a more complete statement of the rights, duties and obligations of the parties thereto.*

**Letter of Credit; Alternate Credit Facility**

The Corporation covenants and agrees that at all times while any Series 2019B Bonds bearing interest in the Weekly Rate Mode are Outstanding it will maintain a Credit Facility for such Series of Series 2019B Bonds in full force and effect. Such Credit Facility is required to be in an amount at least equal to the aggregate outstanding principal amount of Series 2019B Bonds together with an amount equal to the number of days' interest determined to be necessary at that time to maintain the rating on the Series 2019B Bonds (assuming a maximum annual interest rate of ten percent (10%)).

Upon the initial issuance of the Series 2019B Bonds, the Series 2019B Bonds operating in the Weekly Rate Mode will be secured by the Letter of Credit issued in favor of the Bond Trustee by the Initial Credit Facility Issuer. See "**PART 4 – THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT**" herein.

**Payment of the Series 2019B Bonds**

The Series 2019B Bonds issued under the Resolution are special limited obligations of the Authority. The principal of, redemption price, if any, and interest on the Series 2019B Bonds are payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund, the Credit Facility Repayment Fund and any fund established for the payment of the Purchase Price of Option Bonds

tendered for purchase) established by the Resolution. The Revenues consist of the payments required to be made by the Corporation under the Loan Agreement or to be made by the Obligated Group under the Series 2019B-1 Obligation to be issued with respect to the Series 2019B Bonds on account of the principal of, redemption price, if any, and interest on the Series 2019B Bonds. The Revenues have been assigned by the Authority to the Bond Trustee for the benefit of the holders of the Series 2019B Bonds.

The Corporation's obligations under the Loan Agreement and under the Series 2019B-1 Obligation are general obligations of the Corporation. The Authority has directed the Corporation, and the Corporation has agreed, to make the payments under the Loan Agreement directly to the Bond Trustee. Any payments made on the Series 2019B-1 Obligation shall also be made directly to the Bond Trustee. The Loan Agreement obligates the Corporation to make payments on and in the amounts sufficient to pay scheduled monthly interest payments and to pay, among other things, the principal of and interest on the Series 2019B Bonds on the fifth Business Day preceding the date on which they become due, and to make any payments due under the Series 2019B-1 Obligation. *See* "**PART 3 – THE SERIES 2019B BONDS – Redemption Provisions**" herein.

**Security for the Series 2019B Bonds**

***General***. The Series 2019B Bonds will be secured by the payments described above to be made under the Loan Agreement, all funds and accounts authorized under the Resolution and established by the Series 2019B Resolution (with the exception of the Arbitrage Rebate Fund, the Credit Facility Repayment Fund and any fund established for the payment of the Purchase Price of Option Bonds tendered for purchase), payments to be made by the Obligated Group under the Series 2019B-1 Obligation, the Obligated Group's pledge of Gross Receipts and the Mortgages, all as described herein. Pursuant to the terms of the Resolution, the funds and accounts established and pledged by the Series 2019B Resolution secure only the Series 2019B Bonds, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. No debt service reserve fund will be funded for the Series 2019B Bonds. *See* "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**" in **APPENDIX E** hereto.

***Series 2019B-1 Obligation***. Payment of the principal of, redemption price of or purchase price in lieu of redemption and interest on the Series 2019B Bonds when due, and payment when due of the obligations of the Corporation to the Authority under the Loan Agreement, will be secured by payments made by the Corporation and the other Members of the Obligated Group pursuant to the Series 2019B-1 Obligation. The Series 2019B-1 Obligation will be issued to the Authority, which will assign all payments under the Series 2019B-1 Obligation to the Bond Trustee for the benefit of the Bondholders. The Series 2019B-1 Obligation is a joint and several general obligation of each Member of the Obligated Group. Payments to be made by the Obligated Group to the Bond Trustee pursuant to the Series 2019B-1 Obligation for the benefit of the Series 2019B Bondholders constitute Revenues pledged to the Bond Trustee. *See* "**SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2019B BONDS – Obligations Under the Master Indenture**" herein.

***Security Interests in Gross Receipts.*** All Obligations Outstanding from time to time under the Master Indenture, including the Series 2019B Obligations, are secured, subject only to Permitted Liens, on a parity basis by security interests in the Gross Receipts of the Members of the Obligated Group and each of the future Members of the Obligated Group (subject to the right of a Member to withdraw from the Obligated Group upon satisfying the applicable provisions of the Master Indenture) and the Mortgaged Property, pursuant to the Mortgages. Gross Receipts are defined in the Master Indenture to include all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, including, without limitation, contributions, donations, and pledges whether in the form

of cash, securities or other personal property, and the rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, health-care-insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired, all taking into account the Master Indenture provisions related to interpretation; provided, however, Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (A) paying debt service on an Obligation or (B) meeting any commitment of a Member of the Obligated Group under a Loan Agreement; (ii) all receipts, revenues, income and other moneys received by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property; and (iii) insurance proceeds relating to assets subject to a capital lease permitted under the Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee. Excluded Property means any real property that is not now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. *See* also "**FORM OF MASTER INDENTURE – SECTION 3.01**" in **APPENDIX F** hereto.

The Master Trustee's security interest in the Gross Receipts described above will be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. Each Member of the Obligated Group shall cause to be filed, in accordance with the requirements of the UCC, financing statements; and, from time to time thereafter, shall deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interests or give public notice thereof. *See* "**PART 9 – BONDHOLDERS' RISKS –Enforceability of Lien on Gross Receipts**" herein.

***Mortgages.*** Certain Members of the Obligated Group have previously issued the following mortgages to secure payments related to certain previously issued series of bonds: (i) the Mortgage dated as of July 11, 2012, as supplemented and amended to the date hereof (the "*Original 2012 Mercy Mortgage*"), pursuant to which Mercy granted to the Master Trustee a mortgage lien on and security interest in certain of its interests in its real and personal property; (ii) the Mortgage dated as of July 11, 2012, as supplemented and amended to the date hereof (the "*Original 2012 Kenmore Mortgage*"), pursuant to which Kenmore granted to the Master Trustee a mortgage lien on and security interest in certain of its interests in its real and personal property; (iii) the Loan Mortgage dated as of April 1, 2015, as supplemented and amended to the date hereof (the "*Original 2015 Mortgage*"), pursuant to which Mercy, Kenmore and Sisters of Charity granted to the Master Trustee a mortgage lien on and security interest in certain of their interests in their real and personal property; and (iv) the Mortgage dated as of February 10, 2016, as supplemented and amended to the date hereof (the "*Original 2016 Mortgage*" and together with the Original 2012 Mercy Mortgage, the Original 2012 Kenmore Mortgage and the Original 2015 Mortgage (the "*Original Mortgages*"), pursuant to which the Corporation granted to the Master Trustee a mortgage lien on and security interest in certain of its interests in its real and personal property. Pursuant to the Original Mortgages, certain of the properties of the certain of the Members of the Obligated Group (collectively, the "*Mortgaged Property*") is subjected to a lien, including a security interest in certain fixtures, furnishings and equipment located thereon.

For so long as Existing Obligations remain outstanding, the Series 2019B Obligations will be secured by such Original Mortgages pursuant to the terms of a Mortgage Modification Agreement dated as of April 25, 2019 related to (i) the Original 2012 Mercy Mortgage, from Mercy to the Master Trustee; (ii) the Original 2012 Kenmore Mortgage, from Kenmore to the Master Trustee; (iii) the Original 2015 Mortgage from Mercy, Kenmore and Sisters of Charity to the Master Trustee; and (iv) the Original 2016 Mortgage, from the Corporation to the Master Trustee (the "Mortgage Modification" and, together with the Original Mortgages, the "Mortgages").

The Mortgages will secure on an equal and ratable basis all Obligations issued under the Master Indenture, including but not limited to the Series 2019B Obligations, the Series 2019A Obligation and the Existing Obligations. In addition, the Master Trustee is permitted to release or subordinate certain portions of real property and improvements constituting Health Care Facilities (as defined in the Master Indenture) from the lien of the Mortgages under certain conditions set forth in the Master Indenture, which include but are not limited to releases for fair market value of property that do not materially detract from the utility of the Health Care Facilities and the proceeds of which are applied to the operation, maintenance or improvement to the Health Care Facilities or to the pro rata prepayment of the Obligations then outstanding. See "**PART 9 – BONDHOLDERS' RISKS – Limitation on Value of Mortgaged Property**" herein.

***The Series 2019B Bonds will be secured by the Mortgages only for so long as the Existing Obligations that are currently secured by the Mortgages remain outstanding.***

**Events of Default and Acceleration under the Resolution**

The following constitute events of default under the Resolution with respect to the Series 2019B Bonds: (i) a default by the Authority in the payment when due of the principal of, including Sinking Fund Installments, redemption price, if any, or interest on any Series 2019B Bond; (ii) a default by the Authority in the due and punctual performance of any applicable tax covenant which results in the loss of the exclusion of interest on the Series 2019B Bonds from gross income under the Code; (iii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the Series 2019B Bonds or in the Resolution which continues for thirty (30) days after written notice thereof is given to the Authority by the Bond Trustee (such notice to be given in the Bond Trustee's discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof); or (iv) an "Event of Default," as defined in the Loan Agreement, shall have occurred and is continuing and all sums payable by the Corporation under the Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of the Corporation to make payment under the Loan Agreement shall not constitute an Event of Default under the Loan Agreement if timely payment of the Series 2019B-1 Obligation is made by the Obligated Group in place of the payment due under the Loan Agreement. If an Event of Default occurs under the Master Indenture (as defined therein), such default shall constitute an Event of Default under the Loan Agreement. Unless all sums payable by the Corporation under the Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an Event of Default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default occurs and continues (except with respect to a default described in clause (ii) above), the Bond Trustee shall, upon the written request of the holders of not less than 50% in principal amount of the Series 2019B Bonds, by written notice to the Authority, declare the principal of and interest on the Series 2019B Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of such notice, such principal and interest

shall become immediately due and payable. The Bond Trustee shall, with the written consent of the holders of not less than 50% in principal amount of Series 2019B Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that the Bond Trustee shall give notice in accordance with the Resolution of each event of default known to the Bond Trustee to the holders within thirty (30) days, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal of, redemption price, if any, or interest on, any of the Series 2019B Bonds, the Bond Trustee shall be protected in withholding such notice thereof to the holders if the Bond Trustee in good faith determines that the withholding of such notice is in the best interests of the holders of the Series 2019B Bonds.

**Obligations under the Master Indenture**

In addition to other sources of payment described herein, principal of, redemption price of, purchase price in lieu of redemption, and interest and any redemption premium on the Series 2019B Bonds will be payable from moneys paid by the Obligated Group pursuant to the Series 2019B-1 Obligation. The Series 2019B-1 Obligation will be issued to the Authority, which will assign all payments under the Series 2019B-1 Obligation to the Bond Trustee as security for the payment of the principal of, redemption price of, purchase price in lieu of redemption, and interest on the Series 2019B Bonds.

Subject to the terms of the Master Indenture, any entities that are not Members of the Obligated Group and corporations that are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Indenture may become an additional Member of the Obligated Group. Pursuant to the Master Indenture, the Members of the Obligated Group and any future Member of the Obligated Group are subject to covenants relating to maintenance of a Long-Term Debt Service Coverage Ratio and restricting, among other things, the incurrence of Indebtedness, the existence of Liens on Property, consolidation and merger, the disposition of assets, the addition of Members of the Obligated Group and the withdrawal of Members from the Obligated Group.

Pursuant to the Master Indenture, each Obligation issued thereunder will be a joint and several general obligation of each Member of the Obligated Group and any future Member of the Obligated Group. Under the Master Indenture, the Members of the Obligated Group may not create or suffer to be created any Lien on Property other than Permitted Liens. Among other Permitted Liens, the Liens created by the Mortgages and by the pledge of Gross Receipts are Permitted Liens. The Liens created by the Mortgages include security interests in the Mortgaged Property. Other Permitted Liens include Liens on equipment purchased with permitted Indebtedness and any lien on Excluded Property, as further described in "**FORM OF MASTER INDENTURE – Section 3.05**" in **APPENDIX F** hereto. The enforcement of the Obligations may be limited by (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 or State 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 and (v) federal bankruptcy laws, State receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture. *See* "**PART 9 – BONDHOLDERS' RISKS – Enforceability of the Master Indenture**," "– **Enforceability of Remedies**" and "– **Enforceability of Lien on Gross Receipts**" herein.

THE MASTER INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE SERIES 2019B-1 OBLIGATION (I.E., THE

MORTGAGES AND THE GROSS RECEIPTS PLEDGE) ON A PARITY WITH SUCH OBLIGATIONS, AND IN CERTAIN CIRCUMSTANCES THE LIEN ON GROSS RECEIPTS MAY BE RELEASED IN PART TO SECURE SHORT-TERM INDEBTEDNESS OR TO IMPLEMENT A SALE OF SUCH GROSS RECEIPTS, AND THE LIEN OF THE MORTGAGES MAY BE RELEASED IN WHOLE OR IN PART UNDER CERTAIN CONDITIONS AS SET FORTH HEREIN AND IS TO BE RELEASED ONCE THE EXISTING INDEBTEDNESS IS NO LONGER OUTSTANDING. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE BOND TRUSTEE FOR THE SECURITY OF THE SERIES 2019B BONDS.

***Rate Covenant***. The Members of the Obligated Group are required under the Master Indenture to set rates and charges for their facilities and services such that the Long-Term Debt Service Coverage Ratio (as defined in the Master Indenture), calculated for each Fiscal Year, will be not less than 1.10 to 1.00. If at any time the Long Term Debt Service Coverage Ratio is not met, the Obligated Group agrees to retain an independent consultant to make recommendations to increase the Long Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the consultant the attainment of that level is impracticable, to the highest level attainable. Notwithstanding the foregoing, it shall be an Event of Default under the Master Indenture if for each of two consecutive Fiscal Years the Long-Term Debt Service Coverage Ratio is less than 1.00 to 1.00. For further details of this covenant, *see* **"FORM OF MASTER INDENTURE – Section 3.21**" in **APPENDIX F** hereto.

***Other Master Indenture Covenants.*** In addition to the security and other provisions described above, the Master Indenture contains provisions, covenants and restrictions related to mergers and other corporate combinations and divestitures, sales, leases or other dispositions of assets and other matters. *See* "**FORM OF MASTER INDENTURE – Article III**" in **APPENDIX F** hereto.

**Possible Substitution of the Series 2019B Obligations**

The Master Indenture contains certain provisions that permit the substitution of replacement master notes of a new credit group for the Series 2019B Obligations in order to effect an affiliation with another entity or entities upon the satisfaction of certain conditions. Such substitution may result in a substantially different type of credit securing the Series 2019B Bonds than that described herein. *See* **"FORM OF MASTER INDENTURE – Section 3.19"** in **APPENDIX F** hereto for a description of these provisions.

**Outstanding Indebtedness**

The Corporation has certain Indebtedness outstanding. *See* "**Catholic Health System, Inc. Audited Consolidated Financial Statements as of and for the Year Ended December 31, 2018, with Report of Independent Auditors**" in **APPENDIX B** hereto.

**Restricted Affiliates**

The Master Indenture permits the Corporation to include certain "restricted affiliates" of the Corporation within the combined credit group. Restricted affiliates are not obligated on Indebtedness of the Obligated Group, but may be called upon by the Corporation to contribute cash to the Corporation if needed for the Obligated Group to satisfy its debt service requirements. Restricted affiliates, if any, will be included in the combined group for purposes of determining financial performance and financial covenant calculations under the Master Indenture. At the time of issuance of the Series 2019A Bonds there will be no restricted affiliates. *See* "**FORM OF MASTER INDENTURE – Section 3.13**" in **APPENDIX F** hereto for a description of these provisions.

## PART 3 – THE SERIES 2019B BONDS

*Set forth below is a narrative description of certain provisions relating to the Series 2019B Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Resolution and the Loan Agreement, copies of which are on file with the Authority and the Bond Trustee. See also "**SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT**" in **APPENDIX D** hereto and "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**" in **APPENDIX E** hereto for a more complete description of certain provisions of the Series 2019B Bonds.*

***This Official Statement does not describe any other interest rate modes than the Weekly Rate Mode. A remarketing of the Series 2019B Bonds upon a conversion from the Weekly Rate Mode will be made solely by a separate offering document or through a private placement to a limited number of institutional investors and not by this Official Statement.***

### Description of the Series 2019B Bonds

The Series 2019B Bonds will be issued pursuant to the Resolution and will be dated and bear interest from their date of delivery to, but excluding, the date on which the Series 2019B Bonds mature, and will mature on the date set forth on the cover page of this Official Statement. The Series 2019B Bonds will be issued in denominations of $100,000 or any integral multiple of $5,000 in excess thereof.

The Series 2019B Bonds are being issued as multimodal rate bonds and will be issued initially in the Weekly Rate Mode and will bear interest at the Weekly Rate as described below under the heading "**Determination of the Weekly Rate**". The initial Weekly Rate Period for the Series 2019B Bonds will begin on the date of delivery of the Series 2019B Bonds and end on and include May 1, 2019. After the initial Weekly Rate Period, the Series 2019B Bonds will bear interest at the Weekly Rate determined by the Remarketing Agent for each Weekly Rate Period as described below under the heading "**Determination of the Weekly Rate**," unless and until converted to a different Rate Period. The Series 2019B Bonds will remain Variable Interest Rate Bonds until converted to bear interest at either a Fixed Rate or Term Rate as provided for in the Resolution.

So long as the Series 2019B Bonds bear interest at a Daily Rate or a Weekly Rate interest shall be computed on the basis of a three hundred sixty–five (365) or three hundred sixty–six (366) day year, as appropriate, and actual days elapsed. Bank Bonds will bear interest at the Bank Bond Rate in the manner provided in the applicable Credit Facility or Liquidity Facility for such Bank Bonds or the related Reimbursement Agreement.

At no time will any Series 2019B Bond bear interest at a Daily Rate or a Weekly Rate that is in excess of the Maximum Rate. The "Maximum Rate" means (i) in the case of a Series 2019B Bond in the Daily Rate Period or Weekly Rate Period secured by a Credit Facility, other than a Bank Bond Rate, ten percent (10%) per annum and (ii) in the case of a Series 2019B Bond bearing interest at the Bank Bond Rate, or in any other Rate Period, twenty–two percent (22%) per annum or as otherwise set forth in a Certificate of Determination; provided, however, that in no event shall the Rate at which any Series 2019B bears interest exceed the maximum rate permitted by law.

The Series 2019B Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC (as defined herein), pursuant to DTC's Book-Entry Only System. Purchasers of beneficial interests in the Series 2019B Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2019B Bonds, the Series 2019B Bonds will be exchangeable for other fully registered Series 2019B Bonds in any other

authorized denominations of the same maturity without charge except for the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. *See* "**Book-Entry Only System**" herein and "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**" in **APPENDIX E** hereto.

Interest on the Series 2019B Bonds while such Series 2019B Bonds bear interest at the Weekly Rate will be payable on each Interest Payment Date in immediately available funds payable by check mailed to each registered owner of a Series 2019B Bond on the Record Date immediately preceding such Interest Payment Date to the address thereof as it appears on the registry books of the Authority kept by the Bond Trustee. The Record Date with respect to any Interest Payment Date for the Series 2019B Bonds bearing interest at a Weekly Rate is the close of business on the Business Day preceding such Interest Payment Date. The principal or redemption price of the Series 2019B Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of the Bond Trustee. As long as the Series 2019B Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. *See* "**Book-Entry Only System**" herein.

**Determination of the Weekly Rate**

Each Series 2019B Bond in a Weekly Rate Mode (other than a Bank Bond) will bear interest at the Weekly Rate. During each Weekly Rate Period subsequent to the initial Weekly Rate Period, the Weekly Rate shall be determined by the Remarketing Agent for such Series 2019B Bond to be the rate of interest that, if borne by such Series 2019B Bond for such Weekly Rate Period, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as such Series 2019B Bond and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Series 2019B Bond, would be the lowest interest rate that would enable such Series 2019B Bond to be sold on the first day of the applicable Weekly Rate Period at a price of par, plus accrued interest, if any.

On the last Business Day of each calendar month, the Remarketing Agent shall notify the Bond Trustee, the Tender Agent, the Authority, the Corporation, and each affected provider of a Credit Facility or Liquidity Facility (as applicable), via facsimile, telephonic, electronic means or other similar means of communication, acceptable to the Authority and subsequently confirmed in writing, of the interest rate borne by the Series 2019B Bond on each day of that calendar month.

The Remarketing Agent shall determine a Weekly Rate for each Weekly Rate Period by 5:00 P.M., New York City time, on the last day of each Weekly Rate Period, or if such day is not a Business Day, the next succeeding Business Day. If for any reason (i) the Weekly Rate for a Weekly Rate Period is not established as aforesaid, (ii) no Remarketing Agent shall be serving under the Resolution, (iii) the Rate so established is held to be invalid or unenforceable with respect to a Weekly Rate Period or (iv) pursuant to the Remarketing Agreement, the Remarketing Agent is not then required to establish a Weekly Rate, then the Weekly Rate for such Weekly Rate Period shall be the SIFMA Municipal Index on the date such Weekly Rate was to have been determined by the Remarketing Agent.

No Rate Period shall extend beyond the scheduled stated expiration of the Credit Facility or Liquidity Facility then in effect, if any (or if such stated expiration is not a Business Day, the immediately preceding Business Day).

In determining the Rate, neither the Authority nor the Remarketing Agent shall have any liability to any Holder, the Bond Trustee, the Tender Agent, the provider of a Credit Facility or Liquidity Facility (as applicable) or any Bondholder, except for its respective willful misconduct or gross negligence.

**Conversion of Rate Modes on the Series 2019B Bonds**

While the Series 2019B Bonds bear interest in a Weekly Rate Mode, the Authority may direct that the interest rate on the Series 2019B Bonds be converted to bear interest in a different Rate Mode upon satisfaction of certain conditions set forth in the Bond Series Certificate. If all conditions to the Conversion are met, the Rate Period for the new Rate Mode shall commence on the Conversion Date and the interest rate shall be determined by the Remarketing Agent in the manner set forth in the Bond Series Certificate.

***Certain Conditions to Conversion of Rate Modes on Series 2019B Bonds***. In connection with any conversion of the Series 2019B Bonds from a Weekly Rate Mode to another Rate Mode, the Authority is required to deliver a Conversion Notice not less than twenty (20) days prior to any Conversion Date, or, while the Series 2019B Bonds to be converted are held in the Book-Entry Only System, such shorter period as DTC will permit, to the Bond Trustee, the Tender Agent, DTC and each affected provider of a Credit Facility or Liquidity Facility (as applicable) and Remarketing Agent. As soon as practicable after receipt of a Conversion Notice, but in any event not less than fifteen (15) days prior to the Conversion Date (or, in connection with the Series 2019B Bonds to be converted to the Fixed Rate Mode or the Term Rate Moe, such shorter period as may be agreed to by the Bond Trustee and DTC), the Tender Agent is required to give notice by first–class mail to the Holders of the Series 2019B Bonds to be converted, which notice shall state in substance: (i) the Conversion Date; (ii) the Rate Mode or Rate Modes that will be effective on such Conversion Date; (iii) that the Rate Mode or Rate Modes shall not be converted unless the Bond Trustee receives on the Conversion Date an Opinion of Bond Counsel; (iv) the name and address of the principal corporate trust offices of the Bond Trustee and Tender Agent; (v) that, the Series 2019B Bonds to be converted shall be subject to mandatory tender for purchase on the Conversion Date at the Purchase Price; and (vi) that, upon the Conversion, if and to the extent that there shall be on deposit with the Tender Agent on the Conversion Date an amount of Available Money sufficient to pay the Purchase Price of the Series 2019B Bonds so converted, such Series 2019B Bonds (or portions thereof in Authorized Denominations) not delivered to the Tender Agent on the Conversion Date shall be deemed to have been properly tendered for purchase and shall cease to constitute or represent a right on behalf of the Holder thereof to the payment of principal of or interest thereon and shall represent and constitute only the right to payment of the Purchase Price on deposit with the Tender Agent, without interest accruing thereon from and after the Conversion Date.

Neither the failure to mail the foregoing notice to any Holders of the Series 2019B Bonds to be converted nor any defect therein shall affect the validity of any Rate, the change in the Rate Mode or Rate Modes, the mandatory tender of Series 2019B Bonds to be converted, or extend the period for tendering any Series 2019B Bonds for purchase. The Bond Trustee shall not be liable to any Holder of a Series 2019B Bond by reason of its failure to mail such notice or any defect therein.

In the event that (a) on the Conversion Date (i) an Event of Default under the Resolution has occurred and is continuing, (ii) the Authority shall not have received a letter from Bond Counsel stating that, based on the then current law, such Bond Counsel knows of no reason why the Opinion of Bond Counsel could not be rendered on the Conversion Date, or (iii) the Opinion of Bond Counsel has not been delivered, (b) on the Business Day preceding a scheduled Conversion Date, the Remarketing Agent notifies the Bond Trustee, the Authority, the Corporation, and each affected provider of a Credit Facility or Liquidity Facility (as applicable) that the Series 2019B Bonds to be converted cannot be remarketed; or (c) on or prior to the Business Day preceding a Conversion Date, the Authority, at the direction of the Corporation, notifies the Bond Trustee, each affected Remarketing Agent, and provider of a Credit Facility or Liquidity Facility (as applicable) of its election not to convert such Series 2019B Bonds to the new Rate Mode; then, in each such case, the Series 2019B Bonds shall (x) except as otherwise provided in the Bond Series Certificate, remain in the then existing Rate Mode or (y) be converted to such other Rate Mode as

the Authority shall have specified in the notice given pursuant to clause (c) above upon satisfaction of the applicable requirements set forth in this paragraph, whereupon, in each case, the Rate to be borne by such Series 2019B Bonds shall be a Rate for such Rate Mode determined as provided in the Resolution.

***Selection of Series 2019B Bonds to be Converted and Partial Conversions***. If less than all of the Series 2019B Bonds then subject to a particular Rate Mode or Rate Modes are to be converted to a new Rate Mode or Rate Modes, the particular Series 2019B Bonds that are to be converted to a new Rate Mode or Rate Modes shall be selected by the Bond Trustee in such manner as the Bond Trustee deems appropriate subject to the respective Authorized Denominations for each Rate Mode.

If less than all of the Series 2019B Bonds are to be converted to a new Rate Mode or Rate Modes in which Series 2019B Bonds will no longer be supported by a Credit Facility, prior to such Conversion, the Bond Trustee shall establish separate accounts for all funds established under the Resolution and the Bond Series Certificate and shall segregate such funds so that the deposits and other moneys allocated to the Series 2019B Bonds supported by the Credit Facility shall not be comingled with the deposits and other moneys allocated to the Series 2019B Bonds not supported by the Credit Facility.

**Tender and Purchase of the Series 2019B Bonds**

***Tender for Purchase upon Election of Holder During a Weekly Rate Mode***. For so long as a Series 2019B Bond bears interest in a Weekly Rate Mode during which such Series 2019B Bond is held under DTC's Book-Entry Only System, a DTC Participant, acting on behalf of a Beneficial Owner, shall have the right to tender all or any portion, in an Authorized Denomination, of the principal amount of such Beneficial Owner's interest in such Series 2019B Bond for purchase on any Optional Tender Date, by the giving or delivering to the Remarketing Agent and the Tender Agent at their respective principal offices a Tender Notice which states (i) the aggregate principal amount in an Authorized Denomination of each Series 2019B Bond or portion thereof to be purchased and (ii) that such principal amount of the Series 2019B Bond (in an Authorized Denomination) shall be purchased on such Optional Tender Date pursuant to the Bond Series Certificate.

Such Tender Notice shall be delivered, in the case of Series 2019B Bonds bearing interest at a Weekly Rate, not later than 5:00 P.M., New York City time, on the seventh calendar day prior to the Optional Tender Date.

Any Tender Notice given or delivered in accordance with this section shall be irrevocable and shall be binding on the DTC Participant, the Beneficial Owner on whose behalf such notice was given and any transferee of such Beneficial Owner and the principal amount of the Series 2019B Bonds for which a Tender Notice has been given or delivered shall be deemed tendered on the Optional Tender Date without presentation or surrender of the Series 2019B Bonds to the Tender Agent. If there shall be on deposit with the Tender Agent on the Optional Tender Date an amount sufficient to pay the Purchase Price of the aggregate principal amount of Series 2019B Bonds to be tendered on such Optional Tender Date pursuant to a Tender Notice given pursuant to this section, the Bond Trustee shall request that ownership of such aggregate principal amount of Series 2019B Bonds shall be recorded in the records of DTC as transferred to the Remarketing Agent.

***Mandatory Tender for Purchase upon Conversion to a Different Rate Mode***. The Series 2019B Bonds to be converted to a different Rate Mode, shall be tendered for purchase on the Conversion Date for such Series 2019B Bonds. The Series 2019B Bonds in the Weekly Rate Mode shall be tendered for purchase on any Reset Date at the option of the Authority. Notice of such Mandatory Tender, other than a Mandatory Tender on a Conversion Date, should be given not less than fifteen (15) days prior to the Mandatory Tender Date. Neither the failure to mail such Notice, nor the failure of any Holder of a Series

2019B Bond to receive such notice, nor any defect therein shall affect the obligations of such Holders to tender such Series 2019B Bonds.

***Mandatory Tender for Purchase upon Expiration of Credit Facility or Liquidity Facility***. The Series 2019B Bonds in connection with which a Credit Facility or Liquidity Facility is then in effect shall be tendered for purchase on a Business Day that is not less than three (3) Business Days prior to the Expiration Date of such Credit Facility or Liquidity Facility unless the Expiration Date has been extended at least thirty (30) days prior to such Expiration Date, and the Purchase Price of such tendered Series 2019B Bonds, if not paid with money in the Remarketing Proceeds Account, shall be paid with money drawn under such Credit Facility or Liquidity Facility. Notice of such Mandatory Tender is required to be given not less than fifteen (15) days prior to the Mandatory Tender Date. Neither the failure to mail such Notice, nor the failure of any Holder of a Series 2019B Bond to receive such notice, nor any defect therein shall affect the obligations of such Holders to tender such Series 2019B Bonds.

***Mandatory Tender for Purchase upon Substitution of Credit Facility or Liquidity Facility***. The Series 2019B Bonds in connection with which a substitute Credit Facility or Liquidity Facility is delivered shall be tendered for purchase on the effective date thereof (or if such day is not a Business Day, on the immediately preceding Business Day); provided, however, the Purchase Price of such tendered Series 2019B Bonds in connection with which a substitute Credit Facility or Liquidity Facility is being delivered, if not paid with money in the Remarketing Proceeds Account, shall be paid with money drawn under the then existing Credit Facility or Liquidity Facility. Notice of such Mandatory Tender is required to be given not less than five (5) days prior to the Tender Date. Neither the failure to mail such Notice, nor the failure of any Holder of a Series 2019B Bond to receive such notice, nor any defect therein shall affect the obligations of such Holders to tender such Series 2019B Bonds.

***Mandatory Tender for Purchase upon Termination of Credit Facility or Liquidity Facility***. The Series 2019B Bonds in connection with which a Credit Facility or Liquidity Facility is then in effect shall be tendered for purchase on a Business Day that is not less than one (1) Business Day prior to the Termination Date of such Credit Facility or Liquidity Facility specified in the Default Notice delivered to the Tender Agent by the provider of a Credit Facility or Liquidity Facility (as applicable) or its agent in accordance with the provisions of the Credit Facility or Liquidity Facility or the applicable Reimbursement Agreement, and the Purchase Price of such tendered Series 2019B Bonds, if not paid with money in the Remarketing Proceeds Account, shall be paid with money drawn under such Credit Facility or Liquidity Facility. Notice of such Mandatory Tender is required to be given not less than five (5) days prior to the Tender Date. Neither the failure to mail such Notice, nor the failure of any Holder of a Series 2019B Bond to receive such notice, nor any defect therein shall affect the obligations of such Holders to tender such Series 2019B Bonds.

**Purchase of Tendered Series 2019B Bonds**

On each Tender Date, the Tendered Bonds shall be purchased with Available Money at the applicable Purchase Price, which shall be paid by 3:00 P.M., New York City time, on the Tender Date. The Purchase Price for the Tendered Bonds shall be paid by the Tender Agent from amounts available in the Purchase and Remarketing Fund as provided in the Bond Series Certificate. Tendered Bonds so purchased shall be delivered by the Bondholder on or before the applicable Tender Date. No Tendered Bond so purchased by a provider of a Credit Facility or Liquidity Facility (as applicable) or with money made available by a provider of a Credit Facility or Liquidity Facility (as applicable) shall cease to be Outstanding solely by reason of the purchase thereof.

**Credit Facility or Liquidity Facility**

While the Series 2019B Bonds bear interest at a Weekly Rate or a Daily Rate and the Debt Service Reserve Requirement is not funded, the Corporation is required to provide a Credit Facility or Liquidity Facility for all of the Series 2019B Bonds.

**Redemption Provisions**

The Series 2019B Bonds are subject to optional, special and mandatory redemption as described below.

***Optional Redemption.*** The Series 2019B Bonds while in the Weekly Rate Mode are subject to redemption prior to maturity at the election of the Authority upon the request of the Corporation, in whole or in part, on any Business Day at a Redemption Price equal to 100% of the principal amount of each Series 2019B Bond or portion thereof to be redeemed, plus accrued interest to the redemption date.

***Purchase in Lieu of Optional Redemption.*** The Series 2019B Bonds while in the Weekly Rate Mode are also subject to purchase prior to maturity, in whole or in part, on any Business Day, at a price equal to 100% of the principal amount of each Series 2019B Bond or portion thereof to be purchased (the "*Purchase Price*"), plus accrued interest, if any, to the purchase date (the (the "*Purchase Date*").

***Special Redemption.*** The Series 2019B Bonds are also subject to redemption, in whole or in part, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption, at the option of the Authority on any Interest Payment Date from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the projects financed with the Series 2019B Bonds.

***Mandatory Redemption.*** In addition, the Series 2019B Bonds are also subject to redemption, in part, on each July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to 100% of the principal amount of the Series 2019B Bonds, or portion thereof to be redeemed, plus accrued interest, if any, to the redemption date, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of Series 2019B Bonds specified for each of the years shown below:

| July 1 | Amount |
|---|---|
| 2046 | $ 14,030,000 |
| 2047 | 14,465,000 |
| 2048[†] | 15,430,000 |

[†] Final maturity.

Notwithstanding the foregoing, the date on which a Sinking Fund Installment shall be due when the Series 2019B Bond entitled to such Sinking Fund Installment is in the Weekly Rate Mode shall be either the date set forth above or, if any such date is not an Interest Payment Date, the first Interest Payment Date next succeeding such date.

There will be credited against and in satisfaction of the Sinking Fund Installment payable on any date, the principal amount of Series 2019B Bonds entitled to such Sinking Fund Installment (A) purchased with money in the Debt Service Fund pursuant to the Resolution, (B) redeemed at the option of the Authority, (C) purchased by the Corporation or the Authority and delivered to the Bond Trustee for cancellation or (D) deemed to have been paid in accordance with the Resolution. Series 2019B Bonds

purchased with money in the Debt Service Fund will be applied against and in fulfillment of the Sinking Fund Installment of the Series 2019B Bonds so purchased payable on the next succeeding July 1. Series 2019B Bonds redeemed at the option of the Authority, purchased by the Authority or the Corporation (other than from amounts on deposit in the Debt Service Fund) and delivered to the Bond Trustee for cancellation or deemed to have been paid in accordance with the Resolution will be applied in satisfaction, in whole or in part, of one or more Sinking Fund Installments on such dates as the Authority shall specify in a written direction of the Authority delivered to the Bond Trustee at least fifteen (15) days prior to the earliest date on which notice of redemption of the Series 2019B Bonds entitled to such Sinking Fund Installment may be given by the Bond Trustee and the Sinking Fund Installment payable on each date specified in such direction shall be reduced by the principal amount of the Series 2019B Bonds so purchased, redeemed or deemed to have been paid in accordance with the Resolution to be applied in satisfaction of such Sinking Fund Installment as set forth in such direction. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is so satisfied, the likelihood of redemption through mandatory Sinking Fund Installments of a Bondholder's Series 2019B Bonds of the maturity so purchased will be reduced for such year.

***Selection of Series 2019B Bonds to be Redeemed.*** In the case of redemption of Series 2019B Bonds, other than from Sinking Fund Installments, the Authority, at the direction of the Corporation, will select the maturity of the Series 2019B Bonds to be redeemed. If less than all of the Series 2019B Bonds of like maturity and bearing interest in the same Rate Mode and for the same Rate Period are to be redeemed, the Bond Trustee shall select for redemption, using such method of selection as it deems proper in its discretion, the Bank Bonds of such maturity, Rate Mode and Rate Period before selecting any other Series 2019B Bonds of such maturity, Rate Mode and Rate Period for redemption. Series 2019B Bonds of such maturity, Rate Mode and Rate Period, which are not Bank Bonds shall be selected by the Bond Trustee, by lot, using such method of selection as the Bond Trustee considers proper in its discretion. Notwithstanding anything set forth in the Bond Series Certificate or in the Resolution to the contrary, Bank Bonds must be redeemed prior to any other Series 2019B Bond.

***Notice of Redemption or Tender.*** The Bond Trustee is to give notice of the redemption of the Series 2019B Bonds in the name of the Authority, by first class mail, postage prepaid, not less than fifteen (15) days nor more than thirty (30) days prior to the redemption date to the registered owners of any Series 2019B Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority and by certified mail to a national information service that disseminates bond redemption notices. If the Authority's obligation to redeem the Series 2019B Bonds is subject to conditions, the notice of redemption will contain a statement to such effect that describes the conditions to such redemption. Provided the Bond Trustee has delivered to the Authority a certification that such mailings occurred, such mailing is not a condition precedent to such redemption and failure of any holder or national information service to receive such notice or failure to mail such notice to any such registered owners or national information service or any defect in such notice will not affect the validity of the proceedings for the redemption of the Series 2019B Bonds. While Series 2019B Bonds bear interest in the Weekly Rate Mode, amounts necessary to pay the Redemption Price of the Series 2019B Bonds to be redeemed shall constitute Available Moneys.

If on the redemption date moneys for the redemption of the Series 2019B Bonds of like maturity to be redeemed, together with interest thereon to the redemption date are held by the Bond Trustee so as to be available for payment of the redemption price then interest on the Series 2019B Bonds of such maturity to be redeemed will cease to accrue from and after the redemption date and such Series 2019B Bonds will no longer be considered to be Outstanding under the Resolution.

While a Credit Facility is in place with respect to the Series 2019B Bonds, the Series 2019B Bonds may not be called for optional redemption as set forth above without the prior written consent of the

Credit Facility Issuer unless moneys in an amount sufficient to effectuate such redemption are on deposit with the Bond Trustee on the date the Series 2019B Bonds are called for redemption.

For a description of certain other provisions relating to the Series 2019B Bonds, *see* "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**" in **APPENDIX E** hereto.

***Notice of Purchase in Lieu of Redemption and its Effect.*** Notice of purchase of the Series 2019B Bonds will be given in the name of the Corporation to the registered owners of the Series 2019B Bonds to be purchased, and to each affected Provider, if any, by first-class mail, postage prepaid, not less than fifteen (15) days nor more than thirty (30) days prior to the Purchase Date specified in such notice. The Series 2019B Bonds to be purchased are required to be tendered on the Purchase Date to the Bond Trustee. Series 2019B Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event the Series 2019B Bonds are called for purchase in lieu of an Optional Redemption, such purchase will not operate to extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2019B Bonds and such Series 2019B Bonds need not be cancelled, but will remain Outstanding under the Resolution and continue to bear interest. While a Credit Facility is in place with respect to the Series 2019B Bonds, the notice of purchase in lieu of redemption of the Series 2019B Bonds may not be given as set forth above without the prior written consent of the Credit Facility Issuer unless moneys sufficient to effectuate such purchase are on deposit with the Bond Trustee.

The Corporation's obligation to purchase a Series 2019B Bond or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Series 2019B Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Series 2019B Bonds to be purchased, the former registered owners of such Series 2019B Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the Purchase Price. If sufficient money is not available on the Purchase Date for payment of the Purchase Price, the Series 2019B Bonds tendered or deemed tendered for purchase will continue to bear interest in the Fixed Rate Mode, and will continue to be registered in the name of the registered owners on the Purchase Date, who will be entitled to the payment of the principal of and interest on such Series 2019B Bonds in accordance with their respective terms.

No Bank Bond shall be considered to be no longer outstanding by virtue of its purchase and each such Bank Bond that is not held by DTC under the Book-Entry Only System shall be registered in the name or at the direction of the Corporation.

For a description of certain other provisions relating to the Series 2019B Bonds, *see* "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**" in **APPENDIX E** hereto. *See also* "**Book-Entry Only System**" below for a description of the notices of redemption to be given to Beneficial Owners of the Series 2019B Bonds when the Book-Entry Only System is in effect.

**Book-Entry Only System**

The Depository Trust Company ("*DTC*"), New York, New York, will act as securities depository for the Series 2019B Bonds. The Series 2019B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2019B Bond certificate will be issued for each Series, maturity and, if applicable, interest rate, of the Series 2019B Bonds, totaling in the aggregate the principal amount of the Series 2019B Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New

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

Purchases of Series 2019B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2019B Bonds on DTC's records. The ownership interest of each actual purchaser of a Series 2019B Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2019B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2019B Bonds, except in the event that use of the book-entry system for such Series 2019B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2019B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2019B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2019B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2019B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2019B Bonds within a particular maturity of the Series 2019B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2019B Bonds unless authorized by a Direct Participant in accordance with DTC's

MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2019B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2019B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and 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 Participant and not of DTC, the Underwriter, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2019B Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2019B Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Series 2019B Bond certificates will be printed and delivered to DTC.

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

Each person for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2019B Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, and may desire to make arrangements with such Direct Participant or Indirect Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Direct Participant or Indirect Participant and to have notification made of all interest payments. NONE OF THE AUTHORITY, THE BOND TRUSTEE, THE UNDERWRITER, THE CORPORATION OR THE OTHER MEMBERS OF THE OBLIGATED GROUP WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT OR INDIRECT PARTICIPANT OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2019B BONDS.

So long as Cede & Co. is the registered owner of the Series 2019B Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2019B Bonds (other than under "**PART 13 – TAX MATTERS**" herein) mean Cede & Co., as aforesaid, and do not mean the Beneficial Owners of the Series 2019B Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference will only relate to those permitted to act (by statute, regulation or

otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the Bond Trustee to DTC only.

For every transfer and exchange of Series 2019B Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2019B Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2019B Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Bond Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Series 2019B Bond certificates will be delivered as described in the Resolution.

NONE OF THE AUTHORITY, THE CORPORATION, THE OBLIGATED GROUP, THE UNDERWRITER OR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2019B BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OR PURCHASE IN LIEU OF REDEMPTION OF THE SERIES 2019B BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2019B BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2019B BONDS; OR (VI) ANY OTHER MATTER.

## PART 4 – THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The Letter of Credit will be issued pursuant to the Reimbursement Agreement. This summary does not purport to be a complete description of the material provisions of the Letter of Credit and the Reimbursement Agreement, to which documents reference is made for the complete provisions thereof. The Corporation and the Initial Credit Facility Issuers may amend provisions of the Reimbursement Agreement at any time without the consent of applicable bondholders. Furthermore, compliance by the Corporation with the provisions of the Reimbursement Agreement may be waived in the sole determination of the related Initial Credit Facility Issuer. The provisions of any substitute letter of credit and related reimbursement agreement may be different from those summarized below.

### The Letter of Credit

The Letter of Credit when issued will be in the stated amount of $44,346,198.63 (the "*Stated Amount*") of which (1) the amount of $43,925,000 (as reduced and thereafter reinstated from time to time as hereinafter provided, the "*Principal Portion*"), may be drawn upon with respect to payment of the unpaid principal amount of, or portion of, the purchase price corresponding to the principal of, the Series 2019B Bonds, as certified to the Initial Credit Facility Issuer, and (2) the amount of $421,198.63 (such amount, as reduced and thereafter reinstated from time to time as hereinafter provided, the "*Interest Portion*"), may be drawn upon with respect to the payment of up to 35 days' accrued interest on the Series

2019B Bonds or portion of the purchase price representing accrued interest on the Series 2019B Bonds, in each case assuming a maximum interest rate of 10.00% per annum and computed on the basis of the actual number of days elapsed over a year of 365 days (the "*Maximum Rate*").

The Letter of Credit will automatically expire at the close of business on the earliest to occur of the following dates

(a) April 25, 2029 or, if such date is not a Business Day (as defined in the Letter of Credit), then on the first Business Day next succeeding such date (the "*Stated Expiration Date*") (as such Stated Expiration Date may have been extended as provided in the Letter of Credit); or

(b) the date on which the Initial Credit Facility Issuer honors an Acceleration Drawing (as such term is defined in the Letter of Credit); or

(c) the date on which the Stated Amount is reduced to zero and is not subject to reinstatement; or

(d) the date on which the Initial Credit Facility Issuer honors the last drawing available to be made under the Letter of Credit; or

(e) the date which is five (5) calendar days after the date on which the Initial Credit Facility Issuer receives an executed Certificate As To Conversion From the Weekly Rate with respect to all of the Series 2019B Bonds, appropriately completed, in the form attached to the Letter of Credit; or

(f) the date on which the Initial Credit Facility Issuer receives an executed Certificate As To Final Payment, appropriately completed, in the form attached to the Letter of Credit; or

(g) the date which is five (5) calendar days after the date on which the Initial Credit Facility Issuer receives an executed Certificate As To Acceptance Of A Substitute Credit Facility, appropriately completed, in the form attached to the Letter of Credit.

***Demands for Payment****. T*he Trustee is authorized to draw moneys under the Letter of Credit in accordance with the terms and conditions set forth in the Letter of Credit, by one or more demands for payment, an amount not exceeding in the aggregate the Stated Amount of which:

(a) the Principal Portion may be drawn upon to pay only:

(i) the principal amount of the Series 2019B Bonds (whether at maturity (if, in the Initial Credit Facility Issuer's sole discretion, it extends the Stated Expiration Date) or upon redemption, acceleration of maturity or otherwise) (a "*Principal Drawing*"); and

(ii) that portion of the purchase price of any Series 2019B Bonds tendered, or deemed to have been tendered, as provided in the Bond Series Certificate, to the Trustee for purchase on a Tender Date in accordance with the provisions of the Bond Series Certificate (any such Series 2019B Bonds so tendered, or deemed to have been tendered, to the Trustee being referred to as "*Bonds Tendered or Deemed Tendered for Purchase*"), which is equal to the principal amount of any such Bonds Tendered or Deemed Tendered for Purchase (a "*Bond Purchase Principal Drawing*");

(b) the Interest Portion may be drawn upon to pay only:

(i) the interest payable on the outstanding principal amount of the Series 2019B Bonds on any Interest Payment Date, or on any other date on which interest is payable on the Series 2019B Bonds (an "*Interest Drawing*"); and

(ii) that portion of the purchase price of any Bonds Tendered or Deemed Tendered for Purchase which is equal to the amount of accrued interest on the principal amount of any such Bonds Tendered or Deemed Tendered for Purchase on a Tender Date in accordance with the Bond Series Certificate (a "*Bond Purchase Interest Drawing*").

The Interest Portion may be drawn upon only to pay interest that has accrued on the outstanding principal amount of the Series 2019B Bonds on or prior to the applicable due date for each payment of the principal of the Series 2019B Bonds (whether at maturity, if, in the Initial Credit Facility Issuer's sole discretion, it extends the Stated Expiration Date, or upon redemption, acceleration of maturity, tender or otherwise), and may not be drawn upon to pay any interest that may accrue on the principal of the Series 2019B Bonds after the applicable due date for payment of such principal.

The Letter of Credit may not be drawn upon to pay (a) any resale discount on any Series 2019B Bonds being remarketed by the Remarketing Agent or (b) any redemption premium payable in connection with any redemption of the Series 2019B Bonds. In addition, the Letter of Credit may not be drawn upon to pay the principal or the purchase price of any Bank Bonds, if and to the extent that the Principal Portion of the Letter of Credit has not been reinstated following the Initial Credit Facility Issuer's payment of a Bond Purchase Principal Drawing with respect to such Bank Bonds.

***Reinstatement, Reduction and Increase in Stated Amount***. The Principal Portion (and, accordingly, the Stated Amount) is subject to reinstatement and reduction, and the Interest Portion (and, accordingly, the Stated Amount) is subject to reinstatement, reduction and increase, as follows:

(a) Effective immediately upon the Initial Credit Facility Issuer being reimbursed in full for an amount which the Initial Credit Facility Issuer has paid to the Trustee pursuant to any Bond Purchase Principal Drawing under the Letter of Credit, the amount by which the Initial Credit Facility Issuer is reimbursed shall be automatically reinstated and restored to the Principal Portion, upon receipt by the Initial Credit Facility Issuer of a Trustee Certificate as to Remarketing from the Trustee substantially in the form attached to the Letter of Credit and the Initial Credit Facility Issuer's receipt of funds.

(b) Effective immediately upon any Interest Drawing (other than an Interest Drawing that is included as part of an Acceleration Drawing) or Bond Purchase Interest Drawing which is honored by the Initial Credit Facility Issuer, the amount drawn shall be automatically reinstated and restored to the Interest Portion.

(c) The Principal Portion and the Interest Portion (and, accordingly, the Stated Amount) will be automatically and permanently reduced from time to time, in accordance with and as specified in an executed Certificate For Principal Drawing and Reduction of Stated Amount, appropriately completed, in the form attached to the Letter of Credit and/or in accordance with and as specified in an executed Certificate As To Conversion From The Weekly Rate with respect to less than all of the Series 2019B Bonds, appropriately completed, in the form attached to the Letter of Credit.

(d) The Interest Portion (and, accordingly, the Stated Amount) will be automatically increased or decreased from time to time, upon delivery to the Trustee of an executed Certificate for Increase or Decrease of Interest Portion, appropriately completed, in the form attached to the Letter of Credit, by the amount specified by the Initial Credit Facility Issuer in such Certificate. Any such increase or decrease in the Interest Portion shall constitute an amendment to the Letter of Credit. Under no circumstances whatsoever shall the Initial Credit Facility Issuer be obligated to increase the Stated Amount.

**The Reimbursement Agreement**

***General***. Pursuant to the Reimbursement Agreement, the Initial Credit Facility Issuer is to be reimbursed by the Corporation for drawings made upon the Letter of Credit in accordance with the Reimbursement Agreement.

The Reimbursement Agreement contains various covenants and agreements of the Corporation, including, among other things, covenants regarding the following: payments; provision of annual and quarterly financial statements of the Corporation, limitations on mergers and consolidations involving the Corporation, except in accordance with the Master Indenture; and restrictions on the incurrence of indebtedness except in accordance with the Master Indenture. In addition, the Corporation further covenants to comply with certain provisions of the Master Indenture for the benefit of the Initial Credit Facility Issuer.

***Events of Default under Original Reimbursement Agreement***. As used below, the following terms have the following meanings:

"Act of Bankruptcy" means any of the following events:

(i) the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments under the Loan Agreement or the Reimbursement Agreement) shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation or such other Person or of all or any substantial part of its property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments under the Loan Agreement or the Reimbursement Agreement) in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts of the Corporation, or such other Person (obligated as guarantor or otherwise, to make payments under the Loan Agreement or the Reimbursement Agreement), or (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation or such other Person, or all or any substantial part of its property, or (c) similar relief in respect of the Corporation or such other person under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

"Bankruptcy Code" means the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq., and all future acts supplemental thereto or amendatory thereof.

"Bond Documents" means and includes (without limitation) the Series 2019B Bonds, the Remarketing Agreement, the Master Indenture, the General Resolution, the Series 2019B Resolution, the Bond Series Certificate, the Loan Agreement, the Series 2019B-1 Obligation, the Mortgages, the Pledged Bonds Custody Agreement, and any and all other documents which the Issuer, the Corporation or any other party or parties or their representatives, have executed and delivered, or may hereafter execute and deliver, to evidence or secure the Issuer's Obligations or the Corporation's Bond Obligations, or any part thereof, or in connection therewith, together with any and all Supplements thereto; provided, however, that the term "Bond Documents", with the exception of the Pledged Bonds Custody Agreement, the Master Indenture and the Mortgages, does not include the Letter of Credit Documents.

"Corporation's Bond Obligations" means the obligations of the Corporation under the Bond Documents to (a) pay the principal of, premium (if any) and interest on the loan as required by the Loan Agreement, when and as the same become due and payable (whether at the stated maturity thereof, or by acceleration of maturity or after notice of redemption or prepayment or otherwise), (b) pay all other payments required by the Bond Documents to be paid by the Corporation to the Issuer, to the Trustee or to others, when and as the same shall become due and payable, and (c) timely perform, observe and comply with all of the terms, covenants, conditions, stipulations and agreements, express or implied, which the Corporation is required by any of the Bond Documents to perform or observe.

"Corporation's Letter of Credit Obligations" means the obligations of the Corporation under the Letter of Credit Documents to pay all payments required by the Letter of Credit Documents, when and as the same become due and payable, and timely perform, observe and comply with all of the terms, covenants, conditions, stipulations and agreements, express or implied, which the Corporation is required by the Letter of Credit Documents to observe or perform.

"Letter of Credit Documents" means the Letter of Credit, the Reimbursement Agreement, the Pledged Bonds Custody Agreement, the Master Indenture, the Mortgages, the Series 2019B-2 Obligation and any and all other documents which the Corporation or any other party or parties or their representatives have executed and delivered, or may hereafter execute and deliver, to evidence, secure or guaranty the Corporation's Letter of Credit Obligations, or any part thereof, or in connection therewith, together with any and all Supplements thereto.

"Pledged Bonds Custodian" means Manufacturers and Traders Trust Company, a New York banking corporation, as agent for the Initial Credit Facility Issuer and the Corporation under the Pledged Bonds Custody Agreement, or any successor custodian of the Bank Bonds acting as the Initial Credit Facility Issuer's and the Corporation's agent.

"Pledged Bonds Custody Agreement" means (a) the Pledged Bonds Custody Agreement of even date with the Reimbursement Agreement by and among the Corporation, the Initial Credit Facility Issuer and the Pledged Bonds Custodian, together with any and all supplements thereto, and (b) any other custody agreement or similar agreement among the Corporation, the Initial Credit Facility Issuer and the Pledged Bonds Custodian, pursuant to which the Pledged Bonds Custodian, as agent for the Initial Credit Facility Issuer and the Corporation, acts as custodian of the Pledged Bonds, together with any and all supplements thereto.

The Reimbursement Agreement provides that any of the following shall constitute an event of default under the Reimbursement Agreement (for purposes of this section, an "Event of Default"):

(a) Any representation or warranty made by the Corporation in the Reimbursement Agreement or any statement or representation made in any certificate, report or opinion (including legal opinions), financial statement or other instrument furnished in connection with the Reimbursement Agreement or any of the other Letter of Credit Documents, proves to have been incorrect, false or misleading in any material respect when made; or

(b) The Corporation fails to pay, on the date on which the same is due and payable (including any applicable grace period specified in the Reimbursement Agreement) as provided in the Reimbursement Agreement, (i) any payment required by the Letter of Credit with respect to reimbursement for any drawing under the Letter of Credit, increased costs or late payments, or (ii) any payment required by the Reimbursement Agreement with respect to fees with respect to the Letter of Credit, or (iii) any other payment whatsoever required by the Reimbursement Agreement to be paid by the Corporation and such failure continues for five (5) Business Days after written notice from the Initial Credit Facility Issuer; or

(c) The Corporation fails to duly and promptly perform, comply with or observe any of the terms, covenants, conditions or agreements contained in the provisions of the Reimbursement Agreement with respect to (i) compliance with the Long-Term Debt Service Coverage Ratio set forth in the Master Indenture, or (iii) the negative covenants of the Corporation;

(d) The Corporation fails to duly and promptly perform, comply with or observe any other term, covenant, condition or agreement contained in the Reimbursement Agreement or any of the Bond Documents or the other Letter of Credit Documents, or of any other of the Corporation's Bond Obligations or the Corporation's Letter of Credit Obligations, which failure remains unremedied for 30 days; provided, however, if such failure be such that it cannot be corrected within 30 days, it shall not be an Event of Default, if, in the sole and absolute discretion of the Initial Credit Facility Issuer, the Corporation is taking appropriate corrective action to cure the failure and such failure will not impair the ability of the Corporation to pay or perform the Corporation's Bond Obligations or the Corporation's Letter of Credit Obligations; or

(e) An Act of Bankruptcy occurs with respect to the Corporation or the Corporation becomes generally unable to pay any of its debts as they become due, provided, however, that if a proceeding with respect to an Act of Bankruptcy is filed or commenced against the Corporation, the same shall not constitute an Event of Default if such proceeding is dismissed within 90 days from the date of such Act of Bankruptcy; or

(f) (i) The Corporation is dissolved, either pursuant to its certificate of incorporation and by-laws, by operation of law, or in any other manner, voluntarily or otherwise; or (ii) the certificate of incorporation of the Corporation are terminated or forfeited pursuant to their terms or by operation of law, or amended or modified in any material manner without the Initial Credit Facility Issuer's prior written consent thereto; or

(g) An "Event of Default" occurs under any of the Bond Documents or under any of the other Letter of Credit Documents after any applicable grace or cure period; or

(h) Any amendment to any of the Bond Documents (other than amendments or supplements made to the Master Indenture in accordance with the terms thereof which do not require the consent of the Initial Credit Facility Issuer) or the Letter of Credit Documents shall have been made without the prior written consent of the Initial Credit Facility Issuer; or

(i) Notwithstanding the provisions of the Reimbursement Agreement with respect to illegality and severability, any material provision of the Reimbursement Agreement at any time for any reason ceases to be valid and binding on the Corporation, or is declared to be null and void, or the validity or enforceability thereof is contested by the Corporation or any governmental agency or authority, or the Corporation denies that it has any or further liability or obligation under the Reimbursement Agreement or any of the Bond Documents or the Letter of Credit Documents; or

(j) Any provision of the Reimbursement Agreement or any of the other Letter of Credit Documents or the Bond Documents pertaining to the repayment of the principal of or interest on the loan evidenced by and described in the Loan Agreement or the Bonds transcends the limit of validity prescribed by law, or operates or would prospectively operate to invalidate the Reimbursement Agreement or any of the other Letter of Credit Documents or the Bond Documents, in whole or in part; or

(k) The Corporation fails to maintain its status as a not-for-profit corporation exempt from the payment of federal income tax under Section 501(c)(3) of the Code

BECAUSE THE INITIAL CREDIT FACILITY ISSUER, WITHOUT THE CONSENT OF ANY HOLDER OF A SERIES 2019B BOND, THE BOND TRUSTEE OR THE AUTHORITY, HAS THE ABILITY TO REQUIRE A MANDATORY TENDER WITH RESPECT TO THE SERIES 2019B BONDS UPON THE OCCURRENCE OF AN EVENT OF DEFAULT UNDER THE REIMBURSEMENT AGREEMENT, PROSPECTIVE PURCHASERS OF THE SERIES 2019B BONDS SHOULD NOT ASSUME THAT THEY WILL HAVE PROTECTION AGAINST A MANDATORY TENDER OF THE SERIES 2019B BONDS.

## PART 5 – THE REMARKETING AGENT

The Weekly Rate for the Series 2019B Bonds will be initially determined by the Underwriter and thereafter will be determined by the Remarketing Agent, in the manner described herein.

### The Remarketing Agent is Paid by the Corporation

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2019B Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case to the terms of the Resolution and the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Corporation and are paid by the Corporation for their services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of the Series 2019B Bonds.

### The Remarketing Agent Routinely Purchases Bonds for Its Own Accounts

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2019B Bonds for its own account. The Remarketing Agent, in its sole discretion, routinely acquires tendered bonds for its own inventory in order to achieve a successful remarketing of such bonds (i.e., because there otherwise are not enough buyers to purchase the bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase bonds including the Series 2019B Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in Series 2019B Bonds by routinely purchasing and selling Series 2019B Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2019B Bonds. If the Remarketing Agent purchases Series 2019B Bonds for its own account, it may offer those Series 2019B Bonds at a discount to par to some investors. The Remarketing Agent may also sell any Series 2019B Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2019B Bonds. The purchase of Series 2019B Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2019B Bonds in the market than is actually the case. The practices described above also may reduce the supply of Series 2019B Bonds that may be tendered in a remarketing.

### Series 2019B Bonds May be Offered at Different Prices on any Date

Pursuant to the Resolution and the Remarketing Agreement, the Remarketing Agent is required to determine on each date that the interest rate is required to be determined under the Resolution (each date a "*Rate Determination Date*") the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2019B Bonds at par plus accrued interest, if any, on the date the rate becomes effective (the "*Effective Date*"). The interest rate will reflect, among other factors, the

level of market demand for such Series 2019B Bonds (including whether the Remarketing Agent is willing to purchase such Series 2019B Bonds for its own account). There may or may not be Series 2019B Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Series 2019B Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2019B Bonds at varying prices to different investors on a Rate Determination Date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2019B Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2019B Bonds for its own account, the Remarketing Agent may, in its sole discretion in a secondary market transaction outside the tender process offer the Series 2019B Bonds on any date, including a Rate Determination Date, at a discount to par to some investors.

**The Ability to Sell the Series 2019B Bonds Other Than Through Tender Process May be Limited**

While the Remarketing Agent may buy and sell Series 2019B Bonds, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Series 2019B Bonds, to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2019B Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2019B Bonds other than by tendering in accordance with the tender process. The Letter of Credit is not available to purchase Series 2019B Bonds other than those tendered in accordance with a sale of such Series 2019B Bonds by a bondholder to the Remarketing Agent. The Letter of Credit will only be drawn upon when Series 2019B Bonds have been properly tendered in accordance with the terms of the Resolution.

**Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named**

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

## PART 6 – PLAN OF FINANCE

The proceeds of the sale of the Series 2019B Bonds will provide funds which, together with other available funds, will be used to (i) finance a portion of the Project; and (ii) pay costs of issuance on the Series 2019B Bonds. *See* "**PART 8 – ESTIMATED SOURCES AND USES OF FUNDS**" herein.

Concurrently with the issuance of the Series 2019B Bonds, the Authority intends to issue the Series 2019A Bonds. All of the Series 2019 Bonds will be considered part of a single bond issue for federal income tax purposes. It shall be a condition precedent for the issuance of the Series 2019B Bonds that the Series 2019A Bonds be issued concurrently therewith.

## PART 7 – ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each fiscal year ending December 31 the estimated debt service requirements on the Existing Obligations and the Series 2019 Obligations following the issuance of the Series 2019 Bonds and application of the proceeds thereof, all in accordance with the assumptions set forth in the footnotes to the table.

| Fiscal | Series 2019A Bonds | | Series 2019B Bonds | | Existing | Aggregate Debt |
|---|---|---|---|---|---|---|
| Year Ending | Principal | Interest | Principal | Interest[1] | Obligations[2][3][4] | Service |
| 2019 | - | $ 1,108,644 | - | $ 805,292 | $ 16,172,570 | $ 18,086,505 |
| 2020 | - | 6,047,150 | - | 1,339,713 | 15,136,103 | 22,522,966 |
| 2021 | - | 6,047,150 | - | 1,336,052 | 13,927,848 | 21,311,050 |
| 2022 | - | 6,047,150 | - | 1,336,052 | 13,543,801 | 20,927,003 |
| 2023 | - | 6,047,150 | - | 1,336,052 | 12,820,069 | 20,203,271 |
| 2024 | - | 6,047,150 | - | 1,339,713 | 12,137,775 | 19,524,637 |
| 2025 | - | 6,047,150 | - | 1,336,052 | 11,576,572 | 18,959,775 |
| 2026 | $ 2,935,000 | 6,047,150 | - | 1,336,052 | 8,094,541 | 18,412,743 |
| 2027 | 3,075,000 | 5,900,400 | - | 1,336,052 | 8,104,193 | 18,415,645 |
| 2028 | 4,085,000 | 5,746,650 | - | 1,339,713 | 7,248,282 | 18,419,644 |
| 2029 | 4,275,000 | 5,542,400 | - | 1,336,052 | 7,262,312 | 18,415,764 |
| 2030 | 4,485,000 | 5,328,650 | - | 1,336,052 | 7,263,169 | 18,412,871 |
| 2031 | 4,705,000 | 5,104,400 | - | 1,336,052 | 7,270,549 | 18,416,001 |
| 2032 | 4,825,000 | 4,963,250 | - | 1,339,713 | 7,292,806 | 18,420,768 |
| 2033 | 5,945,000 | 4,722,000 | - | 1,336,052 | 6,408,948 | 18,412,000 |
| 2034 | 6,130,000 | 4,543,650 | - | 1,336,052 | 6,403,647 | 18,413,349 |
| 2035 | 6,430,000 | 4,237,150 | - | 1,336,052 | 6,409,273 | 18,412,475 |
| 2036 | 6,750,000 | 3,915,650 | - | 1,339,713 | 6,414,935 | 18,420,298 |
| 2037 | 7,090,000 | 3,578,150 | - | 1,336,052 | 6,407,742 | 18,411,944 |
| 2038 | 7,370,000 | 3,294,550 | - | 1,336,052 | 6,416,054 | 18,416,656 |
| 2039 | 7,670,000 | 2,999,750 | - | 1,336,052 | 6,408,443 | 18,414,245 |
| 2040 | 9,135,000 | 2,692,950 | - | 1,339,713 | 5,250,229 | 18,417,892 |
| 2041 | 9,495,000 | 2,327,550 | - | 1,336,052 | 5,255,413 | 18,414,015 |
| 2042 | 9,965,000 | 1,852,800 | - | 1,336,052 | 5,260,850 | 18,414,702 |
| 2043 | 11,645,000 | 1,454,200 | - | 1,336,052 | 3,979,652 | 18,414,904 |
| 2044 | 12,110,000 | 988,400 | - | 1,339,713 | 3,978,072 | 18,416,185 |
| 2045 | 12,600,000 | 504,000 | - | 1,336,052 | 3,976,638 | 18,416,690 |
| 2046 | - | - | $ 14,030,000 | 1,157,170 | 560,259 | 15,747,429 |
| 2047 | - | - | 14,465,000 | 724,877 | 560,262 | 15,750,139 |
| 2048 | - | - | 15,430,000 | 273,882 | 45,849 | 15,749,731 |
| | $ 140,720,000 | $ 113,135,244 | $ 43,925,000 | $ 37,724,199 | $ 221,586,855 | $ 557,091,298 |

[1] Assumes an annual interest rate of 3.00%.

[2] Represents debt service on existing Obligated Group and Non-Obligated Group Indebtedness upon issuance of the Series 2019 Bonds and the application of the proceeds thereof.

[3] Hedged variable rate bonds interest rate assumed at fixed payor swap rates.

[4] Balloon indebtedness is re-amortized over 30 years from the date of issuance.

Totals may not foot due to rounding.

## PART 8 – ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2019 Bonds:

| | Series 2019A Bonds | Series 2019B Bonds | Total |
|---|---|---|---|
| **Sources of Funds** | | | |
| Par Amount of Bonds | $ 140,720,000 | $ 43,925,000 | $ 184,645,000 |
| Net Original Issue Premium | 12,306,654 | -- | 12,306,654 |
| Funds Held for Refunded Bonds | 4,402,373 | -- | 4,402,373 |
| **Total Sources of Funds** | $ 157,429,027 | $ 43,925,000 | $ 201,354,027 |
| **Uses of Funds** | | | |
| Deposit to Series 2019A Project Fund | $ 63,021,386 | -- | $ 63,021,386 |
| Deposit to Series 2019B Project Fund | -- | $ 43,457,707 | 43,457,707 |
| Reimbursement for Prior Expenditures | 17,638,866 | -- | 17,638,866 |
| Repayment of Certain Bank Credit Facilities | 26,032,511 | -- | 26,032,511 |
| Redemption of Refunded Series 2006 Bonds | 29,786,307 | -- | 29,786,307 |
| Redemption of Refunded Series 2008 Bonds | 19,253,574 | -- | 19,253,574 |
| Costs of Issuance [(1)] | 1,696,382 | 467,293 | 2,163,675 |
| **Total Uses of Funds** | $ 157,429,027 | $ 43,925,000 | $ 201,354,027 |

[(1)] Costs of Issuance includes Underwriter's discount, rating agencies, bond trustee, master trustee, cost of printing, fees for legal counsel, financial advisor, accountants and other costs.

Totals may not foot due to rounding.

## PART 9 – BONDHOLDERS' RISKS

The purchase and ownership of the Series 2019B Bonds involves certain investment risks that are discussed throughout this Official Statement. This section on Bondholders' Risks focuses primarily on the general risks associated with hospital or health system operations, whereas "**APPENDIX A**" hereto describes the System and the Obligated Group specifically. Prospective purchasers of the Series 2019B Bonds should evaluate all of the information presented in this Official Statement.

The operations and financial condition of the Obligated Group may be affected by factors other than those described below. No assurance can be given as to the nature of such factors or the potential effects thereof upon the Obligated Group. This discussion is not intended to be comprehensive or definitive, but rather to summarize certain matters that could affect payment of the Series 2019B Bonds. Investors should recognize that the discussion below does not cover all such risks, that payment provisions for, and regulations and restrictions on, hospitals change frequently and that additional material limitations and regulations or restrictions may be created, implemented or expanded while the Series 2019B Bonds are outstanding.

### General

Payment of the Series 2019B Bonds depends directly on the ability of the Members of the Obligated Group to collectively generate revenues sufficient to cover the debt service on the Series 2019B Bonds and all other indebtedness of the Obligated Group. No representation or assurance can be given that the Members of the Obligated Group will realize revenues in amounts sufficient to make such payments under the Loan Agreement and the Series 2019B-1 Obligation and to pay other expenses and obligations of the Members of the Obligated Group. Further, there is no assurance that the revenues of the Members of the Obligated Group can be increased sufficiently to compensate for cost increases that may occur.

The Members of the Obligated Group are subject to a wide variety of federal and state regulatory actions and legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid and other payors. The Members of the Obligated Group are subject to actions by, among others, the National Labor Relations Board, The Joint Commission ("*The Joint Commission*"), the Centers for Medicare and Medicaid Services ("*CMS*") of the U.S. Department of Health and Human Services ("*HHS*"), the Internal Revenue Service ("*IRS*") and other federal, state and local government agencies. The future financial condition of the Members of the Obligated Group could be adversely affected by, among other things, changes in the method and amount of payments to the Members of the Obligated Group by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental audits, inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (i.e., accountable care organizations and other health care reform payment mechanisms), future changes in the economy, demographic changes, availability of physicians, nurses and other health care professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Members of the Obligated Group on the Series 2019B Bonds. In addition, the tax-exempt status of each Member of the Obligated Group could be adversely affected by, among other things, an adverse determination by a governmental entity or non-compliance with governmental regulations or legislative changes that could, in turn, adversely affect the Series 2019B Bonds, including the tax-exempt status of the Series 2019B Bonds. Neither the Underwriter nor the Authority have made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Members of the Obligated Group.

The discussion herein of risks to the owners of the Series 2019B Bonds is not intended as comprehensive or definitive, but rather is to summarize certain matters that could affect timely payment on the Series 2019B Bonds. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed herein. Copies of all such documents are on file with the Authority and the Bond Trustee.

**The Initial Credit Facility Issuer**

The Series 2019B Bonds will initially be supported by the Initial Credit Facility Issuer, pursuant to which the Initial Credit Facility Issuer has agreed, under certain circumstances, to provide funds for the purchase of the Series 2019B Bonds that are tendered for purchase in the event such Series 2019B Bonds are not remarketed or remarketing proceeds are not made available.

In the event of insolvency of the Initial Credit Facility Issuer or the occurrence of some other event precluding the Initial Credit Facility Issuer from honoring its obligations to make payments pursuant to the Letter of Credit, Bondholders may become general unsecured creditors of the Initial Credit Facility Issuer. Under such circumstances, the financial resources of the Corporation and any other Member of the Obligated Group may be the only source of timely payment on the Series 2019B Bonds upon a Bondholder's optional tender for purchase. There can be no assurance that, under such circumstances, the financial resources of the Corporation or any other Member of the Obligated Group would be sufficient to pay the principal or purchase price of, premium, if any, or interest on the Series 2019B Bonds in the event the Bond Trustee seeks recourse against the Corporation or any other Member of the Obligated Group.

There can be no assurance that the credit rating of the Initial Credit Facility Issuer will continue at its current level. A decline in the credit rating of the Initial Credit Facility Issuer or the issuer of a Substitute Credit Facility could result in a decline in the short-term ratings that may be assigned to the related Series 2019B Bonds from time to time. Such a decline could in turn affect the market price and

marketability of such Series 2019B Bonds. For information concerning the Initial Credit Facility Issuer, see "**INFORMATION REGARDING THE INITIAL CREDIT FACILITY ISSUER**" in **APPENDIX I** hereto. The Resolution and the Bond Series Certificate permits the Corporation and the other Members of the Obligated Group, under certain circumstances, to substitute a Substitute Credit Facility for the Initial Credit Facility Issuer; however, such substitution must be in accordance with the terms and conditions of the Resolution and the Bond Series Certificate. No assurance can be given that a Substitute Credit Facility for the Initial Credit Facility Issuer could be provided should the Corporation and the other Members of the Obligated Group wish to do so in connection with an event of insolvency or downgrade of the credit rating of the Initial Credit Facility Issuer.

**The Federal Budget and the Federal Debt Limit**

***Budget Control Act.*** The Federal Budget Control Act of 2011 (the "*Budget Control Act*") mandates significant reductions in federal spending caps for fiscal years 2012-2021, including annual reductions of two percent on all Medicare payments during this period. The Bipartisan Budget Act of 2018 extended these reductions through 2027. It is possible that Congress could act to extend or increase these across-the-board reductions.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have on the Obligated Group. Further, with no long-term resolution in place for Federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reductions with respect to any interim or long-term Federal deficit reduction efforts. These and any additional reductions in Medicare spending could have a material adverse effect upon the financial condition or operations of the Obligated Group.

***Debt Limit Increase.*** The Federal government has, through legislation, created a debt "ceiling" or limit on the amount of debt that may be issued by the U.S. Treasury. In the past several years, disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling. Any failure by Congress to increase the Federal debt limit may impact the federal government's ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs. Management of the Obligated Group is unable to determine at this time what impact any failure to increase the federal debt limit may have on the operations and financial condition of the Obligated Group, although such impact may be material and adverse. Additionally, the market price or marketability of the Corporation's outstanding bonds in the secondary market may be materially adversely impacted by any failure to increase the federal debt limit.

**Health Care Reform**

The discussion herein describes risks associated with certain existing federal and state laws, regulations, rules, and governmental administrative policies and determinations to which the Obligated Group and the healthcare industry are subject. While these are regularly subject to change, many of the existing provisions were enacted by or promulgated pursuant to the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively referred to herein as the "*ACA*"), to which opposition has been expressed by President Trump, as well as leaders in Congress. It is not possible to predict with any certainty whether or when the ACA or any specific provision or implementing measure will be repealed, withdrawn or modified in any significant respect, but Congress could enact legislation, withdraw, modify or promulgate rules, regulations and policies, or make determinations affecting the healthcare industry and the Obligated Group Members, any of which individually or collectively could have a material adverse effect on the operations, financial condition and financial performance of the Obligated Group Members.

In June 2012, the U.S. Supreme Court upheld most provisions of the ACA, including a key provision known as the "individual mandate," while limiting the power of the federal government to penalize states for refusing to expand Medicaid. The individual mandate, which took effect in 2014, generally required that individuals either have a certain amount of health insurance coverage or pay a yearly tax penalty. As discussed below, the individual mandate tax penalty was eliminated by recent tax legislation. In June 2015, the U.S. Supreme Court upheld U.S. Treasury Regulations issued under the ACA that allow health insurance exchange purchasers to receive tax-credit subsidies, regardless of whether the purchase is made through a federal or state-operated exchange. However, under the Tax Cuts and Jobs Act (defined below), the penalty for failure to comply with the individual mandate was reduced to zero for tax years 2019 and beyond. (*See* "**Tax Reform**" below.)

The ACA addresses almost all aspects of hospital and provider operations and health care delivery and is changing how health care services are covered, delivered and reimbursed. These changes are prompting implementation of new payment models, utilization changes and increased government enforcement and are causing health care providers to assess, and potentially alter, their business strategies and practices. While most providers are receiving reduced payments for care, millions of previously uninsured Americans have health insurance coverage. "Health insurance exchanges" have altered the health insurance market and negatively affected health care providers by enabling insurers to more aggressively negotiate lower reimbursement rates. Federal deficit reduction efforts have curbed and will likely continue to further slow the growth of federal Medicare and Medicaid spending to the detriment of hospitals, physicians and other health care providers.

As discussed in more detail below, due to executive actions taken by President Trump with respect to the ACA, potential challenges by states to such executive actions and continuing efforts by Congress to modify the ACA, there is significant uncertainty as to whether the ACA will continue to be implemented, funded and enforced as originally enacted.

Enactment of the ACA has led to substantial and continuing changes in the U.S. health care system. The ACA has affected and continues to affect the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. Some of the provisions of the ACA took effect immediately or within a few months of enactment, while others have been or are expected to be phased-in over a longer time, ranging from one year to ten years.

The ACA has also required, and will continue to require, the promulgation of substantial regulations with the potential to have significant effects on the health care industry and the Members of the Obligated Group, including the need for structural and operational changes for a substantial period of time. The full ramifications of the ACA may only become apparent over an extended period of time and through later regulatory and judicial interpretations. Portions of the ACA have already been limited or nullified as a result of legislative amendments and judicial interpretations and future actions may further change its impact. The uncertainties regarding the implementation of the ACA and the continuation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a substantial risk.

The changes in the health care industry attributable to enactment of the ACA have had and may have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Members of the Obligated Group. For example, the increase in the numbers of individuals with health care insurance due to Medicaid expansion, creation of the health insurance exchange and subsidies for insurance purchase has generally resulted in lower levels of charity care and increased utilization, including more profitable shifts in utilization patterns for hospitals. However, the extent to which Medicaid expansion, which is now optional on a state-by-state basis, is either

not pursued or results in a shifting of significant numbers of commercially-insured individuals to Medicaid the extent to which health insurance options on exchanges are limited or unaffordable, and the cost containment measures and pilot programs that the ACA requires, have offset these benefits in part. Additionally, it is predicted that the elimination of the individual mandate will result in fewer healthy individuals purchasing insurance (through the exchanges or otherwise), thereby increasing the number of uninsured individuals and further off-setting ACA benefits.

A negative overall impact of the ACA is likely to result from scheduled cumulative reductions in Medicare payments; those scheduled reductions are substantial. The ACA's cost-cutting provisions to the Medicare program include reduction in the Medicare "market basket" updates to hospital reimbursement rates under the inpatient prospective payment system, additional reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions, as well as anticipated reductions in rates paid to Medicare managed care plans that may ultimately be passed on to providers. Government cost reduction actions have been and may continue to be followed by private insurers and payors. Because a significant portion of the Obligated Group's patient service revenue is attributable to Medicare reimbursement, the reductions may have a material adverse effect on the operations, financial condition and financial performance of the Obligated Group and could offset any positive effects of the ACA.

On June 21, 2018, the U.S. Department of Labor published a final rule, amending the definition of "employer" under section 3(5) of the Employee Retirement Income Security Act ("*ERISA*") to allow for the establishment of group or association health plans ("*AHPs*") that broadens the criteria under ERISA for determining when and how employers may form associations to offer group health plans to multiple employers and self-employed individuals. The final rule is intended to expand access to group health coverage by permitting businesses, sole proprietors and self-employed to form associations to sponsor AHPs based on common geography, industry or trade, if certain criteria are met; however, the final rule also eliminates certain requirements for a health plan under the ACA.

In addition, beginning in 2020 and absent modifying legislation, an excise tax will be imposed under the ACA on certain high-cost, employment-based health plans. This tax was originally scheduled to take effect in federal fiscal year 2018, but its implementation has been delayed by subsequent legislation.

The ACA encourages the creation of new health care delivery programs, mandates the creation of a number of payment reform measures designed to incentivize or penalize hospitals based on quality, efficiency and clinical integration measures, and authorizes government agencies to develop and test new payment methodologies designed to improve quality of care and lower costs. Accordingly, the ACA will likely affect some health care organizations differently from others, depending, in part, on how each organization adapts to the ACA's emphasis on directing more federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. For example, the ACA proposes a value-based purchasing system for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The ACA also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including Medicare Shared Saving Program "accountable care organizations" and bundled provider payments. The outcomes of these projects and programs, including the likelihood of being made permanent or expanded or their effect on health care organizations' revenues or financial performance, cannot be predicted.

In an attempt to reduce unnecessary health care spending, the ACA includes a number of provisions aimed at combating fraud and abuse within the Medicare and Medicaid programs. Such

provisions provide increased federal funding to fight health care fraud and abuse, provide government agencies with additional enforcement tools and investigation flexibility, facilitate cooperation between agencies by establishing mechanisms for information sharing, and enhance criminal and administrative penalties for non-compliance with the federal fraud and abuse laws. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt a compliance and ethics program. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provides new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments. Any legislative changes to the ACA could result in additional pressure on federal health care program funding.

The ACA and its implementation have been, and remain, politically controversial. The ACA has continually faced legal and legislative challenges, including repeal efforts, since its enactment. President Trump and Republican leaders of Congress have repeatedly cited health care reform, and particularly repeal and replacement of the ACA, as a key goal. To that end, Congressional leaders have introduced various ACA repeal bills. While no bills wholly repealing the ACA have passed both chambers of Congress, the Tax Cuts and Jobs Act passed in late 2017 (defined and discussed below) eliminated the ACA's individual mandate tax penalty associated with failing to maintain health coverage, effective 2019. Management cannot predict the effect of the elimination of the individual mandate tax penalty, the likelihood of any future ACA repeal bills or other health care reform bills becoming law, or the subsequent effects of any such laws, though such effects could materially impact the Obligated Group's business or financial condition. However, any legal, legislative or executive action that (1) reduces federal health care program spending, (2) increases the number of individuals without health insurance, (3) reduces the number of people seeking health care, or (4) otherwise significantly alters the health care delivery system or insurance markets could have a material adverse effect on the Obligated Group's business or financial condition.

In addition to actual and possible legislative changes, the ACA implementation and the ACA insurance exchange markets may be impacted by executive branch actions. President Trump has issued two broad executive orders aimed at de-regulation: (1) one requiring federal agencies to remove two previously implemented regulations for every new regulation added, and (2) one directing each federal agency to set up a "regulatory reform task force" to review existing regulations and eliminate those that are costly or unnecessary. Additionally, President Trump has issued executive actions directly aimed at the ACA: (1) one requiring federal agencies with authorities and responsibilities under the ACA to "exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay" parts of the law that place "unwarranted economic and regulatory burdens" on states, individuals or health care providers, (2) a second instructing federal agencies to make new rules allowing the proliferation of "association health plans" and short-term health insurance, which plans have fewer benefit requirements than those sold through ACA insurance exchanges, and (3) a third ordering the federal government to withhold ACA cost-sharing subsidies currently paid to insurance companies in order to reduce deductibles and co-pays for many low-income people. These executive actions have the potential to significantly impact the insurance exchange market by causing a reduction in the number of healthy individuals in the ACA health insurance exchanges, a reduction in the number of plans available on the health insurance exchanges, and/or an increase in insurance premiums. The Obligated Group cannot predict the likelihood of similar future executive actions or effect of any such executive actions on the financial conditions or results of operations of the Obligated Group, though such effects could be material.

**Tax Reform**

On December 22, 2017, President Trump signed into law "H.R. 1 – An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018,"

(the "*Tax Cuts and Jobs Act*"). The Tax Cuts and Jobs Act lowered corporate and individual tax rates and eliminated certain tax preferences and other tax expenditures. As discussed above, the Tax Cuts and Jobs Act also eliminated, effective 2019, the tax penalties associated with failure to comply with the ACA's individual mandate. The Commonwealth Fund ACA Tracking Survey, released in May 2018, notes that the number of uninsured Americans has increased since 2016, reversing years of decline since the ACA was passed in 2010. According to the report, the number of uninsured adults between the ages of 19 and 64 rose to 15.5% in March 2018, up from 12.7% in 2016, and an estimated 4 million people lost individual coverage during that period. The elimination of the individual mandate may result in a higher uninsured rate, which may adversely affect the financial condition of the Members of the Obligated Group.

The Tax Cuts and Jobs Act also eliminates the issuance of tax-exempt bonds to advance refund outstanding tax-exempt bonds; imposes an excise tax on exempt entities' executive compensation in excess of $1,000,000 per year; requires that the tax on an exempt organization's unrelated business income be computed separately for each line of business; requires the inclusion of certain fringe benefits in the calculation of unrelated business income tax; and limits the use of net operating losses in computing unrelated business income tax, each of which may, collectively or individually, adversely affect the financial condition or operations of Members of the Obligated Group.

**Patient Service Revenues**

***General***. A substantial portion of the net patient service revenue of the Obligated Group is derived from third-party payors that reimburse or pay for the services and items provided to patients covered by such third parties. These third-party payors include the federal Medicare program, state Medicaid programs and private health plans and insurers, including health maintenance organizations ("*HMOs*") and preferred provider organizations ("*PPOs*"). Many of these payors make payments to the Obligated Group in amounts that may not reflect the direct and indirect costs of the Obligated Group providing services to patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the Obligated Group's actual costs of furnishing health care services and items. In addition, the financial performance of the Obligated Group could be adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

***Medicare and Medicaid Programs; General***. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is jointly funded by federal and state governments and governed by federal and state laws. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled, or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to low-income persons, is funded by federal and state appropriations, and is administered by the individual states. Benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain income or other eligibility requirements including children, the aged, the blind and/or disabled. Health care providers have been and will be affected significantly by changes in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

***Medicare***. Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare is administered by CMS. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis. A provider will be deemed to meet the Conditions of Participation if it is accredited by

a CMS-approved accrediting organization such as The Joint Commission, the Healthcare Facilities Accreditation Program or DNV-GL Healthcare, Inc. However, despite accreditation, a provider may be surveyed for compliance with the Conditions of Participation by a state agency survey team acting on behalf of CMS. In the event that noncompliance is found, a notice of termination of participation may be issued and a provider may be required to develop and implement a potentially burdensome corrective action plan. If the corrective action plan is not accepted by CMS, or if the corrective action plan is not successfully implemented, the provider's Medicare provider agreement could be terminated. Other sanctions could potentially be imposed, including, in limited circumstances, monetary penalties. Failure of a hospital or other health care provider, including an Obligated Group Member, to comply with the Conditions of Participation could result in loss of its eligibility to participate in the Medicare and Medicaid programs, which would have a material negative effect on the financial conditions and results of operations of such hospital or health care provider.

For the fiscal year ended December 31, 2018, Medicare represented approximately 43.2% of the Corporation's net patient service revenue. As a consequence, changes in the Medicare program may have a material adverse effect on the Obligated Group. The aggregate costs to a provider of providing care to Medicare beneficiaries may exceed aggregate Medicare payments received during the relevant fiscal year period. CMS was able to use authority provided by the ACA to produce average premium declines for the Medicare Advantage program. Reductions in Medicare reimbursement, increases in Medicare reimbursement in amounts less than increases in the costs of providing care or premium declines may have a material adverse financial effect on the Members of the Obligated Group.

A substantial portion of the Medicare revenues of the Obligated Group is derived from payments made for services rendered to Medicare beneficiaries under a prospective payment system ("*PPS*"). Under a PPS, the amount paid to the provider for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, hospital inpatient and outpatient services, and home health care are paid on the basis of a PPS. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned Diagnosis Related Group ("*DRG*"). DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis. All services paid under the PPS for hospital outpatient services are classified into groups called ambulatory payment classifications ("*APCs*"). Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC. Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future payments will be sufficient to cover the actual capital-related costs of facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

The ACA established a value-based purchasing program that rewards hospitals with incentive payments for the quality of care they provide to Medicare patients. The quality performance standards take into account a broad range of factors designed to measure quality of care, how closely best clinical practices are followed and the overall experience of the patients. Because the ACA provides that the pool will be fully distributed, hospitals that meet or exceed the quality performance standards will receive greater reimbursement under the value-based purchasing program than they would have otherwise. Hospitals that do not achieve the necessary quality performance will receive reduced Medicare inpatient hospital payment. The Obligated Group is unable to predict how value-based purchasing will affect its results of operations, however the program could negatively impact the revenues of the Obligated Group.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures, reclassify DRGs and recalibrate the DRG relative weights that reflect the relative resources used by hospitals with respect to discharges classified within a given DRG category.

There is no assurance that the Members of the Obligated Group will be paid amounts that will reflect adequately changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget neutral basis.

PPS-exempt hospitals and units (inpatient psychiatric, rehabilitation and long-term hospital services) are currently reimbursed under prospective payment systems separate from the PPS/DRG system used for general acute care hospitals and units. However, these exempt hospital/unit PPS payment methodologies are similar in that they utilize nationally determined payment rates (per discharge for rehabilitation and long-term care, per diem for psychiatric). These national rates are then generally subject to patient and/or facility specific adjustments for such factors as: case mix, regional wage or cost differences, medical education, disproportionate share, and outliers. The types of adjustments vary for each of the exempt PPS programs.

From time to time and as part of the ACA, the factors used in calculating the prospective payments for units of service are modified by CMS, which may reduce revenues for particular services. Additionally, as part of the federal budgetary process, Congress has regularly amended the Medicare law to reduce increases in payments that are otherwise scheduled to occur, or to provide for reductions in payments for particular services. Similarly, federal legislation is regularly passed that affects payments made under the PPS. For example, such legislation may add or eliminate categories of funding. These actions could adversely affect the revenues of the Obligated Group.

Various additional payments may be made to individual providers. Hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive supplemental Social Security income) currently receive additional payments in the form of disproportionate share payments. Additional payments are made to hospitals that treat patients who are costlier to treat than the average patient; these additional payments are referred to as "outlier payments." Eligible hospitals are paid for a portion of their direct and indirect medical education costs. Providers may also apply for certain additional payments relating to new technology. Any and all additional payments described herein are subject to reductions and modifications or other changes.

*Medicare Audits*. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. The Members of the Obligated Group receive payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the amounts that may be payable or receivable from Medicare for the settlement of the annual cost reports are reflected as amounts due to/from third-party payors in the Obligated Group financing statements and represent several years of open cost reports due to time delays in the fiscal intermediaries' audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Medicare regulations also provide for withholding Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the Federal False Claims Act or other federal statutes, subjecting a hospital to civil or criminal sanctions. Management is not aware of any situation whereby a material Medicare payment is being withheld from the Obligated Group.

The ACA amended certain provisions of the federal False Claims Act (described below under "**Regulatory Environment**") and added provisions regarding the timing of the obligation to reimburse overpayments. The effect of these changes on existing programs of the Obligated Group cannot be predicted, although Management does not believe that the effects will be materially adverse.

*Off-Campus Provider-Based Departments*. Some health care providers bill for services as "provider-based entities" and, as such, are subject to CMS' provider-based regulations. A hospital outpatient department is considered to be "off-campus" if it is located more than 250 yards from a main provider hospital or a remote location of a hospital. As of January 1, 2017, off-campus hospital outpatient departments established on or after November 2, 2015 were no longer eligible for payment under the Outpatient PPS for non-emergency services. Instead, starting in 2017, CMS commenced paying for non-emergency services performed at these facilities under the Medicare physician fee schedule ("*MPFS*"), which offers lower rates of payment than the Outpatient PPS for the same services. CMS has continued to pay non-exempt off-campus hospital outpatient departments under MPFS, subject to a "relativity adjustment" in 2018. CMS has recently opposed additional rule changes related to off-campus hospital departments that, if finalized, may further reduce payments to hospitals for outpatient services. In particular, CMS is now proposing to pay off-campus hospital departments that were in operation before November 2, 2015, and otherwise exempt from the reduced payments, under the MPFS schedule for certain categories of services. If finalized, these proposed changes would go into effect for the 2019 Medicare fiscal period. Consistent with the rule changes the agency has proposed for 2019, CMS is likely to continue to adjust the payment rates paid to non-exempt off-campus hospital departments for outpatient services under the agency's current "site-neutral" payment policy, and may further reduce the extent to which certain other off-campus departments are exempt from reduced payments, making it likely that the reimbursement potentially available from Medicare to hospitals for outpatient services rendered in off-campus departments will continue to be lower than it was prior to January 1, 2017. The reduction in payment rates for services rendered in off-campus provider-based departments arguably place a greater burden on providers to consider the potential adverse reimbursement implications of moving or expanding existing provider-based departments.

*Medicare Disproportionate Share Payments*. Beginning in federal fiscal year 2014, the ACA mandated that hospitals receiving supplemental Disproportionate Share ("*DSH*") payments from Medicare (i.e., those hospitals that care for a disproportionate share of low-income Medicare beneficiaries) have their DSH payments reduced by 75%. This reduction was potentially adjusted by adding back payments based on the volume of uncompensated care provided by a DSH hospital, and was anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA went into effect. The ACA also mandated cuts to Medicaid DSH payments to account for anticipated reductions in uninsured individuals and uncompensated care. The Medicaid DSH payment reduction schedule has been delayed by various pieces of legislation. Pursuant to the budget bill passed in February 2018, the Medicare DSH payment reductions are scheduled to begin in fiscal year 2020, with a reduction of $4 billion per year in fiscal year 2020, and a with a reduction of $8 billion per year from fiscal years 2021 through 2025. The Obligated Group has qualified for disproportionate share hospital (*"DSH"*) payments in the past, but there can be no assurance that it will qualify for DSH status in the future.] Loss or reduction of funding for the Medicaid DSH program could adversely affect the Obligated Group. In fiscal year ended December 31, 2018, the Obligated Group received approximately $10,500,000 in DSH payments from Medicare.

*Medical Education Costs*. Medicare pays for certain costs associated with both direct and indirect medical education (including portions of the salaries of residents and teachers and other overhead costs directly attributable to medical education programs for training residents, nurses and allied health professionals), termed graduate medical education payments and indirect medical education payments. There can be no assurance that payments to the Obligated Group for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

*Other Medicare Service Payments*. Medicare reimburses Skilled Nursing Facilities ("*SNFs*"), home health agencies ("*HHAs*"), and hospices each according to a separate and distinct system. SNFs are reimbursed under a prospective payment system that established a per-diem rate based on resource

utilization groups that reflect the resources necessary to furnish care to the patient. HHAs are reimbursed under a prospective payment system that employs home health resource groups that reflect the patient's condition and expected resources used in providing services. Lastly, hospice payments are made according to four separate rates established by CMS that reflect the intensity and location of the hospice services rendered. CMS updates payment rates for these providers annually, and as with other provider reimbursement systems, there is no assurance that the Members of the Obligated Group will be paid amounts that will adequately reflect costs incurred in providing health care services to Medicare beneficiaries.

***Medicaid***. Medicaid is a health insurance program for certain low-income individuals that is jointly funded by the federal government and the states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for services; and administers its own programs. For the fiscal year ended December 31, 2018, Medicaid represented approximately 16.1% of the Corporation's net patient service revenues.

Under the Medicaid program, the federal government supplements funds provided by the various states for qualifying medical assistance services. Payment for such medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries.

Payment for Medicaid patients is subject to appropriation by the respective state legislatures of sufficient funds to pay the incurred patient obligations. Many states have experienced significant budget shortfalls in recent years. There can be no assurance that the states from which the Members of the Obligated Group received Medicaid reimbursement will not experience budget short falls in the future, including with respect to their Medicaid programs, or that claims-processing or cost-report settlements will not arise under the programs. As part of their efforts to comply with their balanced budget laws, states have in the past reduced Medicaid reimbursement rates, and there can be no assurance that additional reductions will not be implemented in the future.

The federal government continues to explore options for a long-term solution to the funding difficulties with Medicaid. Certain additional proposals being examined may ultimately result in reduced federal Medicaid funding to the states, which could adversely impact the amount of revenue received by the Obligated Group. Further changes to the ACA could result in additional pressure on Medicaid funding, reducing the number of individuals qualifying for treatment as Medicaid patients and resulting in a greater number of uninsured individuals. Management of the Obligated Group cannot predict the effect of these changes to the Medicaid program on the financial condition of the Obligated Group.

As described under the caption "**PART 9 – BONDHOLDERS' RISKS – Health Care Reform"** above, one component of the ACA is designed to incentivize states to expand their Medicaid programs to individuals earning up to 138% of the federal poverty level by offering additional Medicaid funding to participating states. The State of New York expanded Medicaid programs to cover such individuals.

*New York Medicaid and Other Reimbursement Programs*. As of April 14, 2014, the New York State program for mandatory Medicaid enrollment, known as the 1115 Waiver or The Partnership Plan, was amended to allow the State to reinvest over a five-year period up to $8 billion of the $17.1 billion in federal savings generated by State Medicaid reforms. Up to $6.42 billion of this amount will be applied to the Delivery System Reform Incentive Payment ("*DSRIP*") Program, which has a goal of reducing avoidable Medicaid hospitalizations by 25% over the next five years. The DSRIP payments are to be made

to providers who collaborate in some fashion to achieve this goal and are to be paid based on performance. *See* "**STRATEGIC DIRECTION – Delivery System Reform Incentive Payment Program**" in "**APPENDIX A"** hereto for discussions of the Obligated Group's participation in the DSRIP Program. The full impact of the 1115 Waiver and the potentially significant loss in revenue from decreased hospitalizations upon the projected financial performance of the Obligated Group cannot be determined at this time.

*New York State Medicaid Redesign*. In January 2011, Governor Andrew M. Cuomo issued Executive Order No. 5 creating the Medicaid Redesign Team and setting in motion a process of substantial reform of New York's Medicaid program. The Medicaid Redesign Team, comprised of health care professionals, stakeholders in the industry and legislators, was charged with reducing Medicaid costs and improving patient care. On February 24, 2011, the Medicaid Redesign Team issued a report containing findings and recommendations for cost reductions of over $2.3 billion to the Governor for consideration in the budget negotiation process.

All New York State Enacted Budgets since 2011-12 have assumed a targeted growth rate for Medicaid equal to the ten-year average change in the medical component of the Consumer Price Index ("*CPI*"). The ten-year average change in the medical component of CPI fell from 4.0% in 2011-12 to the current rate of 3.2%, and is projected to drop to 2.8% by 2019-20. If spending in any fiscal year is projected to exceed this budget cap, the New York State Department of Health ("*NYSDOH*") and the New York State Division of the Budget are authorized to develop and implement a plan of action to bring spending in line with the cap, which could include modifying or reducing reimbursement methods or program benefits.

The effect of the Medicaid redesign process on the Obligated Group depends significantly on participation in new models of integrated care delivery, the ability to collaborate with different types of providers and relationships with Medicaid managed care plans, as those plans will play an increasingly larger role over the next several years. There can be no assurance that the anticipated gap-closing savings will be achieved or that the rate of annual growth in NYSDOH State Funds Medicaid spending will be limited. In addition, many of the cost-saving initiatives are dependent upon timely federal approvals, appropriate amendments to the existing systems and processes and a collaborative working relationship with health care industry stakeholders.

***Children's Health Insurance Program***. CHIP is a federally funded insurance program for families which are financially ineligible for Medicaid, but cannot afford commercial health insurance. The CMS administers CHIP, but each state creates its own program based upon minimum federal guidelines. CHIP insurance is provided through private health plans contracting with the state. Each state must periodically submit its CHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for the program.

From time to time, Congress and/or executive branch may seek to expand or contract CHIP. On January 22, 2018, Congress passed a six-year extension of CHIP funding through September 30, 2023 as part of a broader continuing resolution to fund the federal government. The Obligated Group's revenues could be adversely affected if CHIP is not extended or if it is extended with reduced funding.

***Third-Party Payors***. Many commercial insurance plans, including private health plans, private insurers, HMOs, PPOs and other managed care payors reimburse their customers or make direct payments to the Members of the Obligated Group for charges at established rates. Certain of these third-party payors make payments that may be less than the direct charges of the Obligated Group or the actual costs incurred in providing services. The Obligated Group's financial performance, to some extent, is dependent on its ability to enter into new, and maintain existing, third-party payor agreements on advantageous terms. If payments by this or other third-party payors are inadequate to cover the Obligated

Group's actual costs for service, are delayed or affected by the financial health of the third-party payors or if the Obligated Group is unable to obtain or retain these or other contracts on advantageous terms, the finances of the Members of the Obligated Group could be adversely affected.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital's actual cost of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly. In addition to this standard managed care risk sharing approach, private health insurance companies are increasingly adopting various additional risk sharing/cost containing measures, sometimes similar to those introduced by government payors. Providers may expect health care cost containment and its associated risk sharing to continue to increase in the coming years amongst all payors.

Often, HMO contracts are enforceable for a stated term, regardless of losses by the health care organization, and may require health care organizations to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the health care organization. As with other large health care systems, the Members of the Obligated Group from time to time have disputes with HMOs, PPOs and other managed care payors concerning payment and contract interpretation issues. Such disputes may result in mediation, arbitration or litigation, which could adversely affect the financial condition of the Members of the Obligated Group.

Failure to maintain contracts could have the effect of reducing a health care organization's market share and net patient service revenues. Conversely, participation may result in lower net income if participating organizations are unable to adequately contain their costs. In part to reduce costs, health plans are increasingly implementing, and offering to purchasing employers, tiered provider networks, which involve classification of a plan's network providers into different tiers based on care quality and cost. With tiered benefit designs, plan enrollees are generally encouraged, through incentives or reductions in copayments or deductibles, to seek care from providers in the top tier. Classification of a provider in a non-preferred or lower tier by a significant payor may result in a material loss of volume. The new demands of dominant health plans and other shifts in the managed care industry may also reduce patient volume and revenue. Thus, managed care poses a significant business risk for the Obligated Group.

The ACA imposes over time increased regulation of the industry, the use and availability of state-based exchanges in which health insurance can be purchased by certain groups and segments of the population, the extension of subsidies and tax credits for premium payments by some consumers and employers and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with providers. In addition, the ACA imposes many new obligations on states related to health care insurance. Additionally, states are also increasingly seeking to regulate the delivery of health care services, including in the managed care industry. The effects of these changes could have a negative effect on the financial condition of any third-party payor that offers health care insurance, which could, in turn, lead to reduced rates paid by third-party payors to providers such as the Members of the Obligated Group.

**Regulatory Environment**

***"Fraud" and "False Claims."*** Health care "fraud and abuse" laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and others can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply

with government requirements or including inaccurate or misleading billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital from participation in the Medicare/Medicaid programs, civil monetary penalties, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation. The ACA also significantly increased funding for enforcement efforts under fraud and abuse laws.

Laws governing fraud and abuse may apply to a hospital and to nearly all individuals and entities with which a hospital does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals. *See* "**Enforcement Activity**," below. Major elements of these often highly technical laws and regulations are generally summarized below. Violations and alleged violations may be deliberate, but also can occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices.

***False Claims Act***. The federal False Claims Act ("*FCA*") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may under certain circumstances, include claims that are simply erroneous. The ACA further expanded the reach of the FCA to include, among other things, failure to report and return known overpayments within statutory limits. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and long-term corporate integrity agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "relators," can share in the damages recovered by the government or recover independently if the government does not participate. In addition, FCA penalties apply to any person, including an organization that does not contract directly with the government, who knowingly makes, uses or causes to be made or used, a false record or statement material to a false or fraudulent claim paid in part by the federal government. Some regulators and whistleblowers have asserted that claims submitted to governmental payers that do not comply fully with regulations or guidelines come within the scope of the FCA. In June 2016, the U.S. Supreme Court in *Universal Health Services, Inc. v. United States ex rel. Escobar* held that the theory of "implied false certification" can be used as a basis for FCA liability when (1) a claim does more than merely request payment and makes specific representations about the nature of the goods or services provided; and (2) the failure to disclose noncompliance with material statutory, regulatory or contractual provisions makes the representations "misleading half-truths." The application of this new standard is unclear but could lead to an increase in FCA claims in the health care industry based on this theory of liability.

The Deficit Reduction Act provides financial incentives to states that pass similar false claims statutes or amend existing false claims statutes that track the FCA more closely with regard to penalties and rewards to *qui tam* relators. A number of states, including New York, have passed similar false claims statutes, some of which expand the prohibition against false claims submitted to non-

government third-party payors. Any sanctions imposed as a result of an FCA or state false claims law violation could have a material adverse effect on the Obligated Group's business or financial condition.

***Anti-Kickback Law***. The federal "Anti-Kickback Law" is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. ACA has amended the Anti-Kickback Law to clarify that a party need not have knowledge of the Anti-Kickback Law or a specific intent to violate the Anti-Kickback Law to nevertheless violate the Anti-Kickback Law. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases, physician employment agreements and other transactions and has been interpreted to cover any arrangement where a single purpose of the remuneration was to obtain or pay money for the referral of services or to induce further referrals. Accordingly, in addition to certain statutory exceptions to the Anti-Kickback Law, the OIG has promulgated a number of regulatory "safe harbors" under the Anti-Kickback Law designed to protect certain payment and business practices.

Violation or alleged violation of the Anti-Kickback Law may result in settlements that require multi-million dollar payments and costly corporate integrity agreements. The Anti-Kickback law can be prosecuted either criminally or civilly. Violation is a felony, subject to potentially substantial fines, imprisonment and/or exclusion from the Medicare and Medicaid programs, any of which would have a significant detrimental effect on the financial stability of most hospitals. In addition, significant civil monetary penalties may be imposed. Increasingly, the federal government is prosecuting violations of the Anti-Kickback Law under the FCA, based on the argument that claims resulting from an illegal kickback arrangement are also false claims for FCA purposes.

In addition to the federal Anti-Kickback Law, many states, including New York, have anti-kickback and/or fee-splitting statutes designed to prohibit inducements or improper remuneration for the referral of patients. In some cases, state statutes are broader or carry larger fines than corresponding federal law. Any sanctions imposed as a result of an Anti-Kickback Law or similar state law violation could have a material adverse effect on the Obligated Group's business or financial condition.

***Physician Self-Referral Law ("Stark")***. The federal "Stark" statute prohibits the referral of Medicare patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which the referring physician or the physician's family members has a financial relationship. Importantly, the Stark statute prohibits an entity receiving a referral from filing a claim or billing for the services arising out of the prohibited referral. The prohibition applies regardless of the reasons for the financial relationship and the referral; that is, unlike the federal Anti-Kickback Law, no finding of intent to violate the Stark statute is required. If certain technical requirements are met, many ordinary business practices and economically desirable arrangements between hospitals and physicians arguably constitute "financial relationships" within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute. Several rounds of recent revisions to the Stark regulations and the CMS comments preceding them have made the Stark statute more difficult to interpret clearly; this increases the possibility that inadvertent violations may occur. In addition, CMS continues to revise, supplement and update the Stark law regulations, and ACA enacted various changes to the Stark law that expand the scope of the Stark law restrictions on hospitals.

The New York Health Care Practitioner Referral Law is similar to the federal Stark law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to

a health care provider for clinical laboratory services, x-ray imaging services, radiation therapy services, physical therapy, or pharmacy services if the referring practitioner (or an immediate family member) has a financial interest in the health care provider.

The Stark statute is a "strict liability" statute, and, because of its complexity, is relatively easy to violate, even if such violation is inadvertent and unintentional. For example, an arrangement may be deemed to violate the Stark statute by virtue of relatively minor technical issues, such as a lack of appropriate signatures on the contract. Matters of technical noncompliance may require a hospital to self-disclose such noncompliance to CMS, and may subject a hospital to fines and penalties.

Medicare may deny payment for all services related to a prohibited referral and a hospital that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program or make a self-disclosure to CMS under its Self-Referral Disclosure Protocol. For example, if an office lease, a medical director agreement or a physician recruitment or retention agreement between a hospital and a large group of heart surgeons is found to violate the Stark statute, the hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. In addition, sanctions for violation of the Stark statute may include civil penalties or exclusion from the Medicare and Medicaid programs. Although the Stark law does not have an extensive enforcement history, potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital. The federal government is also increasingly attempting to recover the federal portion of Medicaid claims referred to hospitals by physicians with whom they have a prohibited financial relationship.

***HIPAA***. The Federal Health Insurance Portability and Accountability Act of 1996, as amended by Title XIII of the American Recovery & Reinvestment Act of 2009, known as the Health Information Technology and Economic and Clinical Health Act (collectively, "*HIPAA*"), provides data privacy and security protections for individually identifiable health information held by covered entities(health plans, health care clearinghouses and health care providers who conduct the standard health care transactions electronically) and their business associates. Moreover, HIPAA adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from Medicare.

HIPAA also established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified electronic health record technology ("*CEHRT*") by physicians and health care providers. Incentives are paid out according to a schedule set forth in HIPAA, and a particular health care provider's or physician's incentive payments will be determined primarily upon the date such health care provider or physician becomes a "meaningful user" of CEHRT. Health care providers and physicians that fail to become meaningful users of CEHRT systems in accordance with HIPAA's schedule will be subject to a reduction in Medicare payments.

Failure to comply with HIPAA can result in both criminal and civil fines and penalties. Mandatory breach notification and reporting requirements increase the risk of government enforcement as well as class action lawsuits, especially if large numbers of individuals are affected by a breach. Additionally, states may have privacy or consumer protection laws that are broader than HIPAA and, unlike HIPAA, authorize a private right of action. Any sanctions imposed as a result of a HIPAA or state privacy law violation could have a material adverse effect on the Obligated Group's business or financial condition.

***Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures***. Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies use statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. Health care consumers are now able to access hospital performance data on quality measures and patient satisfaction, as well as standard charges for services, to compare competing providers. If any of the Obligated Group's health care facilities achieve poor results (or results that are lower than their competitors') on quality measures or patient satisfaction surveys, or if its standard charges are higher than their competitors', the Obligated Group may attract fewer patients.

***Security Breaches and Unauthorized Releases of Personal Information***. Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. The 2009 Health Information Technology for Economic and Clinical Health Act ("*HITECH*") requires health care providers and some of their vendors to notify individuals, and in some cases, the media, when their unsecured protected health information is subject to a breach of security. In addition, many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently result in material liability and damage to a health care provider's reputation and could materially adversely affect business operations.

***Exclusions from Medicare or Medicaid Participation***. The government is required to exclude a health care provider from Medicare/Medicaid program participation if the provider has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of misdemeanor fraud, or the provision of unnecessary or substandard services. Exclusion from the Medicare/Medicaid program means that a health care provider would be decertified and no program payments can be made. The exclusion of an Obligated Group Member would have a material adverse effect on the financial condition of the Obligated Group.

***Administrative Enforcement***. Administrative regulations may require less proof of a violation than do criminal laws, and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

***EMTALA***. The Emergency Medical Treatment and Active Labor Act ("*EMTALA*") is a federal civil statute that requires hospitals and facilities with emergency departments to treat or conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient. Outpatient facilities that are included as part of a hospital by virtue of a provider-based status designation are required to adhere to EMTALA's requirements, regardless of whether they are located on or away from the hospital's main campus. A hospital that violates EMTALA is subject to civil monetary penalties and exclusion from the Medicare and Medicaid programs.

In addition, the hospital may be liable for any claim by an individual who has suffered harm as a result of a violation.

***Licensure and Accreditation***. The Obligated Group's medical facilities are subject to periodic review by licensing and/or accrediting agencies to determine compliance with various federal, state and local requirements relating to issues such as personnel, operating policies and procedures, fire prevention, rate-setting, the adequacy of medical care, and compliance with building codes and environmental protection laws. In addition to facility-specific licensure, various licenses and permits also are required in order to dispense narcotics, operate pharmacies, handle radioactive materials and operate certain equipment. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Members of the Obligated Group. Loss of accreditation or licensure could impair the ability of the Obligated Group to operate all or a portion of its health care facilities and have a material adverse impact on the Obligated Group's business or financial condition. *See* "**ORGANIZATION – Licensure and Accreditation**" in "**APPENDIX A**" hereto.

***Environmental Laws and Regulations***. Health facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: (i) air and water quality control requirements; (ii) waste management requirements; (iii) specific regulatory requirements applicable to hazardous materials such as asbestos, polychlorinated biphenyls and radioactive substances; (iv) requirements for providing notice to employees and members of the public about hazardous material handled by or located at the health facility; and (v) requirements for training employees in the proper handling and management of hazardous materials and wastes; and (vi) other requirements.

Health facilities may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical health facility operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly 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 and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

***Enforcement Activity***. Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above.

Enforcement authorities are often in a position to compel settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by instituting criminal action. In addition, the Insurance Fraud Prevention Act provides a vehicle for anti-fraud prosecutions. The cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal and state health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally, these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or other facilities in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals in the same organization. Therefore, the risks identified as being materially adverse as to a hospital or health care provider could have materially adverse consequences to a health system, taken as a whole.

**Business Relationships and Other Business Matters**

***Physician Financial Relationships***. In addition to the physician integration relationships referred to above, hospitals and health care systems frequently have various additional business and financial relationships with physicians and physician groups. These are in addition to hospital-physician contracts for individual services performed by physicians in hospitals. They potentially include: joint ventures to provide a variety of outpatient services; recruiting arrangements with individual physicians and/or physician groups; loans to physicians; medical office leases; equipment leases from or to physicians; and various forms of physician practice support or assistance. These and other financial relationships with physicians (including hospital-physician contracts for individual services) may involve financial and legal compliance risks for the hospitals and systems involved. From a compliance standpoint, these types of financial relationships may raise federal and state "anti-kickback" and federal "Stark" and related state issues (*see* "**— Regulatory Environment**," above), as well as other legal and regulatory risks, and these could have a material adverse impact on hospitals and health facilities.

***Antitrust***. Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. While the application of federal and state antitrust laws to health care is still evolving, enforcement activities by federal and state agencies appear to be increasing. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing disputes, and hospital mergers and acquisitions. Violators of antitrust laws could be subject to criminal and civil liability by both federal and state agencies as well as by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines.

A U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals. Hospitals regularly have disputes regarding credentialing and peer review and, therefore, may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals that use their local market power to promote ancillary health care business in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Government or private parties are entitled to challenge joint ventures and other transactions that may injure competition. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case, and may have a material adverse impact on hospitals.

***Hospital Charges***. It is possible that legislative action at the Federal, state or local levels may be taken with regard to how hospitals charge for health care services. In addition to legislative, regulatory, administrative, and enforcement oversight, payors and consumers have repeatedly brought actions challenging hospital charges. It is expected that this will continue, and hospitals with high charges relative to their peers will be targeted.

***Information Technology***. The ability to adequately price and bill health care services and to accurately report financial results depends on the integrity of the data stored within information systems, as well as the operability of such systems. An ongoing commitment of significant resources is required to maintain, protect and enhance existing information systems and to develop new systems that keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety and to the privacy, accessibility and preservation of health information. *See* "**– Regulatory Environment – HIPAA**," above and "**– Cybersecurity Risks**" below. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians, other health care professionals, and payors. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risk of operations. All of these risks may have adverse consequences on hospitals and health care providers.

***Cybersecurity Risks***. Like many other large organizations, the Obligated Group relies on digital technologies to conduct its customary operations. In the past several years, a number of entities have sought to gain unauthorized access to digital systems of large organizations for the purpose of misappropriating assets or information or causing operational disruptions. These attempts include highly sophisticated efforts to electronically circumvent network security as well as more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The Obligated Group maintains a network security system designed to stop "cyber-attacks" by third parties, and minimize its impact on operations; however, no assurances can be given that such network security systems will be completely successful.

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed.

State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, as discussed with respect to the HITECH Act above, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

***Charity Care***. Tax-exempt hospitals often treat large numbers of low-income patients who are unable to pay in full for their medical care. These hospitals may be susceptible to economic and political changes that could increase the number of low-income patients or their responsibility for caring for this

population. General economic conditions that affect the number of employed individuals who have health coverage further affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of charity care treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of charity care as a condition to federal income tax exemption or exemption from certain state or local taxes.

***Physician Medical Staff***. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

***Physician Supply***. Sufficient community-based physician supply is important to hospitals. CMS annually reviews overall physician reimbursement formulas for Medicare and Medicaid. Changes to physician compensation under these programs could lead to physicians ceasing to accept Medicare and/or Medicaid patients. Regional differences in reimbursement by commercial and governmental payors, along with variations in the costs of living, may cause physicians to avoid locating their practices in communities with low reimbursement or high living costs. Hospitals may be required to invest additional resources in recruiting and retaining physicians, or may be compelled to affiliate with, and provide support to, physicians in order to continue serving the growing population base and maintain market share. Such arrangements present certain regulatory risks that can result in significant penalties. *See* "**— Anti-Kickback Law**" and "**— Physician Self-Referral Law (Stark)**" above.

***Staffing***. In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians, and a number of such trained health care professionals and technicians are expected to retire in the next several years. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals. This scarcity may further be intensified if utilization of health care services increases as a consequence of the ACA's expansion of the number of insured consumers. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals and health systems.

***Competition Among Health Care Providers***. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of hospitals. Existing and potential competitors may be subject to different restrictions, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists and/or services that generate a significant source of revenue may be

particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons develop their own specialty heart hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters), taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept charity care patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A provision contained in the ACA has all but eliminated the development and expansion of physician-owned specialty hospitals, nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

Likewise, freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely a for-profit business, may not accept charity care patients or low paying programs and would leave these populations to receive services in the hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

Hospitals and other health care providers face increased pressure to be transparent and provide information about cost and quality of services, which may lead to a loss of business as consumers and others make choices about where to receive health care services based upon published information.

***Employer Status***. Hospitals are major employers, with mixed technical and non-technical workforces. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on a hospital's operations.

***Labor Relations***. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Dealing with a new bargaining unit or negotiating collective bargaining agreements may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Approximately 42% of the System's employees are currently represented by labor unions. *See* "**MEDICAL STAFF – Labor Relations**" in "**APPENDIX A**" hereto.

***Wage and Hour Class Actions and Litigation***. Federal law and many states impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these "wage and hour" issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to the Obligated Group could have a material adverse impact on their financial condition and their results of operations.

***Other Class Actions***. Not-for-profit hospitals and health systems have long been subject to a wide variety of litigations risks, including liability for care outcomes, employer liability, property and premises liability, billing, charging, and collections practices, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for tax-exempt hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involved alleged large classes of plaintiffs and a large number of patient encounters, they may have material adverse consequences on hospitals and health systems in the future.

***Health Care Worker Classification***. Health care providers, like all businesses, are required to withhold federal and State income and Social Security and Medicare taxes from amounts paid to employees. If the employer fails to withhold these taxes, the employer becomes liable for payment of the taxes imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

***Professional Liability Claims and General Liability Insurance***. In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

CMS does not reimburse hospitals under the Medicare program for medical costs arising from certain "never events," which are the kinds of mistakes which should never happen. These include specific preventable medical errors such as performing surgery on the wrong body part. A similar rule has been adopted under the Medicaid program. HMOs and other private insurers have begun to follow suit. The occurrence of "never events" may be more likely to be publicized and may negatively impact a hospital's reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or because of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the hospital if determined or settled adversely.

There is no assurance that hospitals will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against a hospital or that such coverage will be available at a reasonable cost in the future.

***Medical Liability Litigation and Insurance***. Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resultant liabilities, may increase in the future. Health systems may be affected by negative financial and liability impacts on physicians.

**Not-for-Profit Health Care Environment**

Each Member of the Obligated Group is a not-for-profit entity, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. The tax-exempt status afforded not-for-profit hospitals is increasingly being threatened. Not-for-profit, tax-exempt organizations such as the Members of the Obligated Group are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including operation for religious and charitable purposes. At the same time, not-for-profit healthcare providers conduct large-scale complex business transactions. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex, multi-state and/or multi-facility health care organization.

The operations or practices of health care providers are routinely challenged or questioned to determine if they are consistent with the tax exemption benefits conferred on such providers or the regulatory requirements for not-for-profit, tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead are examinations of core business practices of the health care organizations. An overarching concern is that not-for-profit hospitals may not confer community benefits that exceed or are equal to the benefit received from their tax-exempt status. Areas that have come under examination include pricing practices, billing and collection practices, charitable care, providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions arise from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. Such challenges include class action litigation in various jurisdictions concerning hospital pricing practices with respect to the uninsured or underinsured. Some of these challenges and examinations are described below.

***Congressional Hearings***. Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the not-for-profit sector, including proposed reform in the area of tax-exempt healthcare organizations, as part of health care reform generally. The ACA added Section 501(r) to the Code which addresses these issues (*see* "**— Tax-Exempt Status and Other Tax Matters — Maintenance of the Tax-Exempt Status of the Members of the Obligated Group**"). The fact that Congress enacted legislation in this area does not mean that Congress will not enact additional legislation in the future.

***IRS Review of Not-for-profit Corporations***. IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable sector with specific review of private use. The IRS Form 990 is used by most not-for-profit organizations exempt from federal income taxation under Section 501(c)(3) of the Code to submit information required by the federal government. The IRS Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to executive management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The IRS Form 990 also requires disclosure concerning community benefit and compliance with financial assistance policy and billing and collection requirements (on Schedule H, which must be completed by hospital organizations), as well as reporting of information relating to tax-exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities (on Schedule K). Schedule K to the IRS Form 990 is intended to enhance transparency as to the operations of exempt organizations and address what the IRS believes is significant noncompliance by tax-exempt organizations with recordkeeping and record retention requirements relating to their outstanding tax-exempt bonds. It is likely that the IRS will use the information

provided by the IRS Form 990 and Schedule K (as well as other schedules) to assist in, and expand, its enforcement efforts.

***IRS Examination of Compensation Practices***. In 2009, the IRS issued its Hospital Compliance Project Final Report (the "*IRS Final Report*") that examined tax-exempt hospitals' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicated that the IRS will continue to scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations and, in certain circumstances, may conduct further investigations or impose fines or tax-exempt organizations.

***Litigation Relating to Billing and Collection Practices***. Lawsuits have been filed in both federal and state courts alleging, among other things, that tax-exempt hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Some of these cases have since been dismissed by the courts and some hospitals and health systems have entered into settlements. A number of cases are still pending in various courts around the country.

***State Oversight***. Not-for-profit corporations are subject to oversight and examination by state attorneys general to ensure their charitable purposes are being carried out, that their fundraising and investment activities comply with state law, that the terms of charitable gifts are followed, and that acquisitions, dispositions, and reorganizations are in the public interest. This oversight can limit some of the options available to tax-exempt entities in states where the respective Attorney General takes a keen interest in these issues.

***Challenges to Real Property Tax Exemptions and Related Matters***. The real property tax exemptions afforded to certain not-for-profit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These exemptions may apply to both real property owned outright and real property leased to another party (sometimes referred to as "possessory interest"). The bases for these challenges generally include nonuse of real property for the charitable object of the tax-exempt organization, use by a non-exempt party, inadequate levels of public benefit, uncompensated care, aggressive billing and collection practices, and excessive financial margins. Several of these challenges have resulted in litigation or at least expensive audits by state and local authorities. The litigation has resulted in several settlements where the tax-exempt organizations have agreed to pay to the local taxing authority payments in lieu of taxes and, in at least one instance, revocation of the state real property tax exemption of the organization. In addition, it should be noted that creation or transfer of certain leasehold interests, even by exempt organizations, can result in the imposition of documentary transfer taxes.

The foregoing are some examples of the challenges and examinations facing not-for-profit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations such as the Members of the Obligated Group.

**Construction Risks**

Construction projects, including portions of the Project, are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of qualified contractors or materials and labor, adverse weather conditions and funding shortfalls. Such events could delay occupancy of major construction projects. Cost overruns may occur due to change orders, delays in construction schedules, scarcity of building materials, tariffs on building materials, labor and other factors. Cost overruns could

cause project costs to exceed estimates and require more funds than originally allocated or require the Obligated Group to borrow additional funds to complete projects.

**Affiliations, Merger, Acquisition and Divestiture**

From time to time, the Obligated Group may evaluate and pursue potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and management functions, the Obligated Group reviews the use, compatibility and business viability of many of the operations of the Obligated Group, and from time to time the Obligated Group may pursue changes in the use of, or disposition of, their facilities. Likewise, the Obligated Group occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or affiliates of Obligated Group in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the Obligated Group. Discussions may be conducted from time to time with acute care hospital facilities with respect to affiliation, merger, acquisition, disposition or change of use of facilities, including those which may affect the Obligated Group. As a result, it is possible that the current organization and assets of the Obligated Group may change from time to time.

In addition to relationships with other hospitals and physicians, the Obligated Group may consider investments, ventures, affiliations, development and acquisition of other healthcare-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises which support the overall operations of the Obligated Group. In addition, the Obligated Group may pursue such transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management of the Obligated Group will consider such arrangements if there is a perceived strategic or operational benefit for the Obligated Group. Any such initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the Obligated Group may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the Obligated Group.

**Tax-Exempt Status and Other Tax Matters**

***Maintenance of the Tax-Exempt Status of the Members of the Obligated Group***. The maintenance of the status of each Obligated Group Member as an organization described in Section 501(c)(3) of the Code is contingent on compliance by each Obligated Group Member with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as certain management contracts and other use arrangements, have been the subject of interpretations by the IRS in the form of private letter rulings (which are binding only on the IRS with respect to the taxpayers who requested them), many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The ACA also contains new requirements for tax-exempt hospitals. Under Section 501(r) of the Code, enacted as part of the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance

policy and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy. In addition, the IRS is required to review information about each tax-exempt hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. The IRS conducts special audits of large tax-exempt health care organizations with at least $500 million in assets or $1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that any Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of the entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of not-for-profit health care corporations, it could do so in the future. Loss of tax-exempt status by even one Member potentially could result in loss of tax exemption of any tax-exempt debt of the Obligated Group and defaults in covenants regarding such tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of any Member of the Obligated Group. For these reasons, loss of tax-exempt status of any Member could have a material adverse effect on the financial condition and results of operations of the Obligated Group, taken as a whole.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt corporations in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt corporations entered into settlement agreements requiring the corporation to make substantial payments to the IRS. Given the range of complex transactions entered into by the Members of the Obligated Group and potential exemption risks, Members of the Obligated Group could be at risk for incurring monetary and other liabilities imposed by the IRS.

Pursuant to the "intermediate sanctions" rules, the IRS may impose penalty excise taxes on certain "excess benefit transactions" involving 501(c)(3) organizations and "disqualified persons" rather than revoking the organization's exempt status. An excess benefit transaction is one in which a disqualified persons or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or share the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any "organization manager" who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on the Members of the Obligated Group or the tax status of the Series 2019B Bonds if an excess benefit transaction were subject to IRS enforcement pursuant to the intermediate sanctions rules.

***Tax-Exempt Status of Series 2019B Bonds***. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2019B Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and facilities financed with bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the issuer file an information report with the IRS. The Obligated Group has agreed that it will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2019B Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. *See* "**PART 13 – TAX MATTERS**" herein.

For certain individual taxpayers, future tax legislation could tax a portion of the interest on tax-exempt bonds under the regular income tax or the alternative minimum tax, and could apply not only to bonds issued on and after the effective date, but to bonds issued before the effective date, including the Series 2019B Bonds. From time to time, Congress has considered revisions to the Code that may limit access to the tax-exempt debt market to issuers or borrowers such as the Members of the Obligated Group. For example, in November 2017, the U.S. House of Representatives released a tax reform proposal that included the elimination of all private activity bonds. Ultimately, the bill that was passed by both chambers of Congress and signed by President Trump on December 22, 2017, the Tax Cuts and Jobs Act (discussed above), did not include such elimination; however, if any such legislation is reintroduced and is retroactively applied to tax-exempt bonds, including the Series 2019B Bonds, previously issued for the benefit of any Obligated Group Member, the adoption of any such legislation could adversely affect the marketability of and the market value for the Series 2019B Bonds and the financial condition of the Obligated Group. Moreover, the adoption of any such legislation could materially increase the cost to the Obligated Group of financing future capital needs.

***Unrelated Business Income***. In recent years, the IRS and local taxing authorities also have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income ("*UBTI"*). The Members of the Obligated Group may participate in activities which generate UBTI. Management believes it has properly accounted for and reported UBTI in all material respects; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI, and in some cases could affect the tax-exempt status of such Member of the Obligated Group as well as the exclusion from gross income for federal income tax purposes of the interest payable on certain tax-exempt debt issued on behalf of the Obligated Group.

***Limitations on Contractual and Other Arrangements Imposed by the Code***. As tax-exempt organizations, the Members of the Obligated Group are limited with respect to their use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation, or revocation of any Member of the Obligated Group's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group.

**Enforceability of Remedies**

As described in this Official Statement, the Series 2019B Obligations are secured, in part and under certain circumstances, by a mortgage lien on the Mortgaged Property and a security interest in the Gross Receipts of the Obligated Group. The practical realization of money from the Obligated Group upon any default will depend upon the exercise of various remedies specified by the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2019B Bonds will be qualified as to the enforceability of the various agreements and other instruments by 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.

**Enforceability of the Master Indenture**

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the joint and several obligation of a member to make payments due under an Obligation, relating to indebtedness issued for the benefit of another member, may be declared void in an action brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a member or a trustee in bankruptcy in the event of the bankruptcy of the member from which payment is requested. An obligation may be voided under the Federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, a member's joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other members, may be held to be a "transfer" which makes such member "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the members may be deemed to have received less than "fair consideration" for such obligation because none or only a portion of the proceeds of the indebtedness is to be used to finance projects occupied or used by such member. While the members may benefit generally from the projects financed from the indebtedness for the other members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations under the Master Indenture.

In addition, the assets of any member may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others if a member has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such member were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the member was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of the State. In the absence of clear legal precedent in this area, the extent to which the assets of any member can be used to pay Obligations issued by or on behalf of others cannot be determined at this time.

In addition, there exists common law authority and authority under state statutes for the ability of the state courts to terminate the existence of a not-for-profit 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 or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation issued for the benefit of another Member of the Obligated Group would result in the cessation or discontinuation of any material portion of the healthcare or related services previously provided by the Obligated Group from which payment is requested.

**Exercise of Remedies under Master Indenture**

"Events of Default" under the Master Indenture include the failure of the Obligated Group to make payments on any Obligation Outstanding under the Master Indenture (such as the Series 2019B Obligations) and the occurrence of an event of default under any Related Bond Indenture. The Master Indenture provides that upon an "Event of Default" thereunder, the Master Trustee may in its discretion, declare the principal of all Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately except as provided in the Master Indenture. Consequently, upon the occurrence of an "Event of Default" with respect to the Series 2019B Bonds and an acceleration of the maturity of the Series 2019B Bonds, the Master Trustee may not be required to accelerate all Obligations Outstanding under the Master Indenture.

**Amendment of the Master Indenture, the Resolution and the Loan Agreement**

The Obligated Group Representative and the Master Trustee may, without the consent of, or notice to, any holders of the Obligations, amend or supplement the Master Indenture in certain circumstances as provided in the Master Indenture. In addition, certain amendments to the Master Indenture may be made with the consent of the holders of a majority in aggregate principal amount of outstanding Obligations. Such amendments may adversely affect the security of the Bondholders, and such percentage may be composed wholly or partially of the holders of Obligations other than the Series 2019B Obligations. *See* "**FORM OF MASTER INDENTURE – Article VI**" in **APPENDIX F** hereto.

Certain amendments to the Resolution and the Loan Agreement may be made without the consent of related Bondholders, and other amendments thereto may be made with the consent of the Owners of a majority in aggregate principal amount of the outstanding Bonds, including the Series 2019B Bonds. Such amendments may adversely affect the security of the Bondholders. *See* "**SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT– Amendments to the Loan Agreement**" in **APPENDIX D** hereto and "**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Applicable Supplemental Resolutions Effective With Consent of Bondholders**" in **APPENDIX E** hereto.

**Credit Facility Issuer's Right to Consent to Amendments on Behalf of Bondholders**

So long as a Credit Facility is in effect and the related Credit Facility Issuer has not lost any of its rights pursuant to the provisions of the Resolution, the Credit Facility Issuer shall have the right

without the consent of or notice to the Bondholders (i) to direct the Bond Trustee, as holder of a Series 2019B-1 Obligation, to take any action or give any consent, approval, waiver or notice under the provisions of the Master Indenture (including consent to amendments to the Master Indenture) and (ii) to consent to any supplements or amendments to the Loan Agreement or the Resolution on behalf of the owners of the Series 2019B Bonds. Any such amendments may be material.

**Substitution of the Series 2019B Obligations**

The Master Indenture contains certain provisions which permit substitution of replacement master notes of a new credit group for the Series 2019B Obligations in order to effect an affiliation with another entity or entities upon the satisfaction of certain conditions. Such substitution may result in a substantially different type of credit securing the Series 2019B Bonds than that described herein. *See* "**FORM OF MASTER INDENTURE – Section 3.19**" in **APPENDIX F** hereto for a description of these provisions.

**Enforcement of Remedies; Risks of Bankruptcy**

If a Member of the Obligated Group were to file a petition for relief under the United States Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such a Member of the Obligated Group and any interest it has in property. If a bankruptcy court so ordered, such property of the Member of the Obligated Group, including its accounts receivable and proceeds thereof, could be used, at least temporarily, for the benefit of the bankruptcy estate of the Member of the Obligated Group despite the claims of its creditors.

In a case under the current Bankruptcy Code, a member of the Obligated Group could file a "plan of reorganization," a vehicle for satisfying all outstanding claims, which could result in the modification of rights of creditors generally or the rights of any class of creditors, secured or unsecured. To be confirmed, the bankruptcy court must determine that the plan, among other conditions, is in the best interest of creditors, feasible and accepted by all classes of creditors and interest holders (of those who vote, more than one-half in number and two-thirds in amount of each impaired class) or, if not so accepted, be accepted by at least one impaired class and determined by the court to not "discriminate unfairly" and be "fair and equitable" with respect to the nonconsenting classes. Other than as provided in the confirmed plan, all claims and interests are discharged and extinguished. The Bankruptcy Code establishes different fair and equitable tests for secured claims, unsecured claims and interest holders.

**Additional Indebtedness**

The Master Indenture permits the issuance of Additional Obligations on a parity with the Existing Obligations and the Series 2019 Obligations, and also permits incurrence of additional indebtedness by the Obligated Group. *See* "**FORM OF MASTER INDENTURE – Section 3.06**" in **APPENDIX F** hereto. Any additional Obligations will increase debt service requirements and could adversely affect debt service coverage on the Series 2019B Bonds.

**Enforceability of Lien on Gross Receipts**

The Loan Agreement provides that the Obligated Group shall make payments to the Bond Trustee sufficient to pay principal and interest on the Series 2019B Bonds as the same become due. The obligations of the Obligated Group under the Loan Agreement are secured by, among other things, security interests granted to the Bond Trustee in the Gross Receipts of the Obligated Group. The lien on Gross Receipts may become subordinate to certain Permitted Encumbrances under the Resolution. Gross Receipts

paid by the Obligated Group to other parties in the ordinary course might no longer be subject to the lien of the Resolution and might therefore be unavailable to the Bond Trustee.

To the extent that Gross Receipts are derived from payments by the federal or state government under the Medicare or Medicaid program, any right to receive such payments directly may be unenforceable. The Social Security Act and state regulations prohibit anyone other than the individual receiving care or the Obligated Group providing service from collecting Medicare and Medicaid payments directly from the federal or state government. In addition, Medicare and Medicaid receivables may be subject to provisions of the Assignment of Claims Act of 1940, which restricts the ability of a secured party to collect accounts directly from government agencies. With respect to receivables and Gross Receipts not subject to the Lien on Gross Receipts, the Bond Trustee would occupy the position of an unsecured creditor. Counsel to the Obligated Group has not provided an opinion with regard to the enforceability of the Lien on Gross Receipts of the Obligated Group, where such Gross Receipts are derived from the Medicare and Medicaid programs.

In the event of bankruptcy of a Member of the Obligated Group, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances, a court may have the power to direct the use of Gross Receipts of such institution to meet expenses of such institution before paying debt service on the Series 2019B Bonds.

Pursuant to the New York Uniform Commercial Code, a security interest in the proceeds of Gross Receipts may not continue to be perfected if such proceeds are not paid over to the Bond Trustee by the Obligated Group under certain circumstances. If any required payment is not made when due, the Obligated Group must transfer or pay over immediately to the Bond Trustee any Gross Receipts with respect to which the security interest remains perfected pursuant to law. Any Gross Receipts thereafter received shall upon receipt by the Obligated Group be transferred to the Bond Trustee without such Gross Receipts being commingled with other funds, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment.

The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Series 2019B Bonds as to the security interest in the Gross Receipts.

**Limitation on Value of Mortgaged Property**

The Mortgaged Property of the Members of the Obligated Group is pledged as security for the Series 2019B Bonds. Other than the Office Building referred to herein, such Mortgaged Property is not generally comprised of general-purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the Mortgaged Property, and, upon any default, the Master Trustee may not obtain an amount equal to the amount of the outstanding Series 2019B Bonds and other indebtedness secured by the Mortgaged Property from the sale of or lease of such Mortgaged Property if it were necessary to proceed against the Mortgaged Property, whether pursuant to a judgment, if any, against the Members of the Obligated Group or otherwise.

The Members of the Obligated Group have previously secured title insurance policies in the amount of approximately $204,625,000 with respect to the Mortgaged Property, however it is likely that recovery under such policies will not satisfy in full the Series 2019B Bonds and other indebtedness secured by the Mortgaged Property. In addition, title insurance only insures, subject to what is specially excluded or excepted in the title policy itself, (a) that title is vested in the fee owner, (b) against a defect in

or lien or encumbrance on the title, (c) unmarketability of title, (d) against statutory liens for service, labor or materials furnished prior to the policy date, (e) against invalidly or unenforceability of the mortgage lien, and (f) priority of the lien of the mortgage. As noted in the Master Indenture, there are permitted liens that may encumber the Mortgaged Property that title insurance would not insure against.

No additional title insurance will be obtained in connection with the issuance of the Series 2019 Bonds. The amount of title insurance outstanding will be less than the amount of bonds outstanding pursuant to the Master Indenture.

**Employment Retirement Income Security Act**

The Corporation maintains employee benefit pension and welfare plans (the "*plans*") for the benefit of employees of the Obligated Group which are not subject to the federal Employee Retirement Income Security Act of 1974 ("*ERISA*") because, based on the Corporation's association with the Roman Catholic Church, the plans are deemed to be "church plans" within the meaning of ERISA and the Code which have not elected to be subject to ERISA. Several lawsuits in federal courts have challenged the "church plan" status of employee benefit plans maintained by healthcare organizations associated with churches and several of these lawsuits have been successful at the federal district level although none, to date, has been decided by a federal Court of Appeals. If it were determined at some future time that the employee benefit plans sponsored by the Corporation are not "church plans", the Corporation could incur penalties for noncompliance with certain requirements of ERISA and could be subject to more stringent advance funding rules with respect to the Corporation's defined benefit pension plans.

**New York State Executive Order 38**

On January 18, 2012, Governor Cuomo signed Executive Order No. 38 (the "*Executive Order*") limiting spending for administrative costs and executive compensation at state-funded service providers. The Obligated Group may be subject to the limitations contained in the Executive Order. The Executive Order limits reimbursement with State funds for executive compensation to $199,000 annually per executive and requires that 85% of State-authorized payments be directed to direct care or services, rather than administrative costs. On May 30, 2012, NYSDOH published proposed regulations to implement the Executive Order, effective January 1, 2013.

In April 2014, a New York trial-level court in Nassau County found that the Executive Order violated the New York State Constitution. A trial-level court in Suffolk County in a different case upheld the Executive Order in July 2014. In December 2015, the appellate court with jurisdiction over the trial courts in both of these counties, the Second Department, upheld the Executive Order, reversing the decision from the Nassau County court and affirming the decision of the Suffolk County court. In 2015, the Albany County Supreme Court, also a trial-level court, found the Executive Order to be constitutional, for the most part, a conclusion also reached by the New York Appellate Court, Third Department in 2017. The appellate courts' decisions remain subject to review by a higher court. Accordingly, whether the Executive Order will remain in effect and the way in which the final regulations may impact the Obligated Group remains unclear. Accordingly, it is impossible at this time to predict what changes in accounting or practices might be required of the Obligated Group as a result of these regulations.

**Additional Risk Factors**

***Bond Rating***. There is no assurance that the rating assigned to the Series 2019B Bonds will not be lowered or withdrawn at any time, which could adversely affect the market value or marketability of the Series 2019B Bonds. *See* "**PART 16 – RATING**" below.

***Secondary Market***. There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2019B Bonds. From time to time there may be no market for the Series 2019B Bonds depending upon prevailing market conditions, the financial condition or market position of any firms who may make the secondary market, and the financial condition and results of operations of the Members of the Obligated Group.

***Interest Rate Swap Risk***. The Members of the Obligated Group have in the past and may periodically, in the future, enter into other interest rate swap agreements to hedge interest rate risk. The Obligated Group's swap agreements are subject to early termination upon the occurrence of certain specified events. If either a Member of the Obligated Group or the counterparty terminates such an agreement when the agreement has a negative value to the Member of the Obligated Group, the Member of the Obligated Group could be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the financial condition of the Obligated Group. In the event of an early termination, there can be no assurance that (i) the Members of the Obligated Group will receive any termination payment payable to them by the swap counterparty, (ii) the Members of the Obligated Group will have sufficient amounts to pay a termination payment payable to the swap counterparty, and (iii) the Members of the Obligated Group will be able to obtain a replacement swap agreement with comparable terms.

***Other Future Risks***. In the future, the following factors, among others, may adversely affect the operations of health care providers or the market value of the Series 2019B Bonds to an extent that cannot be determined at this time:

- Adoption of proposed legislation in New York State that would set nurse-to-patient ratios by unit.
- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.
- Reduced demand for the services of hospitals that might result from decreases in population or loss of market share to competitors.
- Bankruptcy or business failures of an indemnity/commercial insurer, managed care plan or other payor could have a material adverse impact on contracted hospitals and other health care providers in the form of payment shortfalls or delay, and/or continuing obligations to care for managed care patients without receiving payment.
- Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher health care costs, reductions in patient populations, lower utilization of hospital service and/or new sources of competition for hospitals.
- Cost and availability of any insurance, such as professional liability, fire, flood, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry.

- The occurrence of a natural disaster, a pandemic or an epidemic that could damage hospital facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair hospitals' operations and the generation of revenues from the facilities.
- Acts of terrorism against public facilities such as hospitals.
- Fluctuations in global capital markets that could affect the System's access to capital, the value of its investment assets and pension funds.
- The treatment of a highly contagious disease at one of the Obligated Group's facilities may result in a temporary shutdown or diversion of patients or cause unaffected individuals to decide to defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues.
- Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

## PART 10 – THE AUTHORITY

### Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created in 1944 to finance and build dormitories at State teachers' colleges to provide housing for the large influx of students returning to college on the G.I. Bill following World War II. Over the years, the State Legislature has expanded the Authority's scope of responsibilities. Today, pursuant to the Dormitory Authority Act, the Authority is authorized to finance, design, construct or rehabilitate facilities for use by a variety of public and private not-for-profit entities.

The Authority provides financing services to its clients in three major areas: public facilities; not-for-profit healthcare; and independent higher education and other not-for-profit institutions. The Authority issues State-supported debt, including State Personal Income Tax Revenue Bonds and State Sales Tax Revenue Bonds, on behalf of public clients such as The State University of New York, The City University of New York, the Departments of Health and Education of the State, the Office of Mental Health, the Office of People with Developmental Disabilities, the Office of Alcoholism and Substance Abuse Services, the Office of General Services, and the Office of General Services of the State on behalf of the Department of Audit and Control. Other public clients for whom the Authority issues debt include Boards of Cooperative Educational Services ("*BOCES*"), State University of New York, the Workers' Compensation Board, school districts across the State and certain cities and counties that have accessed the Authority for the purpose of providing court facilities. The Authority's private clients include independent colleges and universities, private hospitals, certain private secondary schools, special education schools, facilities for the aged, primary care facilities, libraries, museums, research centers and government-supported voluntary agencies, among others.

To carry out its programs, the Authority is authorized to issue and sell negotiable bonds and notes to finance the construction of facilities for such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions. At March 31, 2019, the Authority had approximately $54.9 billion aggregate principal amount of bonds and notes outstanding. The Authority also is authorized to make tax-exempt leases, with its Tax-Exempt Leasing Program (TELP). As part of its operating activities, the Authority also administers a wide variety of grants authorized by the State for economic development, education and community improvement and payable to both public and private grantees from proceeds of State Personal Income Tax Revenue Bonds issued by the Authority.

The Authority is a conduit debt issuer. Under existing law, and assuming continuing compliance with tax law, interest on most bonds and notes issued by the Authority has been determined to be excludable from gross income for federal tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. All of the Authority's outstanding bonds and notes, both fixed and variable rate, are special obligations of the Authority payable solely from payments required to be made by or for the account of the client institution for which the particular special obligations were issued. The Authority has no obligation to pay its special obligations other than from such payments. The Authority has always paid the principal of and interest on all of its obligations on time and in full; however, as a conduit debt issuer, payments on the Authority's special obligations are solely dependent upon payments made by the Authority's client for which the particular special obligations were issued and the security provisions relating thereto.

The Authority also offers a variety of construction services to certain educational, governmental and not-for-profit institutions in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, interior design of projects and designing and managing projects to rehabilitate older facilities.

In connection with the powers described above, the Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate certain facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, borrow money and adopt a program of self-insurance.

The Authority has a staff of approximately 507 employees located in three main offices (Albany, New York City and Buffalo) and at approximately 46 field sites across the State.

**Governance**

The Authority is governed by an eleven-member board. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of the Authority annually choose the following officers, of which the first two must be members of the Authority: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of the Authority are as follows:

ALFONSO L. CARNEY, JR., *Chair*, New York.

Alfonso L. Carney, Jr. was reappointed as a Member of the Authority by the Governor on June 19, 2013. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical consulting services in New York City. He has served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he managed the staff of the Foundation, provided strategic oversight of the administration, communications and legal affairs teams, and developed selected Foundation program initiatives. Mr. Carney has held senior

level legal positions with Altria Group Inc., Philip Morris Companies Inc., Philip Morris Management Corporation, Kraft Foods, Inc. and General Foods Corporation. Mr. Carney holds a Bachelor's degree in philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His term expired on March 31, 2016 and by law he continues to serve until a successor shall be chosen and qualified.

JOHN B. JOHNSON, JR., *Vice-Chair*, Watertown.

John B. Johnson, Jr. was reappointed as a Member of the Authority by the Governor on June 19, 2013. Mr. Johnson is Chairman of the Board of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expired on March 31, 2016 and by law he continues to serve until a successor shall be chosen and qualified.

PAUL S. ELLIS, ESQ., *Secretary*, New York.

Paul S. Ellis was appointed as a Member of the Authority by the Speaker of the State Assembly on September 19, 2016. Mr. Ellis is the Managing Member of Paul Ellis Law Group LLC, a law firm with a corporate/ securities/capital markets practice with emphasis on private placements, mergers and acquisitions, venture capital/ private equity transactions and joint ventures. He previously worked for Donovan Leisure Newton & Irvine and Winston & Strawn and served in staff positions in the U.S. Senate and the Massachusetts House of Representatives. He co-founded the New York Technology Council and serves on the Board of the NY Tech Alliance and as Chairman of the Housing Committee of Bronx Community Board 8. He holds a Bachelor of Arts degree from Harvard University and a Juris Doctor degree from Georgetown University Law Center.

JONATHAN H. GARDNER, ESQ., Buffalo.

Jonathan H. Gardner was appointed as a Member of the Authority by the Governor on June 17, 2014. Mr. Gardner is a partner of the law firm Kavinoky Cook, LLP in Buffalo, New York. His practice areas include corporate and securities law, commercial transactions, private placements, venture capital financing and business combinations representing private and public companies. Mr. Gardner is also an adjunct professor at the University of Buffalo Law School. He holds a Bachelor of Arts degree from Brown University and a Juris Doctor degree from the University of Chicago Law School. Mr. Gardner's term expired on March 31, 2015 and by law he continues to serve until a successor shall be chosen and qualified.

WELLINGTON Z. CHEN, Queens.

Wellington Z. Chen was appointed as a Member of the Authority by the Governor on June 20, 2018. Mr. Chen is the Executive Director of the Chinatown Partnership Development Corporation. In this capacity, he leads the Chinatown Partnership in implementing initiatives in infrastructure, post 9/11 rebuilding and public space improvements in a comprehensive effort to improve the environmental and the business conditions. He is a graduate of the School of Architecture and Environmental Studies at The City College of New York. Mr. Chen's term expires on March 31, 2020.

JOAN M. SULLIVAN, Slingerlands.

Joan M. Sullivan was appointed as a Member of the Authority by the New York State Comptroller on March 26, 2019. Ms. Sullivan is President of On Wavelength Consulting LLC, a firm that assists governmental entities with development of public procurements and private companies with the preparation of effective responses to government solicitations. She possesses over 40 years of experience working in and for the government of New York State, including an expansive career at the NYS Office of State Comptroller where she last served as Executive Deputy Comptroller before accepting an appointment as Executive Director of The NYS Forum, Inc. Ms. Sullivan holds a Bachelor of Arts degree in Business Administration (Accounting) from Siena College.

BERYL L. SNYDER, J.D., New York.

Beryl L. Snyder was reappointed as a member of the Authority by the Governor on June 19, 2013. Ms. Snyder is a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expired on August 31, 2016 and by law she continues to serve until a successor shall be chosen and qualified.

GERARD ROMSKI, ESQ., Mount Kisco.

Gerard Romski was reappointed as a Member of the Authority by the Temporary President of the State Senate on May 9, 2016. He is Counsel and Project Executive for "Arverne by the Sea," where he is responsible for advancing and overseeing all facets of "Arverne by the Sea," one of New York City's largest mixed-use developments located in Queens, New York. Mr. Romski is also of counsel to the New York City law firm of Rich, Intelisano & Katz, LLP. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

MARYELLEN ELIA, *Commissioner of Education of the State of New York*, Loudonville; *ex-officio*.

MaryEllen Elia was appointed by the Board of Regents to serve as Commissioner of Education and President of the University of the State of New York effective July 6, 2015. As Commissioner of Education, Ms. Elia serves as Chief Executive Officer of the State Education Department and as President of the University of the State of New York which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. Prior to her appointment in New York, Ms. Elia served as Superintendent of Schools in Hillsborough County, Florida for 10 years. She began her career in education in 1970 as a social studies teacher in Buffalo's Sweet Home Central School District and taught for 19 years before becoming an administrator. She holds a Bachelor of Arts degree in History from Daemen College in Buffalo, a Master of Education from the University at Buffalo and a Master of Professional Studies from SUNY Buffalo.

HOWARD A. ZUCKER, M.D., J.D., *Commissioner of Health of the State of New York*, Albany; *ex-officio*.

Howard A. Zucker, M.D., J.D., was appointed Commissioner of Health on May 5, 2015 after serving as Acting Commissioner of Health since May 5, 2014. Prior to that, he served as First Deputy Commissioner leading the State Department of Health's preparedness and response initiatives in natural disasters and emergencies. Before joining the State Department of Health, Dr. Zucker was professor of

Clinical Anesthesiology at Albert Einstein College of Medicine of Yeshiva University and a pediatric cardiac anesthesiologist at Montefiore Medical Center. He was also an adjunct professor at Georgetown University Law School where he taught biosecurity law. Dr. Zucker earned his medical degree from George Washington University School of Medicine. He also holds a Juris Doctor degree from Fordham University School of Law and a Master of Laws degree from Columbia Law School.

ROBERT F. MUJICA, JR., *Budget Director of the State of New York,* Albany; *ex-officio*.

Robert F. Mujica Jr. was appointed Director of the Budget by the Governor and began serving on January 14, 2016. He is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio. Prior to his appointment, Mr. Mujica was Chief of Staff to the Temporary President and Majority Leader of the Senate and concurrently served as the Secretary to the Senate Finance Committee. For two decades, he advised various elected and other government officials in New York on State budget, fiscal and policy issues. Mr. Mujica received his Bachelor of Arts degree in Sociology from Brooklyn College at the City University of New York. He received his Master's degree in Government Administration from the University of Pennsylvania and holds a Juris Doctor degree from Albany Law School.

The principal staff of the Authority is as follows:

GERRARD P. BUSHELL is the President and chief executive officer of the Authority. Mr. Bushell is responsible for the overall management of the Authority's administration and operations. Prior to joining the Authority, Mr. Bushell was Director, Senior Institutional Advisor of BNY Mellon's alternative and traditional investment management businesses. Prior thereto, he held a number of senior advisory roles, including Director, Client Partner Group at Kohlberg Kravis Roberts & Co. (KKR), Managing Director, Institutional Sales at Arden Asset Management LLC and Head of Institutional Sales at ClearBridge: a Legg Mason Company (formerly Citi Asset Management). Mr. Bushell previously served as Director of Intergovernmental Affairs for New York State Comptroller H. Carl McCall. Mr. Bushell holds a Bachelor of Arts degree, Master of Arts degree and Ph.D. in Political Science from Columbia University.

MICHAEL T. CORRIGAN is the Vice President of the Authority, and assists the President in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor of Arts degree in Economics from the State University of New York at Plattsburgh and a Master of Arts degree in Business Administration from the University of Massachusetts.

KIMBERLY J. NADEAU is the Chief Financial Officer and Treasurer of the Authority. As Chief Financial Officer and Treasurer, Ms. Nadeau is responsible for supervising the Authority's investment program, general accounting, accounts payable, accounts receivable, financial reporting functions, budget, payroll, insurance and information services, as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. She previously was Vice President-Accounting and Controller for US Light Energy. Prior to that she was Vice President-Accounting and Controller for CH Energy Group, Inc. and held various positions culminating in a director level position at Northeast Utilities. Ms. Nadeau also held various positions with increasing responsibility at Coopers & Lybrand LLP. She holds a Bachelor of Science degree

in Accounting, a Master of Business Administration with a concentration in Management and a Juris Doctor degree from the University of Connecticut. She is licensed to practice law in New York and Connecticut.

MICHAEL E. CUSACK is General Counsel to the Authority. Mr. Cusack is responsible for all legal services including legislation, litigation, contract matters, and the legal aspects of all the Authority financings. In addition, he is responsible for the supervision of the Authority's environmental affairs unit. He is licensed to practice law in the State of New York and the Commonwealth of Massachusetts, as well as the United States District Court for the Northern District of New York. Mr. Cusack has over twenty years of combined legal experience, including management of an in-house legal department and external counsel teams (and budgets) across a five-state region. He most recently served as of counsel to the Albany, New York law firm of Young/Sommer, LLC, where his practice included representation of upstate New York municipalities, telecommunications service providers in the siting of public utility/personal wireless service facilities and other private sector clients. He holds a Bachelor of Science degree from Siena College and a Juris Doctor degree from Albany Law School of Union University.

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing the Authority bond issuance in the capital markets, implementing and overseeing financing programs, overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. She holds a Bachelor of Arts degree from the State University of New York at Albany.

STEPHEN D. CURRO is the Managing Director of Construction. Mr. Curro is responsible for the Authority's construction groups, including design, project management, resource acquisition, contract administration, interior design, real property, sustainability and engineering, as well as other technical services. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and has worked in the construction industry for more than 30 years. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CAROLINE V. GRIFFIN is the Chief of Staff of the Authority. She is responsible for overseeing intergovernmental relations and managing the Communications & Marketing Department, as well as coordinating policy and operations across the Authority's multiple business lines. Ms. Griffin most recently served as the Director of Intergovernmental Affairs for Governor Andrew M. Cuomo where she worked as the Governor's liaison with federal, state and local elected officials and managed staff serving in various capacities in the Governor's Office. Prior to that she served as the Assistant Executive Deputy Secretary for Governor Andrew M. Cuomo overseeing the operations staff and Assistant Secretary for Intergovernmental Affairs for both Governor David A. Paterson and Governor Eliot Spitzer. She holds a Bachelor of Arts degree in Communications from Boston College.

**Claims and Litigation**

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that such claims and litigation either are covered by insurance or by bonds

filed with the Authority, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such matters.

**Other Matters**

*New York State Public Authorities Control Board*

The New York State Public Authorities Control Board (the "*PACB*") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority obtains the approval of the PACB for the issuance of all of its bonds and notes.

*Legislation*

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

*Environmental Quality Review*

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder to the extent such acts and regulations are applicable.

*Independent Auditors*

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2018. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

## PART 11 – LEGALITY OF THE SERIES 2019B BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2019B Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the Series 2019B Bonds.

## PART 12 – NEGOTIABLE INSTRUMENTS

The Series 2019B Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2019B Bonds.

## PART 13 – TAX MATTERS

### General

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2019B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and (ii) interest on the Series 2019B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. In rendering its opinion, Hawkins Delafield & Wood LLP has relied on certain representations, certifications of fact, and statements of reasonable expectations made by, as applicable, the Authority, the Corporation, the other Members of the Obligated Group and others in connection with the Series 2019B Bonds, and Hawkins Delafield & Wood LLP has assumed compliance by, as applicable, the Authority, the Corporation and the other Members of the Obligated Group with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2019B Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Hawkins Delafield & Wood LLP has relied on the opinions of counsel to the Obligated Group regarding, among other matters, the current qualifications of the Members of the Obligated Group as organizations described in Section 501(c)(3) of the Code.

In addition, in the opinion of Hawkins Delafield & Wood LLP, under existing statutes, interest on the Series 2019B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Hawkins Delafield & Wood LLP expresses no opinion regarding any other Federal, state or local tax consequences with respect to the Series 2019B Bonds or the ownership or disposition thereof, except as stated above. Hawkins Delafield & Wood LLP renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Hawkins Delafield & Wood LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2019B Bonds, or the exemption from personal income taxes of interest on the Series 2019B Bonds under state and local tax law.

The Series 2019B Bonds, together with the Series 2019A Bonds, are expected to constitute a single issue for Federal income tax purposes. As such, the Authority, the Corporation and the other Members of the Obligated Group are subject to the same ongoing Federal tax requirements with respect to the Series 2019B Bonds and the Series 2019A Bonds. Hawkins Delafield & Wood LLP has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Corporation and other Members of the Obligated Group in connection with the Series 2019B Bonds, and has assumed compliance by the Authority, the Corporation and such other Members of the Obligated Group with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2019B Bonds from gross income under Section 103 of the Code. Failure to comply with such requirements with respect to the Series 2019B Bonds and the Series 2019A Bonds could cause interest on all such bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of such bonds.

Reference is made to **APPENDIX G** hereto for the proposed form of opinion, in substantially final form, expected to be rendered by Hawkins Delafield & Wood LLP in connection with the issuance of the Series 2019B Bonds.

**Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2019B Bonds in order that interest on the Series 2019B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2019B Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2019B Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority, the Corporation and the other Members of the Obligated Group have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2019B Bonds from gross income under Section 103 of the Code.

**Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2019B Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2019B Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2019B Bonds.

Prospective owners of the Series 2019B Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2019B Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

**Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2019B Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2019B Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2019B Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

**Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2019B Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2019B Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2019B Bonds.

Prospective purchasers of the Series 2019B Bonds should consult their own tax advisors regarding the foregoing matters.

## PART 14 – STATE NOT LIABLE ON THE SERIES 2019B BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2019B Bonds shall not be a debt of the State nor shall the State be liable thereon.

## PART 15 – COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of the Authority's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes or bonds.

## PART 16 – RATING

S&P Global Ratings ("*S&P*") has assigned a rating of "A/A-1" to the Series 2019B Bonds, on the condition that, upon delivery of the Series 2019B Bonds, the Initial Credit Facility Issuer will issue the Letter of Credit. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency at the following address: S&P, 55 Water Street, New York, New York 10041. There is no assurance that such rating will prevail for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2019B Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Series 2019B Bonds.

## PART 17 – LEGAL MATTERS

Certain legal matters incidental to the offering of the Series 2019B Bonds by the Authority are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, as Bond Counsel, whose approving opinion will be delivered with the Series 2019B Bonds. The form of Bond Counsel's opinion is set forth as **APPENDIX G** hereto.

Certain legal matters will be passed upon for the Obligated Group by its counsel, Phillips Lytle LLP, Buffalo, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Katten Muchin Rosenman LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance, offering or delivery of the Series 2019B Bonds or questioning or affecting the validity of the Series 2019B Bonds or the proceedings and authority under which the Series 2019B Bonds are to be issued and offered.

## PART 18 – UNDERWRITING

Pursuant to a Bond Purchase Agreement related to the Series 2019B Bonds (the "*Purchase Contract*") by and among the Authority, the Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as underwriter (the "*Underwriter*"), the Underwriter, has agreed, subject to certain conditions, to purchase (i) the Series 2019B Bonds from the Authority at a purchase price of $43,804,506.72 (reflecting an underwriter's discount of $120,493.28) and to make a public offering of the Series 2019B Bonds at prices that are not in excess of the public offering prices or yields indicated on the inside cover of this Official Statement. The obligations of the Underwriter are subject to certain terms and conditions contained in the Purchase Contract. The Underwriter will be obligated to purchase all of the Series 2019B Bonds if any of the Series 2019B Bonds are so purchased. The Corporation has agreed to indemnify the Underwriter against certain liabilities, including certain liabilities arising under federal and state securities laws. The initial offering price of the Series 2019B Bonds may be changed by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriter and certain of its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Corporation for which it has received or will receive customary fees and expenses.

In the ordinary course of its business activities, the Underwriter and its respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively traded securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Corporation (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Corporation. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments of the Corporation.

The Series 2019B Bonds may be offered and sold to certain dealers (including the Underwriter) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

## PART 19 – FINANCIAL ADVISOR

Echo Financial Products, LLC has served as financial advisor to the Corporation in connection with the Series 2019B Bonds. Echo Financial Products, LLC is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Echo Financial Products, LLC is an

independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

## PART 20 – CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12, the Corporation will enter into the Continuing Disclosure Agreement DAC. The form of the Continuing Disclosure Agreement is attached as "**FORM OF CONTINUING DISCLOSURE AGREEMENT**" in **APPENDIX H** hereto.

In connection with issuance of a prior series of bonds, the Corporation agreed to provide in a continuing disclosure undertaking (the "*2012 Disclosure Agreement*") certain financial and utilization data on an annual basis, including the liquidity metrics of days cash on hand and a cash-to-debt ratio. The information the Corporation has provided pursuant to the 2012 Disclosure Agreement has included the days cash on hand but did not in certain years include the cash-to-debt ratio. The Corporation provided the data necessary to compute the cash to debt ratio; however, such filings were deemed incomplete. The Corporation provided all required liquidity metrics pursuant to a filing made on January 15, 2015, and as a result, such filings are complete, but were submitted late. The Corporation elected to file an event notice under the 2012 Disclosure Agreement with regard to the timing of the annual operating information filings for the year ended December 31, 2013. In addition to the provisions of the 2012 Disclosure Agreement, pursuant to a prior supplemental master trust indenture delivered (the "*2012 Supplemental MTI*"), the Corporation agreed to deliver to the MSRB and other parties certain financial information for the Corporation and certain utilization for certain Members of the Obligated Group not later than forty five (45) days after the end of each of the first three fiscal quarters. The Corporation has provided such data, in certain instances later than forty-five (45) days, and certain utilization information has been provided on a combined basis as opposed to on a per Obligated Group Member basis or in certain instances on a per facility basis. The Corporation has put systems into place to comply with the Rule, and the additional requirements of the 2012 Supplemental MTI.

## PART 21 – MISCELLANEOUS

Reference in this Official Statement to the Act, the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Mortgages, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Series 2019B Obligations do not purport to be complete. Refer to the Act, the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Mortgages, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Series 2019B Obligations for full and complete details of their provisions. Copies of the Resolution, the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Mortgages, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Series 2019B Obligations are on file with the Authority and the Bond Trustee.

The agreements of the Authority with the holders of the Series 2019B Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2019B Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2019B Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the Corporation, the Obligated Group, the System and the Master Indenture was supplied by the Corporation. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information. The Authority does not guarantee the accuracy or completeness of such information, and

such information is not to be construed as a representation of the Authority. The Authority does not directly or indirectly guarantee, endorse or warrant (i) the creditworthiness or credit standing of the Corporation or the Obligated Group, (ii) the sufficiency of the security for the Series 2019B Bonds or (iii) the value or investment quality of the Series 2019B Bonds.

The information regarding DTC and DTC's book-entry system has been furnished by DTC. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

**APPENDICES C, D, E** and **G** have been prepared by Hawkins Delafield & Wood LLP, New York, New York.

The audited consolidated financial statements of the Corporation as of and for the year ended December 31, 2018 included in **APPENDIX B** of this Official Statement, have been audited by FreedMaxick, P.C., independent auditors, as stated in their reports appearing therein.

The information concerning the Initial Credit Facility Issuer, the Letters of Credit, the Reimbursement Agreement and the Remarketing Agreement under the captions "**PART 4 – THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT**" and "**PART 5 – THE REMARKETING AGENT**" herein and "**INFORMATION REGARDING INITIAL CREDIT FACILITY ISSUER**" in **APPENDIX I** hereto has been supplied by the Initial Credit Facility Issuer or the Remarketing Agent. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority.

The Corporation, on its own behalf and as Obligated Group Representative on behalf of the Obligated Group, has reviewed the parts of this Official Statement describing the Corporation, the Obligated Group, Source of Payment and Security for the Series 2019B Bonds, Plan of Finance, Bondholders' Risks, Estimated Sources and Uses of Funds, Annual Debt Service Requirements, Continuing Disclosure, Legal Matters, **APPENDIX A** and **APPENDIX B**. The Corporation, on behalf of itself as and Obligated Group Representative on behalf of the Obligated Group, shall certify as of the date hereof and as of the date of delivery of the Series 2019B Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

A substantially final form of the Master Indenture is attached as **APPENDIX F** hereto.

The Corporation has agreed to indemnify the Authority, the Underwriter and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by the Authority.

**DORMITORY AUTHORITY OF**
**THE STATE OF NEW YORK**

By: */s/ Gerrard P. Bushell*
Authorized Officer

# APPENDIX A

## CERTAIN INFORMATION CONCERNING CATHOLIC HEALTH SYSTEM, INC.

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**APPENDIX A**
**CERTAIN INFORMATION CONCERNING**


**CATHOLIC HEALTH SYSTEM**
**The information contained herein as Appendix A to this Official Statement has been obtained from Catholic Health System**

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## INTRODUCTION

Catholic Health System ("Catholic Health" or "the System") is a fully integrated healthcare system led by Catholic Health System, Inc. ("CHS") that serves the residents of Buffalo, New York and surrounding areas in Erie and Niagara counties, which have a total population of approximately 1.14 million. In 2018, Catholic Health had over 52,000 inpatient discharges, over 200,000 total emergency department ("ED") visits, and over one-million other outpatient encounters. Ministries of the System include four hospitals on five campuses with 1,161 licensed beds, seventeen primary care centers, five diagnostic and treatment centers, four long-term care facilities, two home care agencies, an ambulatory surgery center joint venture, a senior independent living site, an infusion pharmacy, a single site Program of All-inclusive Care for the Elderly ("PACE") program with an additional site expected by year end 2019, counseling services, social services, and inpatient and outpatient substance abuse addiction management services. The System has 77 locations across Erie and Niagara counties, where it maintains a leading market share and is the region's largest provider of cardiology and maternity services, as well as care to the elderly in the region. The System employs more than 9,000 full and part-time employees, and has a medical staff of 1,511 physicians. The System captures approximately 44.5% of the inpatient market in Erie County and 31.6% of the inpatient market in Niagara County, in the service areas in which it competes.

## ORGANIZATION

Formed in 1998 under four religious sponsors, Catholic Health is a not-for-profit healthcare system, providing care to the residents of Western New York.

The System is organized as an active parent model with much of the management responsibilities performed by the parent, CHS. Each hospital within the System retains its own corporate existence but is governed by the same Board of Directors which operates in a joint model to ensure consistency across the organization. The day-to-day management of an individual hospital is the responsibility of the hospital's Chief Executive Officer, while System management resides at the corporate or parent level, providing for the overall strategic direction and centralized planning for the entire System. In addition, all finance, supply chain, human resources, physician recruitment, strategic planning, legal services, information systems, marketing, public relations, community education, and managed care contracting functions reside with CHS.

### Obligated Group

The existing CHS Obligated Group consists of CHS, Mercy Hospital of Buffalo ("Mercy"), Sisters of Charity Hospital of Buffalo, New York ("Sisters of Charity"), and Kenmore Mercy Hospital ("Kenmore") (the "Existing Members"). Upon issuance of the Series 2019 Bonds, the Obligated Group will expand to include Mount St. Mary's Hospital of Niagara Falls ("Mount St. Mary's"), McAuley Seton Home Care Corporation ("McAuley Seton"), and Niagara Homemakers Services Inc., (d/b/a Mercy Home Care) ("Mercy Home Care", collectively with the Existing Members, the "Members" and each a "Member"). Upon the addition of these entities to the Obligated Group, the Obligated Group will represent approximately 95.5% of the revenue of the System and 92.2% of its assets.

**No affiliate of CHS, other than the current and any future Members of the Obligated Group, will be obligated for amounts due under the Series 2019 Bonds, which are being secured on parity under the Master Indenture with other existing debt of the Obligated Group.**

### Sisters of Charity Hospital of Buffalo, New York

Sisters of Charity has two separate hospital campuses: Sisters of Charity - Main Street Campus ("SOC - MSC") in Buffalo, New York, and Sisters of Charity - St. Joseph Campus ("SOC - SJC") in Cheektowaga, New York.

***Sisters of Charity - Main Street Campus – 310 Licensed Beds***

SOC-MSC, an acute care teaching hospital, was founded in 1848 as the first hospital in Buffalo, New York. The St. Catherine Labourè Health Care Center, an 80-bed residential healthcare facility, and a department of SOC-MSC, is located adjacent to the acute care facility.

SOC-MSC offers medical and surgical inpatient care, obstetrics and gynecology ("OB/GYN") services, an intensive care unit ("ICU") and a cardiac care unit. The SOC-MSC specialty inpatient programs include a neurosurgery unit, a vascular center, a bariatric surgical program, and a comprehensive imaging services department, including magnetic resonance imaging ("MRI") and computed tomography ("CT") services. SOC-MSC also offers cancer care services including chemotherapy treatment. The New York State Department of Health has designated SOC-MSC as a Stroke Center.

SOC-MSC is a regional leader in women's services including the M. Steven Piver, MD Center for Women's Health and Wellness, offering comprehensive care to women of all ages and the Special Birthplace, a 40-bed maternity unit with a newly renovated 40-bed Level III neonatal intensive care unit. The nursing and medical staff of the Special Birthplace provide highly specialized expertise in the care of premature and critically ill babies.

As the oldest graduate medical education teaching hospital in the region, SOC-MSC maintains training programs in internal medicine, OB/GYN, surgery, osteopathic medicine and podiatric medicine. Medical students from University at Buffalo, New York College of Osteopathic Medicine, Lake Erie College of Osteopathic Medicine, and Physician Assistant students from Daemen College, as well as nursing students from area schools receive training year-round at SOC-MSC.

SOC-MSC provides a full array of outpatient diagnostic and treatment services, including ambulatory surgery and primary care, both on-site and in the community. The hospital also offers outpatient rehabilitation to chemically dependent adults at three satellite outpatient sites and three methadone maintenance program sites: one in Buffalo, one in Amherst, New York (newly opened in 2018) and one in Rochester, New York. Over the next 12 months, the System's Amherst, New York, rehabilitation facility is expected to expand its service offerings to include primary care, infectious disease and other medical services to promote a holistic approach to treating patients with substance use disorders.

***Sisters of Charity - St. Joseph Campus – 103 Licensed Beds***

SOC-SJC has served the Town of Cheektowaga in Erie County and its neighboring towns east of Buffalo since 1960. The campus offers a complete range of services including a full-service 24-hour emergency department, cardiac care, inpatient and ambulatory surgery, radiology, and laboratory services. Specialized services include digestive health ("GI"), sleep disorders, and a bariatric and metabolic center, which opened in 2018. SOC-SJC also includes an Advanced Wound Healing Center, providing comprehensive wound care, including hyperbaric treatment.

**Mercy Hospital of Buffalo**

Mercy consists of two acute care facilities: its main hospital in Buffalo, New York and the Mercy Ambulatory Care Center ("MACC") in Orchard Park, New York.

***Mercy – 387 Licensed Beds***

Established in 1904, Mercy is the center for acute care services in South Buffalo and the leading provider to Buffalo's southern suburbs. Mercy also draws patients from the adjacent Western New York counties. The Mercy Nursing Facility, an 84-bed skilled nursing facility, is located within the Our Lady of Victory Senior Neighborhood, a not-for-profit corporation of which CHS is the sole member, in Lackawanna, New York, approximately two miles from the Mercy campus.

Mercy's emergency department, along with MACC, provide 24-hour emergency care with nearly 76,000 visits annually. Comprehensive medical and surgical specialties at Mercy include cardiology, obstetrics, orthopedics, neurosurgery, OB/GYN, urology, and general surgical services. In 2002, Mercy opened the Catholic Health Heart Center ("Heart Center"), offering a full range of cardiac care services. Today, the Heart Center performs more than 600 cardiac surgeries per year including both open-heart surgery and minimally invasive interventional procedures including transcatheter aortic valve replacement. The Heart Center's electrophysiology program ("EP") has four dedicated EP labs and initiated Watchman implant procedures in 2016.

With state-of-the-art technology, the growth of its heart and stroke program, Mercy's high quality emergency department and a new cardiac operating room wing that opened in 2018, Mercy has become a leading tertiary care center. A recently renovated maternity department includes a Level II neonatal intensive care unit. In addition, Mercy is designated as a Stroke Center by the New York State Department of Health and accredited by the Joint Commission as a Primary Stroke Center.

MACC, Mercy Diagnostic Center in East Aurora, New York, Mercy Diagnostic and Treatment Center in West Seneca, New York, and three mission-based primary care centers round out the additional outpatient venues offered through Mercy.

Together with SOC-MSC, Mercy provides training and teaching to medical residents and students as well as a teaching program for pediatrics and nuclear medicine residents. Mercy receives medical students from the State University of New York at Buffalo ("SUNYAB") year-round. Combined, Mercy and Sisters of Charity train the equivalent of approximately 80 full-time employees ("FTEs") and at least 125 students each year.

***Mercy Ambulatory Care Center – 2 Licensed Beds***

As an extension of Mercy, MACC offers 24-hour emergency care, a wide array of diagnostic and rehab services, with an annual volume of nearly 57,000 referred ambulatory procedures. With more than 25,000 emergency care visits annually, the facility has the unique function of being a two-bed hospital with a 24-hour emergency department. MACC includes the System's second Advanced Wound Healing Center. MACC is seven miles from the main Mercy campus, located in the southern portion of Erie County.

**Kenmore Mercy Hospital; 184 Licensed Beds**

Kenmore has been serving the health and wellness needs of Buffalo's northern neighborhoods and suburbs since 1951, with the advanced technology and cutting edge services found at many larger hospitals. Kenmore also operates the McAuley Residence, a 160-bed subacute and residential healthcare facility, located behind Kenmore's acute care facility.

Kenmore also offers a variety of specialized services: nationally-recognized orthopedic services, including a dedicated knee and hip center; imaging services, including interventional radiology and a 3 Tesla MRI; comprehensive rehabilitation services, including inpatient medical rehabilitation, subacute rehabilitation, and an outpatient pulmonary rehabilitation program; an advanced neurosurgery program; and a GI unit. Kenmore also offers an intensivist program in its ICU and an inpatient hospitalist program to enhance care and service.

Kenmore is designated as a Stroke Center by the New York State Department of Health, is an accredited Primary Stroke Center by the Joint Commission, and has been recognized by the American Heart Association/American Stroke Association for exceptional outcomes. In 2013, Kenmore opened a new 19,000 square foot emergency department and continues to grow and evolve to meet the community's changing needs, most recently adding ultra-modern surgical suites and a new Ambulatory Surgery Unit.

Kenmore is an Orthopedic Campus of Excellence providing comprehensive care, having been recognized for its quality outcomes, both regionally and nationally, for over fifteen years. The Knee & Hip Center, first opened in 2004, now features a contemporary 24 private bed unit, which opened in 2014. Kenmore also became the first Western New York hospital to participate in the American Joint Replacement registry. This national initiative pools

outcomes data with other leading centers across the country, underscoring Kenmore's commitment to providing exemplary clinical outcomes.

Kenmore has been recognized by respected healthcare regulatory bodies and organizations for its high standard of orthopedic care and superior outcomes. Kenmore became the first hospital in the Buffalo area to receive Disease-Specific Care Certification for Total Knee & Total Hip Replacement from the Joint Commission. The hospital has been recertified each cycle since and remains the only facility in Western New York to receive this achievement.

As of 2017, Kenmore is Western New York's only Magnet-recognized hospital.

Accredited by the Joint Commission, Kenmore is recognized for the highest quality and safety standards in the industry. This is further demonstrated by its ranking as New York State's only Top Hospital by The Leapfrog Group in both 2016 and 2017. The hospital has also earned ten consecutive "A" Hospital Safety Grade ratings from The Leapfrog Group since April 2014, validating its commitment to keeping patients safe from preventable errors, injuries, accidents and infections.

**Mount St. Mary's Hospital of Niagara Falls; 175 Licensed Beds**

While Erie County has historically been the home of the System's hospitals, the System chose to strategically expand into Niagara County since Niagara County is the second most populous county in Western New York after Erie County and is located immediately north of Erie County. Mount St. Mary's, which joined the System in July of 2015, is a community hospital located in Lewiston, New York, approximately 25 miles north of Buffalo in Niagara County. The hospital has provided high quality care to the greater Niagara Falls region and Niagara County for over 100 years. Founded in 1907, the hospital has been recognized for its superior care in maternity and stroke services and is fully accredited by the Joint Commission. In 2018, Mount St. Mary's opened the Mount St. Mary's Health Center Lockport, New York, which provides primary and specialty care services. Mount St. Mary's plans to continue expansion of other services and market presence in Niagara County based on community needs.

Mount St. Mary's provides 24-hour emergency care with almost 20,000 visits annually. Its Lewiston campus includes the main hospital building, constructed in 1965, two medical office buildings and a child care center that serves both hospital associates and the general community. Medical and surgical specialties at Mount St. Mary's include diagnostic cardiology, OB/GYN, orthopedics, urology, gastroenterology, general surgical services and more. Mount St. Mary's Center for Wound Healing and Hyperbaric Medicine treats hundreds of patients each year; and its Center for Women, which provides gynecology and maternity services, delivers more than 300 babies annually.

Mount St. Mary's Diagnostic Imaging Center offers the latest technology including 3D MRI breast tomosynthesis, CT technology, a minimally invasive surgery suite, and more. The hospital is a New York State designated Stroke Center.

Mount St. Mary's 45-bed, inpatient chemical dependency unit – Clearview – is licensed by the New York State Office of Alcoholism and Substance Abuse Services and provides 24-hour individualized medical care following a comprehensive evaluation of each patient.

In the community, the Mount St. Mary's Neighborhood Health Center – located in the most underserved census tract in Niagara County – provides a wide array of services to those in need, including pediatrics, OB/GYN, dental and primary care. Serving individuals and families throughout the local community, the center logs more than 12,000 patient visits each year. Other off-campus facilities and clinics include a Center for Sports Medicine and Physical Rehabilitation, an Otolaryngology Clinic, a Neurology and Stroke Center, an outpatient imaging and lab center, and five separate primary care offices.

Efforts at the hospital have also been recognized by accreditation and certification groups. Mount St. Mary's, its laboratory, and Neighborhood Health Center have all earned accreditation by the Joint Commission.

Mount St. Mary's cardiology diagnostics have earned accreditation in echocardiography and nuclear cardiology. The Center for Sports Medicine is certified for lymphedema therapy, vestibular therapy, hand therapy, VitalStim therapy and McKenzie Mechanical Therapy. Numerous services in Mount St. Mary's Diagnostic Imaging Center are certified by the American College of Radiology including MRI, mammography, CT, and nuclear cardiology, while being named a Designated Lung Cancer Screening Center.

**McAuley Seton Home Care**

Serving both Erie and Niagara Counties, with more than 240,000 annual visits, McAuley Seton provides home care services for all ages and stages in life. Working closely with the Catholic Health hospitals, Catholic Health's care management team admits medical and surgical patients directly into homecare prior to discharge. Once discharged, McAuley Seton provides rehabilitation, nursing, and palliative care services. In addition, McAuley Seton often receives patients from the System's emergency departments to home care in an effort to lower overall health care costs, while improving outcomes.

**Mercy Home Care**

Serving Erie County, with nearly 70,000 visits, Mercy Home Care provides assistance with personal care, household chores, and other activities associated with daily living and provides personal home response services for seniors who might be living alone.

**Licensure and Accreditation**

The individual acute care facilities of the System are accredited by the Joint Commission for a three-year period as shown in the table below.

| Hospital | Month/Year Accredited |
|---|---|
| Kenmore Mercy | January 2018 |
| Mercy Hospital | April 2018 |
| Sisters of Charity | June 2018 |
| Mount St. Mary's | February 2018 |

The System's hospitals and long-term care facilities are also fully licensed and regulated by the New York State Department of Health.

## CHS GOVERNANCE AND CORPORATE STRUCTURE

**Corporate Members**

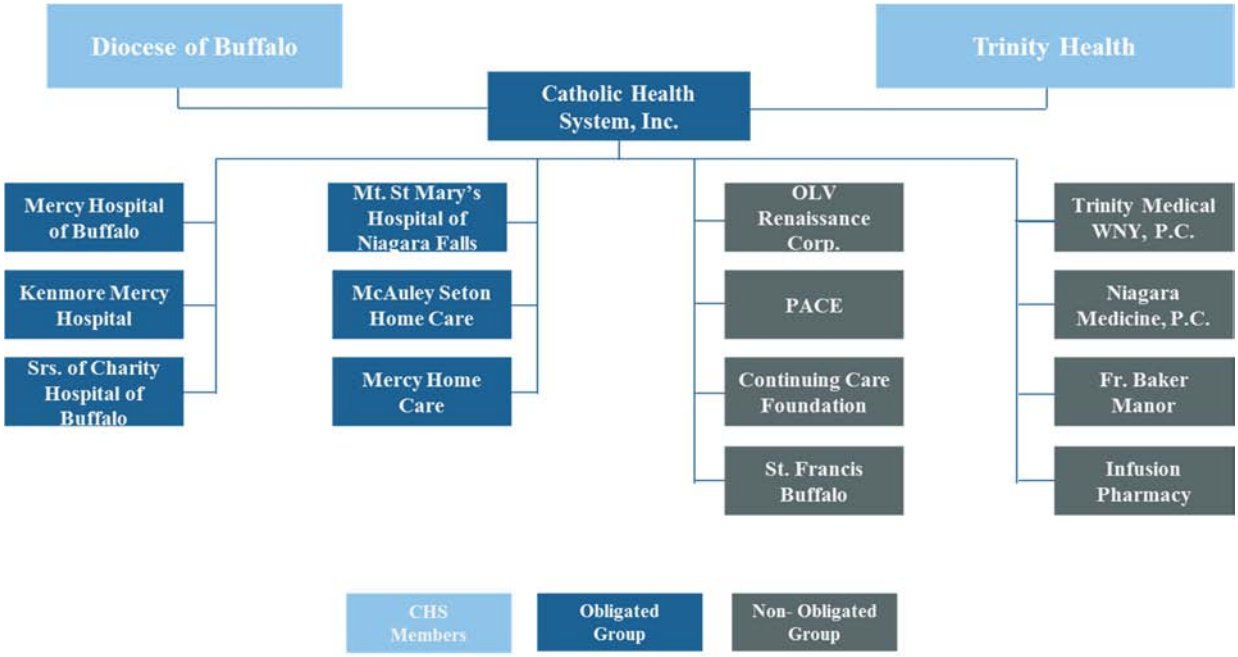
CHS has two corporate members: Trinity Health Corporation ("Trinity Health") and The Diocese of Buffalo, New York (each a "CHS Member" and collectively, the "CHS Members") that have certain reserved powers to approve budgets, major capital expenditures and litigation settlements, as well as the election of members of the Board of Directors of CHS. The CHS Members do not provide any financial support or guarantees to the Obligated Group and will not be obligated to make any debt service payment with respect to the Series 2019 Bonds. CHS participates in various programs offered by Trinity Health, including pension plan administration, workers compensation insurance, professional and general liability insurance, and internal audit.

**Sponsoring Authorities**

CHS is currently co-sponsored by The Diocese of Buffalo, New York and Catholic Health Ministries (each a "Sponsoring Authority" and collectively the "Sponsoring Authorities"). The Sponsoring Authorities approve and interpret the purposes, statement of philosophy and mission of CHS and, by extension, the System as a whole. Each Sponsoring Authority has the same oversight role for each constituent institution regardless of historical roles or

identity. The Sponsoring Authorities do not provide any financial support or guarantees to the Obligated Group and will not be obligated to make any debt service payment with respect to the Series 2019 Bonds. The Sponsoring Authorities have reserved powers similar to those of the CHS Members.

The table below sets forth the corporate membership of CHS and certain of its consolidated affiliates, as well as the composition of the Obligated Group.




**Governance**

CHS is governed by a Board of Directors (the "Board"), comprised of select business and community leaders. The appointed members of the Board (the "Directors") must at all times include at least one (1) voting member who is a representative of each of the CHS Members. Directors may consist of physicians who are active members of the medical staff(s) of one or more of the System's acute care hospitals, or other individuals who have a history of service to a not-for-profit and/or tax exempt organization, and understand and support the values, philosophy and mission of the System and the Sponsoring Authorities and support cultural and ethnic diversity. The Board is divided into three equal "classes" and a new class is elected annually to a three (3)-year term expiring in successive years; Directors serve without compensation. The Board seeks to exhibit diverse backgrounds, including banking, investment management, healthcare, accounting, technology and community business leaders, among other groups. Extensive ties to the community provide the Board with a particularly keen insight into the needs of the communities the System serves.

The Board, which meets bi-monthly, is responsible for governing the affairs of the System, establishing policies, assuring quality patient care, and providing for institutional management and planning. Directors are chosen based on their ability to participate and be effective in fulfilling the Board's responsibilities supporting the objectives of the System. The Officers of the Board are (a) Chairperson, (b) Vice Chairperson, (c) Secretary, (d) Treasurer and (e) President. By virtue of the position, the President and Chief Executive Officer of CHS is an Ex Officio voting member of the Board as long as he/she holds that office. The officers of CHS, other than the President, are elected by the Board's membership annually.

Committees of the Board include: Executive; Audit; Finance and Operations; Quality Enhancement; Executive Compensation; Strategic Planning; Mission Integration; and Nominating and Governance. The Executive Committee is able to transact any regular business of the Board during the period between meetings of the Board,

subject to any prior limitation imposed by the Board, and with the understanding that all actions taken will be reported to the Board.

The current members of the Board are as follows:

**BOARD MEMBERS**

| Member | Occupation | Initial Appointment | Term Expiration |
|---|---|---|---|
| Maureen Athoe, CPA | President, Moog Space and Defense Group | May 2018 | May 2021 |
| Brian Beitz | Administrative Vice President, M & T Bank | May 2015 | May 2021 |
| John Capasso [5] | Executive Vice President, Trinity Health | January 2017 | N/A |
| Peggy Choong, PhD [2] | Professor, Niagara University | May 2013 | May 2019 |
| Christopher Glynn | President, Maid of the Mist | May 2016 | May 2019 |
| Carmen Granto | Retired, Niagara Falls School District | May 2015 | May 2019 |
| Robert Greene, Esq. [1] | Retired, Phillips Lytle | May 2015 | May 2021 |
| Alfred Hamilton, PhD | Technology Solutions Consulting, LLC | May 2016 | May 2019 |
| Carol Heckman, Esq. | Partner, Lippes Mathias Wexler Friedman | May 2018 | May 2021 |
| Lisa Hoffman, MD | Managing Partner & President, Southgate Medical Group | January 2019 | May 2019 |
| Maureen Hurley, Esq. | Retired, Rich Products | May 2018 | May 2021 |
| Candace Johnson, PhD | CEO, Roswell Park Institute | May 2014 | May 2020 |
| Kevin Keenan | Keenan Communications Group | May 2013 | May 2019 |
| Marsha Lewis, PhD, RN | Dean School of Nursing, State University of New York at Buffalo ("SUNYAB") | May 2013 | May 2019 |
| Jay McWatters, CPA | Partner, Dopkins & Company | May 2015 | May 2021 |
| Robert Minicucci | President, Health System Services | May 2015 | May 2021 |
| Michael Murray, CPA | Retired, Partner of big four accounting firm | May 2014 | May 2020 |
| Honorable Hugh B. Scott | United States Magistrate Judge | May 2013 | May 2019 |
| Sheldon Smith, Esq. [3] | Partner, Harter Secrest & Emory LLP | May 2014 | May 2020 |
| Mark Sullivan | President & CEO Catholic Health System | *Ex-Officio* | N/A |
| Paul Tokasz | Vice President, M & T Bank | May 2018 | May 2021 |
| Robert Travis, CPA [4] | Partner, Chiampou Travis Besaw & Kershner | May 2015 | May 2021 |
| Lawrence Whistler, CFA | President, Nottingham Advisors. Inc. | May 2018 | May 2021 |
| Monsignor Robert Zapfel [5] | Pastor, St. Leo the Great | June 2002 | N/A |

1 Chair
2 Vice-Chair
3 Secretary
4 Treasurer
5 Member Representative

Management of CHS expects that three of the Board seats expiring in 2019 will be renewed. The remaining five Board members will need to be replaced as they are not eligible to serve another term.

**Conflicts of Interest Policy**

CHS adheres to a formal conflict of interest policy requiring that any Director or any member of a Board committee, who qualifies as an Independent Director (as defined in Article VI, Audit Oversight, of the CHS bylaws), with respect to any transaction or arrangement involving CHS and its member organizations, exercise the utmost good faith, care and diligence in all transactions involving CHS. This policy also requires that Directors will not use their positions or knowledge gained therefrom in any transaction or activity, nor shall they engage in any

activities which might involve interests in conflict with those of CHS or the CHS Members. This policy also requires an affirmative duty to disclose immediately to the Chairman of the Board, the President of CHS, or the Corporate Compliance Officer of CHS, all knowledge of situations involving potential or actual conflicts of interest.

The Directors are required annually to review the aforementioned Conflict of Interest policy and file a statement indicating their familiarity therewith. Each incoming Director is also advised of the policy.

**Executive Management**

A senior management team, including the current President and Chief Executive Officer of CHS, supports and complements the governance activities of the Board, ensuring that policies, plans and programs are implemented. The management team's major responsibilities are to:

- formulate recommendations for the consideration of the Board;
- interpret, communicate and implement the direction and policy established by the Board;
- establish the strategic, financial and human resources plans for each hospital;
- allocate human and financial resources throughout the System to achieve its goals and objectives; and
- monitor progress toward the goals and objectives of the System and initiate corrective action plans where and when necessary.

The President and Chief Executive Officer reports to the Board and is supported by the other members of the System's senior management. Biographical information regarding the President and Chief Executive Officer and the other key members of the System's senior management follows:

***Mark A. Sullivan, President and Chief Executive Officer, Age 51***

Mark A. Sullivan was appointed President and CEO in March of 2018. Prior to his current appointment, he served as Executive Vice President and Chief Operating Officer of CHS since July 2007 and was responsible for the system-wide health care operations. Mr. Sullivan joined Mercy Home Care as Director of Business Operations in 1994, and was named Director of Operations for home health in 2000 and served as CEO from 2003-2007. He also served as interim CEO of the System's continuing care division in 2013. Mr. Sullivan holds a bachelor's degree in political science/criminal justice and a master's degree in public administration and health care management from Canisius College. Mr. Sullivan presently serves on the American Hospital Association Health Care Systems Governing Council, the Buffalo Niagara Partnership Board of Directors, the Buffalo Zoo Board of Directors, the Healthcare Association of New York State Board of Trustees and the Racial Equity Buffalo Leaders Task Force. He is a fellow of the American College of Health Care Executives, a Health Care Transformation fellow and mentor for the American Hospital Association, and is a Certified Home and Hospice Care Executive ("CHCE"). He recently retired from the Erie County Sheriff's Office Scientific Staff Reserve after 13 years of service where, as a deputy, he volunteered for various community details and served in the Sheriff's Honor Guard. He also served on the Board of Directors of the Home Care Association of New York State and was a member of its Policy Council.

***James A. Dunlop, Jr., Executive Vice President, Finance and Chief Financial Officer, Age 49.***

James A. Dunlop, Jr., has served as Executive Vice President and Chief Financial Officer of CHS since 2008. Mr. Dunlop has been in the healthcare field since 1996 and previously served as the VP Finance/Corporate Controller of the System from 2001-2008. Prior to that Mr. Dunlop served as the Director of Finance for Sisters of Charity, St. Joseph Hospital and Kenmore. Before joining CHS, Mr. Dunlop served as a healthcare consultant/auditor for Ernst and Young, LLP. He is a Certified Public Accountant and an active member of the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants, and the Healthcare Financial Management Association. He earned his Master of Business Administration with a dual concentration in healthcare systems management and accounting from the University at Buffalo, and his Bachelor of Arts with a dual concentration in economics and public policy from the University of Rochester. Mr. Dunlop currently serves on the boards of Invest Buffalo Niagara, while having previously served on the boards of

the Buffalo Niagara Partnership, Hilbert College, Catholic Medical Partners Independent Practice Association ("CMP"), and Mid-Erie Counseling and Treatment Services, a local provider of behavioral health services.

***Bartholomew Rodrigues, Senior Vice President, Mission Integration, Age 58.***

Bart Rodrigues serves as the Senior Vice President and Chief Mission Officer at CHS. Mr. Rodrigues participates in strategy development, planning, and decision making in service of CHS's strategic direction and its long-range transformational vision. He provides leadership in ensuring the successful integration, assessment and development of mission, values and Catholic identity into the strategic plan, structures and operations of the System. He facilitates the relationship with CHS's Sponsors and serves as staff to the Mission Integration Committee of the Board. Mr. Rodrigues has three Master's degrees: one in Management from Southern Oregon University, and two Masters from Catholic Theological Union, Chicago—an Master of Arts in Healthcare Ethics, and a M.Div. in Theology. He also completed a year and a half of the The Advisory Board Company's Leadership Academy Fellowship Program. Recently he completed the Harvard Business School Managing Healthcare Delivery Program. In 1999, Mr. Rodrigues coordinated and published the first national study in the United States on Spiritual Care and Chaplaincy Services, also authoring a book on the same topic. He is active in several professional organizations and serves on numerous committees to promote mission, ethics and spiritual care in health care.

***Hans P. Cassagnol, MD, MMM, Chief Physician Executive, Age 45.***

Hans P. Cassagnol, MD, MMM, joined CHS in March 2019 as Chief Physician Executive. With a distinguished medical career highlighted by achievements in quality and innovation, Dr. Cassagnol joined SUNY Upstate Medical University in Syracuse, New York, in 2015, most recently serving as Vice President of Quality/Chief Quality Officer. Prior to that, he served as Associate Chief Quality Officer at Geisinger Health System, in Danville, PA. Dr. Cassagnol joined Geisinger in 2002, holding several clinical, administrative and academic positions, including Associate Chief Quality Officer and Director of Obstetrics & Gynecology. He has also held clinical teaching positons at Temple University School of Medicine, Geisinger Commonwealth Medical College, and most recently at SUNY Upstate Medical University, where he served as a Clinical Associate Professor in Obstetrics & Gynecology and Public Health & Preventative Medicine since 2016. Dr. Cassagnol received a Master of Medical Management Degree from the University of Southern California, Marshall School of Business in 2012. His postdoctoral training has also included advanced coursework through the Dartmouth Quality Institute, Geisinger Health System Physician Leadership Program, Kennedy Institute of Ethics, Malcolm Baldridge Performance Excellence Program and Harvard Business School. He received his undergraduate degree from St. John's University in Queens, New York, and his medical degree from the University of Connecticut, School of Medicine. He completed his residency in Obstetrics & Gynecology at Flushing Hospital Medical Center, an affiliate of Weill Cornell University Hospital.

***William B. Pryor, Chief Administrative Officer, Age 58.***

William B. Pryor joined CHS in February 2019 as Chief Administrative Officer. Prior to joining CHS, he served from 2008 to 2019 as Chief Human Resource Officer at Cape Fear Valley Health System in Fayetteville, North Carolina. His work experience includes executive Human Resources positions at Mercy Health System in Cincinnati, Ohio from 2004-2008; Sibley Memorial Hospital in Washington, D.C. from 1999-2004; and Greater Baltimore Medical Center in Baltimore, Maryland from 1997-1999. Mr. Pryor earned his undergraduate degree in Government and Urban Studies from Dartmouth College in Hanover, NH, and his Masters of Education in Administration in Institutional Policy Studies from the University of Chicago. He was active in a number of academic, civic, and cultural organizations in the Fayetteville community, including as a member of the Board of Directors of the Fayetteville Arts Council, the Fayetteville Chamber of Commerce and the Fayetteville Symphony Orchestra. He was also a member of the Dean's Advisory Committee and a recurring lecturer at the University of North Carolina, School of Business, Fayetteville State University Campus. A member of the Society for Human Resource Management, Mr. Pryor has expertise in cultural and organizational development and talent management.

***Maria A. Foti, Senior Vice President of Planning, Age 54.***

Maria A. Foti is the Senior Vice President of Planning & Chief Strategy Officer for CHS. She has served as the lead planning executive for CHS and its predecessor Mercy Health System since 1992. She has leadership

responsibility for strategic planning, new business development, regional growth, medical staff development, facility planning & property management, marketing, public relations, community outreach, corporate development, government grants and advocacy. Ms. Foti is a member of the Society for Healthcare Strategy & Market Development. She holds a Master's Degree in Health Administration from Cornell University and a Bachelor's Degree in Psychobiology from Hamilton College. Ms. Foti is a member of the Catholic Charities of Buffalo Board of Directors, and a member of the CHS Strategic Planning Committee, and has been a member of the CMP Strategic Planning Committee, and the Mount Mercy Academy Board of Directors Strategic Planning Committee. Ms. Foti was named as one of the Top 25 Most Influential Women in Business in Western New York in 2015 and was named to the Top 100 Most Powerful Women in Western New York four years in a row (2015-2018).

***Nancy Sheehan, Senior Vice President & Chief Legal Officer, Age 60.***

Nancy Sheehan joined CHS in November of 2000 as System Director of Risk Management. She was appointed System Director of Risk Management and Legal Services in January, 2003; Vice President, Legal Services in 2008; and Sr. Vice President and Chief Legal Officer in 2012. Ms. Sheehan is responsible for the oversight of the corporate legal affairs of the System. Ms. Sheehan also has direct oversight of Risk Management and clinical research studies. Prior to joining CHS, Ms. Sheehan served as an Appeals Officer for MAXIMUS/CHDR (Center of Dispute Resolution) and General Counsel for BryLin Hospitals and she also worked as a Registered Nurse ("RN") and was Nurse Administrator of Clearview Treatment Services at Mount St. Mary's. Ms. Sheehan serves on several community boards and her professional affiliations include the American Bar Association, American Health Lawyers Association, and the Erie County Bar Association. Ms. Sheehan earned the degree of Juris Doctor from State University of New York at Buffalo Law School.

***Michael F. Galang, D.O., Senior Vice President and Chief Information Officer, Age 59.***

Dr. Michael F. Galang has served as the Senior Vice President and Chief Information Officer ("CIO") of CHS since 2008. He joined CHS in 2005 as the System's Chief Medical Information Officer. Before joining CHS, Dr. Galang served as the Medical Director for Clinical Quality for a 120 physician, multi-specialty group, and as the Medical Director for a 25 physician, primary care group in Buffalo, NY. Dr. Galang practiced for approximately 20 years before assuming the full-time CIO role, and is board certified in both Family Medicine and Clinical Informatics. Dr. Galang's current role is to provide the vision and leadership for developing and implementing information technology ("IT") initiatives in alignment with CHS's strategic and operating plans. Dr. Galang earned a Master's degree in Medical Informatics from Northwestern University; a Master's degree in Health Care Management from Harvard University and his medical degree from Midwestern University, Chicago College of Osteopathic Medicine; completed his Family Medicine Residency and served as Chief Resident at the San Jose Medical Center/Stanford University; and earned his Bachelor of Arts degree in both Biology and Drama from the University of California, San Diego. He is also a certified healthcare CIO. Dr. Galang is a current board member of CMP, HEALTHeLINK (Western New York's Regional Health Information Organization), and Stella Technology, Inc. (a health IT services and product development company based in San Jose, CA).

***John Kane, Senior Vice President, Quality & Patient Safety, Age 55.***

John Kane is Senior Vice President, Quality & Patient Safety for CHS. Mr. Kane joined Catholic Health in 2002, where he currently directs the quality and patient safety activities for the System, including oversight for the Joint Commission accreditation, quality outcomes, values based purchasing programs, peer review, infection control activities and Catholic Health's lean, six sigma program. Mr. Kane serves as the quality liaison between Catholic Health and CMP, also serving as a past Board Member for CMP. Prior to joining the System, Mr. Kane began his career at Millard Fillmore Hospital (now part of Kaleida Health) in 1988 as the Director of Risk Management, holding additional positions in managed care administration and decision support. Mr. Kane received his undergraduate degree from Canisius College in Economics and his Master's degree from D'Youville College in Health Services Administration. Mr. Kane has been licensed as a New York State Nursing Home Administrator since 1989.

***Lisa Cilano, Senior Vice President Finance, Revenue Management and Business Advisory Services, Age 52.***

Lisa Cilano has served as Senior Vice President Finance, Revenue Management and Business Advisory Services since 2017. Ms. Cilano joined CHS in 1993 leading the finance team at one of the hospitals. Over the years, Ms. Cilano has served in many capacities, including System Vice President of Finance, System Vice President of Activity Value Analysis, Chief Administrative Officer of Kenmore and System Vice President of Finance/CFO Acute Care and Service Lines. Prior to joining CHS, Ms. Cilano worked with Ernst and Young with a primary focus on health care providers and not-for profit entities. Ms. Cilano's current role is to provide vision and leadership for the revenue cycle, managed care and business advisory services to CHS's ministries in alignment with CHS's strategic and operating plans. Ms. Cilano has her Master's Degree from the Simon School at the University of Rochester in Business Administration; earned her CPA and has a Bachelor of Business Administration degree from St. Bonaventure University. She has participated in the Harvard Business School Managing Healthcare Delivery Program. She is a current board member of CMP, a member of the Executive Committee of CMP, and a board member of Hilbert College where she also serves on their Finance Committee.

***Leonardo Sette-Camara, Chief Compliance Officer, Age 41.***

Leonardo Sette-Camara has been the Chief Compliance Officer for CHS since 2017. In this position, Mr. Sette-Camara is responsible for the oversight and direction of the Compliance & Integrity Department, encompassing the security and organizational integrity elements of several departments within CHS, including: Corporate Compliance; Clinical Documentation Integrity; Clinical Denials and Appeals; Internal Controls; Information Security and Revenue Integrity. He joined CHS in 2010, first serving as Associate Counsel and Manager of Contracts and then was named Corporate Compliance and Privacy Officer in 2013. He was promoted to Deputy Counsel, Corporate Compliance and Privacy Offices in 2015. Prior to joining CHS, Mr. Sette-Camara was Assistant Corporate Counsel for the City of Buffalo and served as counsel to Buffalo Mayor Byron Brown, the Buffalo Common Council and Human Resources Department for all labor and employment law issues. Mr. Sette-Camara received his Juris Doctor from SUNYAB Law School and also holds a Bachelor of Arts in Media Studies and English, from the State University of New York College at Buffalo. He received Lean Six-Sigma Executive Champion Certification in 2015 and Advanced Certification in Integrated Healthcare Delivery through Medaille College in Buffalo. He most recently completed certification in Managing Healthcare Delivery through the Harvard Business School in 2018. Mr. Sette-Camara is an active member of the New York State Bar Association Health Law Committee, American Health Lawyers Association and a member of the Erie County Bar Association. He also is an active board member for the Volunteer Lawyers Project and the Squeaky Wheel Film & Media Art Center.

**Ministry Executives**

***Charles J. Urlaub, President and Chief Executive Officer, Mercy, Age 62.***

Charles J. Urlaub has been the President and Chief Executive Officer of Mercy since 2007. Prior to his appointment, he held a number of positions with the Mercy Health System in Cincinnati, Ohio, including Chief Administrative Officer - Mercy Hospital, Scranton, PA, and Interim President - St. Joseph's Hospital, Warren, Ohio. From 1998 through 2003, Mr. Urlaub held positions with Kaleida Health, in Buffalo, NY as the Vice President, Strategic Services, Planning and Quality, and Vice President, Process Improvement. He held positions with Buffalo General Hospital from 1988-1998 as Vice President, Quality, and Assistant Vice President, Operations. Mr. Urlaub started his career at St. Mary's Hospital in Rochester, New York, where he held a number of administrative positions including Vice President, Clinical & Support Services. Mr. Urlaub earned a Master's Degree in Business Administration and a Bachelor's of Science Degree from Rensselaer Polytechnic Institute. Mr. Urlaub currently participates on the CHS Ministry Services Board, is a member of the board of Mercy Hospital's Foundation and is the Chairman of the Board of D'Youville College.

***Martin Boryszak, President and Chief Executive Officer of Sisters of Charity, Age 40.***

Martin Boryszak has been the President and Chief Executive Officer of Sisters of Charity since 2017. In addition to his role as Hospital CEO, Mr. Boryszak is leading the CHS Performance Transformation Initiative, which focuses on improvement of operational efficiencies and standardization across the System. Mr. Boryszak joined CHS in 2009 as a Director of Finance for Sisters of Charity and then was named Vice President of Operations

for SOC-SJC, in 2012. He was promoted to Chief Operating Officer overseeing both campuses of Sisters of Charity in 2014. Prior to joining CHS, Mr. Borsyzak was a Finance Director at United Parcel Service and was directly responsible for the coordination of the annual operating plan for the East Central portion of the U.S. Mr. Boryszak holds an MBA from St. Bonaventure University and a Bachelor's Degree from SUNYAB. He recently completed certification in Managing Healthcare Delivery through the Harvard Business School. He serves on Sisters of Charity's Patient Advisory Council, as well as the Sisters of Charity Foundation Board. He was named by Business First as one of Western NY's "40 under 40" for 2016 for his professional success and community involvement.

***Walter F. Ludwig, President and Chief Executive Officer, Kenmore, Age 60.***

Walter F. Ludwig was appointed to the position of President and Chief Executive Officer of Kenmore in January 2018. Prior to his appointment, Mr. Ludwig was Chief Operating Officer at Kenmore since 2009. In 1998, Mr. Ludwig joined the Kaleida Health as Assistant Vice President of Ambulatory Services. He later served as the President of DeGraff Memorial Hospital and later, President of Millard Fillmore Suburban Hospital. In 2005, Mr. Ludwig joined the Western New York Purchasing Alliance as Vice President. Mr. Ludwig graduated from the University at Buffalo School of Pharmacy with a Bachelor's of Science in 1981. After practicing hospital pharmacy for a few years, he served as the Director of Pharmacy at Children's Hospital of Buffalo from 1991 through 1994. He received his Master's Degree in Business Administration from the University at Buffalo in 1988.

***Gary C. Tucker, President and Chief Executive Officer of Mount St. Mary's, Age 62***.

Gary C. Tucker began his career as a registered nurse in 1978 and held various management and administrative positions in Texas, Oklahoma and Arizona. Prior to joining Mount St. Mary's, he operated his own healthcare consulting firm based in Glendale, Arizona. He also served as Vice President of Patient Care Services for Sun Health Corporation in Sun City, Arizona. Mr. Tucker joined Mount St. Mary's in 2006 as interim Chief Operating Officer. In 2008, he was named Senior Vice President/Chief Operating Officer assuming responsibility for hospital operations and clinical services. During his tenure as COO, he was part of an administrative team that helped the hospital achieve financial and operational success, including positive operating margins, the growth of physician provider practices, and the development of Mount St. Mary's Center for Women obstetrics/gynecology service line. A Fellow of the American College of Healthcare Executives, Mr. Tucker received his bachelor's and master's degrees in Nursing from the University of Texas at Arlington. He completed the Johnson & Johnson Wharton Fellows Program for Nurse Executives at the University of Pennsylvania. In addition, he obtained a Graduate Certificate for Catholic Healthcare Ministry Leadership jointly awarded by the Aquinas Institute of Theology and Ascension Health. Mr. Tucker is presently a member of the Grand Island Lion's Club and serves on the Board of Directors for the Health Association of Niagara.

***Joyce Markiewicz, Executive Vice President and Chief Executive Officer, Home Care, Age 60.***

Joyce Markiewicz was appointed to the position of Executive Vice President in 2016 and assumed System responsibility for imaging, laboratory services, pharmacy, wound centers, women's services and musculoskeletal service lines, in addition to her role as President and Chief Executive Officer for Home and Community Based Care. Home and Community Based Care provides services in both Erie and Niagara Counties and includes two home care agencies, the infusion pharmacy, a long term care pharmacy, a community retail pharmacy, PACE, a home response service, four skilled nursing facilities and independent housing. In addition, Ms. Markiewicz is responsible for two joint ventures: Catholic Health Home Respiratory, a home respiratory and durable medical equipment company and Health Home Partners of Western New York, a case management company for high risk Medicaid recipients. Ms. Markiewicz's career at CHS started in 2004 as a vice president of operations in home health care. She has been in leadership positions in the home care industry since 1991, working for national providers, Olsten Health Services and American Home Patient. Ms. Markiewicz is a registered nurse with a Bachelor's Degree from D'Youville College and a Master's Degree in Business Administration from SUNYAB. She currently is a member of the Policy Committee for the Home Care Association of New York, a Board Member of Hospice Buffalo and CMP and Chair of the Women's Group of Buffalo.

## CLINICAL AND OPERATIONAL EFFECTIVENESS

CHS has undertaken an approach of continuous improvement regarding the delivery of patient services and overall transformation of its care model. The System's Clinical and Operational Effectiveness ("COE") department is a five person team made up of Lean Six Sigma ("LSS") Black Belts with backgrounds in both business and industrial engineering. This team has one director, two project managers, and two analysts. The deployment of this program has included the adoption of LSS, a methodology that combines two powerful approaches to process improvement. Lean, which is the elimination of waste through process redesign and continuous flow, and Six Sigma, which is a data driven approach to reduce variation and eliminate defects through statistical controls. CHS's approach and management of this initiative is led by an interdependent team of senior executives from Quality, Finance, Human Resources, Strategy, Operations, and Clinical Management that work with the System's CEO to ensure that focus and prioritization is aligned with the overall strategic vision of the System. This includes the integration of COE analysis in the overall strategic plan as well as capital planning assessment for efficiency validation of appropriate operational capital plans. In the early stages of the program, key leaders across the System received executive training in LSS. Over 66 leaders within the System have become certified as "greenbelts" in the LSS program. COE has also worked with "Catholic Health University" ("CHU"), a Catholic Health educational program, described more fully below, to develop a curriculum for further awareness of Lean Six Sigma through offered classes and manager orientation, as well as understanding of LSS data analytics. The benefits of LSS projects are often in the areas of improved clinical outcomes, reduction in waste and queueing, increased patient satisfaction, cost reduction, or revenue cycle enhancement.

## AWARDS AND HONORS

Catholic Health and its individual ministries have received numerous awards and honors for quality, safety, and innovation.

In 2018, four of the System's hospitals received an "A" rating for patient safety from the Leapfrog Group. Kenmore has received an "A" safety rating for five years in a row. The System's hospitals received 17 five-star and quality Excellence Awards from Healthgrades for 2018. Catholic Health also received four Service Excellence Awards for outperforming hospitals across the country in the areas of cardiac surgery, orthopedic surgery, joint replacement surgery, and bariatric surgery.

Notable Healthgrades achievements were achieved in cardiology, women's services, orthopedics, and stroke. In 2018, Mercy also received a five-star rating for maternity care and gynecologic surgery, recognizing that Mercy is the only acute care facility in the region that can treat both mothers and babies in the same hospital facility in the event of a critical-care or emergency situation. Sisters of Charity received Healthgrades© five-star ratings in hip fracture treatment, neurosurgery and bariatric surgery.

The Heart Center at Mercy earned the highest quality three-star rating from the Society of Thoracic Surgeons for the 2017 reporting period, rating in the top 6.2% nationally for coronary artery bypass graft surgery. Mercy was also recognized among U.S. News & World Report's Best Hospitals for 2017 and 2018 as a High Performing Hospital for Heart Bypass Surgery, as well as one of 223 hospitals to receive the Get with the Guidelines Platinum Performance Achievement Award for Heart Attack Care from the American College of Cardiology ("ACC") for Five Years in a Row (2014–2018). Mercy's Health Center is also recognized as a Blue Cross Blue Shield Blue Distinction Center. Kenmore, Mercy, Mount St. Mary's and Sisters of Charity hospitals are all New York State Designated Stroke Centers. The Joint Commission and the American Heart Association/American Stroke Association named Mercy Hospital a Joint Commission Certified Comprehensive Stroke Center in 2014. Mercy is the only hospital with this designation in the Buffalo metropolitan area. Mercy earned the Get With The Guidelines - Stroke Gold Plus Quality Achievement Award (2013 – 2018).

Kenmore received Nurse Magnet recognition in 2017, and is the only such Magnet hospital in the Buffalo-Niagara region.

Other achievements by Catholic Health hospitals include: Blue Distinction Centers for cardiac care, spine surgery, knee and hip replacement, maternity care and bariatric surgery (Blue Cross Blue Shield).

## STRATEGIC DIRECTION

Under the new leadership of CEO Mark Sullivan, CHS engaged consultants in mid-2018 as a strategic partner to work with CHS on four key work streams outlined below.

- **Strategic Planning** - Creating a new vision to shape how the System will deliver care in the future.
- **Payor Strategy –** Reviewing the strategic relationship between Catholic Health and the major payors within the Western New York market.
- **Performance Transformation** - Expanding efforts to improve efficiency, clinical excellence and financial performance.
- **IT Strategy & Electronic Health Records ("EHR") Implementation** – Acquiring the most advanced technology to deliver superior care, including a next-generation EHR platform.

The System branded these strategic work streams under what is called 'V3.' V3, which stands for Values, Vision, Voice, is a comprehensive, multi-phase strategic planning and performance transformation initiative that will provide the framework, processes and tools to lead the System through its next decade of service.

While the System is still in the analytic and planning phase of defining its comprehensive strategy for the future, the process began in the summer of 2018 with wide reaching and inclusive engagement of hundreds of individuals across the System and within the community, from Directors, administrative leadership, medical staff members, payors, educational institutions, local departments of health and mental health, union leadership and CHS's competitors. All of those involved provided a perspective on the System's strengths and opportunities and many weighed in on what the System should consider doing differently in the future. Focus groups were formed spanning all levels of associates across all organizations within the System to provide perspective on its mission and values. The System expects that these components will assist Catholic Health leadership in shaping the future delivery model. The process will continue through 2019 culminating in a new vision and strategic plan to be presented in the fall to the Board and CHS Members.

A key component of the V3 initiative is Performance Transformation. This large-scale effort is designed to examine workflows and structure to identify improvements that can be made in terms of clinical quality, operational efficiency and financial performance. This work is important not only for the benefits of patients and the System, but will also set the stage for the clinical standardization needed to implement the new EHR. CHS has formed the following workgroups to evaluate key areas throughout its ministries:

- **Care Re-design** - To standardize care paths, bed management and discharge planning processes to ensure timely, efficient and high quality care throughout CHS's continuum.
- **Labor Management** - To identify opportunities to focus on direct patient care productivity, assess skill mix, and improve labor efficiency throughout the System.
- **340B Drug Opportunity** – To evaluate opportunities to maximize 340B discounted drug programs.
- **Operating Room Optimization** - To improve inventory management, scheduling, operating room utilization, and operational flow to optimize operating room services.
- **Supply Chain Inventory Management** – To identify cost savings opportunities related to both price and care variation and to improve inventory management and apply consistent supply chain processes across the System.
- **Referral Management** – To evaluate and improve physician referral practices for improved quality outcomes.
- **Physician Enterprise ("PE") –** To develop uniform processes and tools to manage employed physician models, including improved governance, management and operations of PE, while achieving strategic growth**.**

- **Revenue Cycle** – To evaluate and recommend improvements across the entire revenue cycle focusing on people, process, and technology.

**Physician Integration**

Physician integration and care management are key components of high performing health systems and are viewed by the System as critical to its long term success. CHS maintains a unique, strategically aligned relationship with CMP, an independent practice association that represents nearly 1,000 primary and specialty care physicians throughout the region, who work together to deliver high quality, coordinated care for the patients they serve. CMP provides the organizational structure to lead key transformational initiatives among the physicians in the community. As the healthcare delivery and reimbursement model advances from volume (fee-for-service) to value-based payment ("VBP"), CMP serves as a foundational element for the successful deployment of quality improvement and population health management activities. CMP developed a clinical integration plan that aligns metrics, and programs with the transition from volume to value based care. Working closely with CHS, the clinical integration plan focused on the complete continuum of care covering the physicians, hospitals, homecare agencies, long-term care facilities, and PACE program. Managing population health under this model drove improved outcomes, patient experience, and overall cost of care as patients were utilizing services at an appropriate level of care.

A major focus of CMP's clinical integration plan is around the use of health information technology and data analytics. This technology is key for success in the management and monitoring of new VBP models. One hundred percent of CMP physicians use EHRs. By the end of 2018, CMP had aggregated data from over 60 physician practice EHR's for over 800,000 patients into an analytics tool called Crimson Population Health Analytics. This tool allows CMP and its physicians to evaluate patient populations in new ways that EHRs have not allowed them to in the past, by merging EHR and Claims data into one system. Some highlights of these new capabilities include the ability of CMP and practices to understand efficiency scoring of providers within referral networks, determine both concurrent and prospective risk of the population to inform care management opportunities, and assess the utilization and costs of emergency room/urgent care services of the population.

The installation of the new EHR at CHS will be extended across the CMP physician network. The establishment of an integrated EHR will support data integration and continuity across the healthcare delivery system supporting the CMP's clinical integration plan. The ability to create a 360 degree longitudinal patient record that will be available to all care team members to ensure quality care, elimination of redundant testing, and will allow providers to be aware of the complete, accurate, and timely state of a patient's health status.

CMP provides ongoing education and training for physicians, nurses, and staff of its members though its clinical transformation staff and care management advisors. This education helps physician practices to stay informed and to enhance physician engagement in the network. CMP coordinates efforts of regional and national grant opportunities for its practices such as the Delivery System Reform Incentive Payment Program ("DSRIP") and Comprehensive Primary Care Plus. CMP has also developed a patient centered Enhanced Care Management Program that is delegated to the physician practices. The office based Enhanced Care Management Program is a team approach to patient care in alignment with Patient Centered Medical Home supporting internal medicine and family practice.

CMP currently contracts on behalf of its members with 8 health plans, both local and national. Many of these are considered level 1 or 2 value based contracts, on New York State's VBP roadmap. CMP is currently working with CHS in developing an enhanced payer strategy for values based contracting that will allow continued success under these risk based contracting models into the future.

In addition to its relationship with CMP, the System contracts for medical service through its affiliate, Trinity Medical WNY, P.C., which is able to provide medical services at lower costs when compared with hospital-based practices. Trinity employs 66 total health care providers, including 41 physicians, with specialties including cardiology, interventional cardiology, cardiothoracic, bariatrics, vascular and primary care.

**Delivery System Reform Incentive Payment Program**

DSRIP is the main mechanism by which New York State will implement the Medicaid Redesign Team Waiver Amendment. Through reducing avoidable hospital use, DSRIP's core purpose is to fund programs that support system transformation, clinical management and population health. In conjunction with other partners, Catholic Health formed Community Partners of WNY ("CPWNY"), which is a performing provider system to improve clinical care and services to the Western New York Medicaid population. CPWNY evolved through a process of community and provider engagement ultimately leading to the System partnering with CMP and its broad base of nearly 1,000 providers experienced in population health management to develop a program to achieve a measurable reduction in the burden of illness for Medicaid participants, while achieving the New York State target of a 25 percent reduction in avoidable hospital use over a five year period. The program is administered through Sisters of Charity, which qualified to be a program lead based upon the level of care it provides to vulnerable populations in Western New York. Through community forums, provider engagement, focused leadership and results of the community needs assessment, CPWNY recruited a comprehensive collection of providers and community based agencies positioned to address health care disparities. CPWNY opted for a collaborative contracting governance model to enable efficient decision making and the ability to have multiple partners exert a strong influence in the future development of CPWNY. CPWNY's vision is to continue to develop the System's clinical competencies and to collaborate with health plans to develop arrangements that promote a population health business model aimed at creating and maintaining a margin from value-based shared savings. As a result of this effort, CHS received DSRIP payments of $2,143,549 and $1,352,860 in 2017 and 2018, respectively.

**Information Technology**

In advance of the introduction of the Health Information Technology for Economic and Clinical Health Act and meaningful use, components of the 2009 American Recovery and Reinvestment Act, CHS embarked on a comprehensive strategy to transform clinical processes and technology to improve quality and patient safety. Technology was a key component of the System's efforts to become a high performing healthcare system and remains a significant organizational focus, which has been significant factor in achieving Accountable Care Organization and New York State Health Home designations.

Building a complete EHR began in 2004 when CHS entered into a Strategic Alliance Agreement with Siemens Medical Solutions to develop and implement innovative solutions to enhance the System's ability to efficiently and effectively deliver quality patient care. CHS renewed its partnership with Siemens in July 2014.

In 2006, as the System began its implementation of Soarian Clinicals and Financials and an EHR roadmap was developed that focused on Siemens products in the acute care facilities. In 2009, the Electronic Medical Record Adoption Model ("EMRAM") was introduced, updating the roadmap with standardized national application and advanced EHR components. EMRAM was created by Health Information and Management Systems Society Analytics to track EHR progress at hospitals and healthcare systems. There are 8 stages (0 to 7) of paperless record environment on which hospitals and healthcare systems are scored. Stage 0 indicates an entirely paper-based medical record, while Stage 7 indicates a fully electronic medical record. Today, the System stands at EMRAM Stage 6, and anticipates achieving Stage 7 over the next two years.

In an effort to streamline and standardize administrative processes and eliminate or reduce redundancies across the System, Catholic Health implemented a comprehensive Enterprise Resource Planning ('ERP') solution in 2015 to focus on the people, processes, and technology supporting the Human Resources, Finance, and Supply Chain functions. The comprehensive ERP system optimizes technology and integrates standalone systems into one core solution to maximize agility and organizational resources, and is designed to provide greater financial reporting capabilities in support of the System's strategic plan. Catholic Health partnered with Infor to develop a fully-integrated solution to leverage efficiencies across the entire operating model of the System with the core objective of lowering overall costs to align with the core principles of healthcare reform. With a significant focus on people, process, and technology, the System engaged Deloitte Consulting, LLP, to ensure all work flows integrated into the ERP solution demonstrated industry best practice.

Upon Cerner's acquisition of Siemens in 2015, CHS management determined that its current hospital clinical system, Soarian Clinicals, did not have long-term viability within the Cerner EHR family and would eventually sunset. This issue was a key factor motivating CHS to re-examine its future EHR strategy.

In 2016, CHS began investigation of alternative EHR solutions and after extensive due diligence, CHS selected Epic as its replacement EHR platform in early 2019. Significant selection factors included Epic's fully integrated and interoperable enterprise-wide platform and its offering of advanced and innovative tools with exceptional service support. The System is currently in the project planning phase, which will lead to an expected "go-live" in late 2020. A portion of this project will be funded with proceeds of the 2019 Bonds.

**Geographic Expansion**

Historically, CHS market presence had been focused on serving communities primarily located in Erie County, where it has consistently ranked as the market leader. Recognizing an opportunity for market expansion into bordering Niagara County to its north, the System acquired Mount St. Mary's in July 2015. At the time of the acquisition and in each year since, Mount St. Mary's has garnered the largest market share of any hospital in Niagara County. Service area and market share data are discussed in further detail herein.

## MEDICAL STAFF

As of December 31, 2018, the medical staff of the System included 1,511 physicians. Of that group, 1,378 maintain active admitting privileges at the System's hospital facilities, with privileges to admit and attend to patients in one of the System's hospitals. The average age of the active medical staff is 52 years. As of December 31, 2018, over 91% of active physicians are board certified in their respective specialties. The medical staff also has 521 Allied Health Professionals including nurse practitioners, physician assistants, nurse anesthesiologists, midwives, audiologists, chiropractors, dentists, ophthalmologists, doctors of pharmacy, doctors of psychology, nurse first assistants, radiology practitioner assistants and speech language pathologists.

The active medical staff distribution as of December 31, 2018 was as follows:

**MEDICAL STAFF DISTRIBUTION**

| Department | Number of Active | Average Age | Board Certified | % Board Certified |
|---|---|---|---|---|
| Anesthesia | 65 | 50 | 58 | 89 |
| Cardiothoracic Surgery | 14 | 57 | 12 | 86 |
| Emergency Medicine | 62 | 46 | 62 | 98 |
| Family Medicine | 156 | 51 | 131 | 100 |
| Family Practice | 3 | 37 | 3 | 100 |
| Internal Medicine | 504 | 54 | 455 | 90 |
| Neurosurgery | 21 | 51 | 19 | 90 |
| Obstetrics & Gynecology | 100 | 51 | 91 | 91 |
| Orthopedic Surgery | 73 | 51 | 72 | 99 |
| Otolaryngology-Head & Neck | 29 | 57 | 29 | 100 |
| Pathology / Clinical Lab. | 15 | 56 | 15 | 100 |
| Pediatrics | 146 | 52 | 134 | 92 |
| Podiatry | 40 | 57 | 35 | 88 |
| Radiology | 105 | 53 | 102 | 97 |
| Surgery | 139 | 54 | 125 | 90 |
| Urology | 30 | 53 | 29 | 97 |
| Vascular Surgery | 9 | 50 | 7 | 78 |
| **Totals** | **1,511** | **52** | **1,379** | **91%** |

**Labor Relations**

The System has fifteen labor bargaining units (covered by 13 contracts) which represent 42% of the workforce. All current agreements have been bargained without work interruptions or stoppages. The System prioritizes longer-term agreements to stabilize the labor environment, minimize the cost and disruption of more frequent negotiations, establish and aggressively institute labor/management committees, and address areas of operational improvement that have long-term sustainability.

Operational contract modifications have provided flexibility to contract out work based on operational needs, as well as management flexibility in staffing and attendance rules. Negotiated contract provisions are consistent with key organizational needs and initiatives being implemented for the non-union workforce. The CHS labor relations staff directly handles all labor arbitration hearings and charges before the National Labor Relations Board. Management has good relationships with its unionized and non-unionized employees.

The following table illustrates the contract expiration terms of represented employees:

**LABOR CONTRACT TERMS**

| Facility | Job Classification | Contract Termination Date | Approximate Number of Associates |
|---|---|---|---|
| **Mercy** | Registered Nurses ("RNs") | 6/30/2020 | 885 |
| | Service, Technical and Clerical | 6/30/2020 | 1,269 |
| | Maintenance | 9/30/2021 | 25 |
| **Sisters of Charity** | RNs | 6/30/2020 | 196 |
| | Service | 6/30/2020 | 190 |
| | Technicians | 5/31/2021 | 24 |
| | Licensed Practical Nurses and Service (Nursing Home) | 12/1/2020 | 71 |
| **Kenmore** | RNs | 6/30/2020 | 287 |
| | Service | 4/30/2019 | 175 |
| | Technicians | 6/30/2020 | 97 |
| **Mount St. Mary's** | Certified Nursing Assistants, Service and Maintenance | 4/30/2021 | 153 |
| | Plant Operations | 1/15/2022 | 15 |
| | RN, Technical, Service and Maintenance | 3/31/2022 | 425 |

A renewal of the Kenmore service contract is currently being negotiated.

**Academic Affiliations**

The System's location in Western New York affords it access to a significant number of colleges and universities with healthcare and life sciences programs. In order to attract and retain physicians and mid-level providers in the region, the System has several vibrant residency programs including internal medicine, family practice, OB/GYN, ear, nose and throat surgery, colorectal surgery, vascular surgery and podiatry. The System has approximately 79 residents within these residency programs.

The residency programs are enabled through well established relationships with local/regional medical schools including the SUNYAB; Lake Erie College of Osteopathy; and The New York College of Osteopathic Medicine Education Consortium providing both residents and under graduate medical students. Catholic Health also supports the Physician Assistant and Nurse Practitioner programs at both Daemen College and D'Youville College and a soon-to-be Physician Assistant program at St. Bonaventure University. Additional post graduate education is provided in the form of a graduate pharmacy hospital residency and a Catholic Health sponsored clinical pastoral education resident program.

Students from more than 50 public and private colleges and universities from New York State and various other states including Alaska, California, Colorado, Florida, Illinois, Kentucky, New Hampshire, North Carolina, Ohio, Pennsylvania, Rhode Island, South Dakota, Utah, Washington DC, and Washington State, come to CHS for training in a variety of healthcare curricula. Development of a qualified nursing workforce is a particular strategic interest of CHS. In 2009, the System teamed up with Niagara University to launch the "RN to Bachelor of Science Nursing ("RN to BSN")" degree program for its registered nurses who want to advance their nursing knowledge. The Catholic Health RN to BSN program offers qualified nurses the opportunity to earn a Bachelor of Science Degree in Nursing from Niagara University in 18 months. As part of the program, the System covers the cost of tuition and books, and provides a laptop computer to each of the nurses in the program. The program is held on-site at the administrative and regional training center building, with some coursework completed at the Niagara University Campus. In exchange, the nurses agree to remain employed within a System facility for three years after earning their bachelors' degrees. The first RN to BSN cohort started in January 2010. As of 2018, the partnership has graduated 111 baccalaureate prepared nurses of which 98 are currently employed at Catholic Health. Currently,

cohort five is in process, and scheduled to graduate 27 nurses in May 2020. Catholic Health continues to stay involved with local academic nursing programs by serving on advisory boards, as well as, supporting nursing student development through the offering of Dedicated Education Units, internships, and critical care pathway programs.

The System has formal relationships with academic institutions for a variety of clinical disciplines to support academic development including:

- Certified Nursing Assistant
- Communicative Disorders
- EKG Technician
- Emergency Management
- Exercise Science
- Graduate Nursing
- Health Administration
- Health Information Management
- Health Information Technology
- Laboratory Services
- Marketing
- Medical Assistants
- Medical Coding
- Nuclear Medicine
- Nurse Practitioner
- Nutrition and Dietetics
- Occupational Therapy Assistant
- Occupational Therapy
- Pharmacy (PharmD)
- Pharmacy Technician
- Phlebotomy
- Physical Therapy
- Physician Assistant
- Polysomnographic Technician
- Public Health
- Public Justice
- Radiology
- Social Work
- Speech Therapy
- Sterile Processing
- Surgical Technician
- Ultrasound Technician
- Undergraduate Nursing

The System works on programs with public and parochial high schools focused on the development of students for healthcare careers. The System was actively involved in the founding and remains involved in the operation of the Health Sciences Charter School in Buffalo, New York. CHS has recruited and placed the entire faculty at the High School, and has developed curriculum, programs of internship and other student experiences. In addition, CHS is the only regional employer to be awarded the State's Pathways in Technology Early College High School ("P-TECH") grant for healthcare careers in collaboration with Boards of Cooperative Educational Services of New York State, Trocaire College and Lackawanna High School.

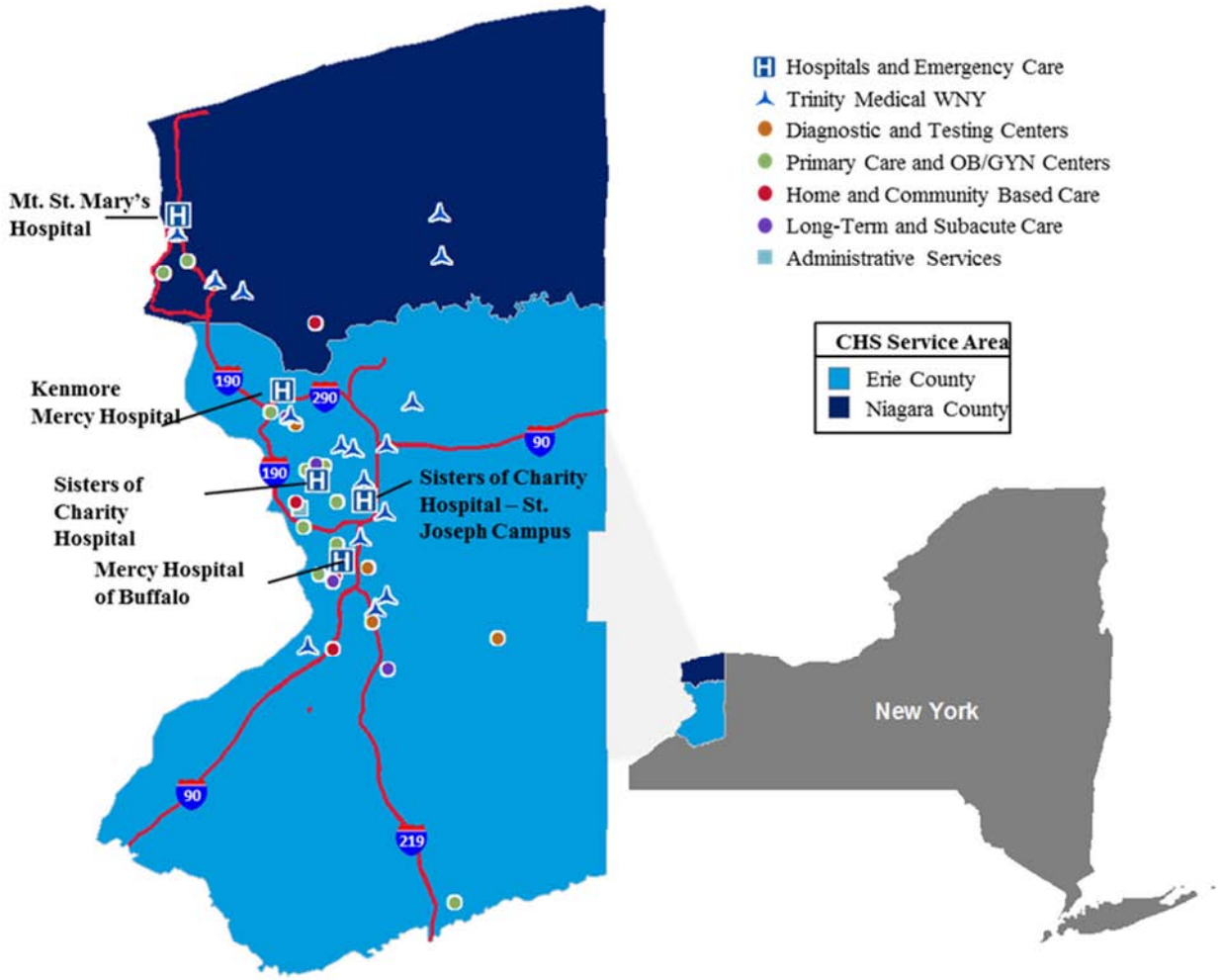
P-TECH is a new schooling concept that brings together the best elements of high school, college and the professional world. P-TECH enables students to begin their college and professional lives more quickly and with greater support than the typical school-to-work pathway. P-TECH continues to chart new territory in the reform of secondary and postsecondary education in the United States connecting high school, college, and the world of work through college and industry partnerships. The effort is pioneering a new vision for college, career readiness and success. With a unique grades 9-14 school model, the goal for its diverse, student population is 100 % completion of an associate's degree within six years. Students in P-TECH will not only expect to graduate with an associate's degree, but also the skills and knowledge they need to continue their studies or step seamlessly, into well-paying, high demand jobs in the health occupation industry.

**Leader and Associate Development**

The System provides career development and training through its internal "Catholic Health University" ("CHU"), which offers over 30 courses including critical thinking, diversity, emotional intelligence, stress management, communication, teambuilding, customer service and managing conflict. Additional offerings include compliance, legal services and human resources. Approximately 900 associates attended the 87 class offerings in 2017, while approximately 700 associates attended the 80 class offerings in 2018. New leaders appointed and hired at the System attend a 30 hour mandatory new manager orientation program. CHU graduated 55 leaders in 2017 and 53 leaders in 2018.

**Service Area and Demographics**

The System defines its primary service area to include Erie and Niagara County, New York. While individual hospitals within the System draw volume and market share from different portions of these two counties, the System as a whole focuses on the county-wide definitions for comparing its growth in relation to that of its competitors. The map below depicts Catholic Health's service area footprint and location of Catholic Health's locations.




From a patient origin standpoint, Erie County comprises 79.3% of total System discharges, Niagara County comprises 14.3% of total System discharges, with remaining discharges largely originating from the other bordering counties in Western New York.

Erie County, New York, which covers 1,058 square miles, borders Lake Erie and Canada to its west, Niagara County to its north, Genesee and Wyoming Counties to its east, and Cattaraugus and Chautauqua Counties to its south. Located within the county are three cities and 25 towns including the City of Buffalo, the second largest city in New York State, which serves as the County seat.

Erie County's 2018 population was estimated at 926,507 and is projected to grow to approximately 930,811 by 2023, representing an approximate growth of 0.5%. The 65+ age cohort in Erie County represents approximately 18.0% of the current population, compared to 15.9% of the U.S. population. In Erie County this cohort is projected to be approximately 20.3% of the 2023 population.

Niagara County, New York borders Lake Ontario to its north and the Niagara River and Canada to its west. Erie County is to the south and Orleans County is to the east. Located within the County are three cities and 12 towns including the City of Niagara Falls. The primary geographic feature of the County is Niagara Falls, making tourism, agriculture and wine culture key industries in the county.

Niagara County's 2018 population was estimated at 210,185 and is projected to decline to 208,476 by 2023, a 0.8% decrease. The 65+ age cohort in Niagara County is projected to grow approximately 11% over the next 5 years and is currently 19% of the population.

**TEN LARGEST EMPLOYERS IN WESTERN NEW YORK**
**Ranked by Number of Full-Time Equivalent Employees**
**(as of December 2018)**

| Employer | Type of Activity | Number of Employees |
|---|---|---|
| State of New York | Government | 23,800 |
| U. S. Government | Government | 14,680 |
| Kaleida Health | Health Care | 8,194 |
| Catholic Health System | Health Care | 7,368 |
| Buffalo City School District | Public School District | 7,115 |
| University at Buffalo | Higher Education | 7,071 |
| M&T Bank | Commercial Bank | 7,013 |
| County of Erie | Government | 5,000 |
| Wegmans Food Markets,Inc | Supermarket | 4,989 |
| Tops Friendly Markets | Supermarket | 4,795 |

Source: Business First The List (Employers in Western New York)

**Competition**

In Erie County, the System's primary competitors include Erie County Medical Center ("ECMC") and Kaleida Health. Kaleida Health operates two adult, acute care operations in Erie County (Buffalo General and Millard Fillmore Suburban Hospitals totaling 749 beds) and the regional perinatal center, Oishei Children's Hospital (185 beds). Kaleida Health also operates DeGraff Memorial Hospital (54 beds) just across the Erie County line in Niagara CountyThe DeGraff facility, while in Niagara County, plays a very small role in the larger Niagara County competitive landscape. Rather, it plays a competitive role in the region served by Catholic Health's Erie County based Kenmore. However, in 2018 DeGraff Memorial stopped providing inpatient surgical and critical care services and reduced its bed complement to just 10 beds for lower acuity patients while renovating its emergency department in order to treat and release or transfer patients to other Kaleida Health facilities

In Niagara County, the System's primary acute care competitor is Niagara Falls Memorial (171 beds), located just 10 minutes south of Mount St. Mary's Hospital on the western side of Niagara County. Catholic Health is in a joint venture relationship (30%) for a diagnostic cardiac catheterization lab on the Niagara Falls Memorial campus. The other partners in the joint venture include Niagara Falls Memorial (30%), Kaleida Health (30%), and ECMC (10%). Niagara Falls Memorial is the only community hospital in the region that is not formally aligned with a larger health system. In eastern Niagara County, Kaleida Health's two hospitals, Lockport Memorial Hospital (116 beds) and Millard Fillmore Suburban Hospital are the primary competitors.

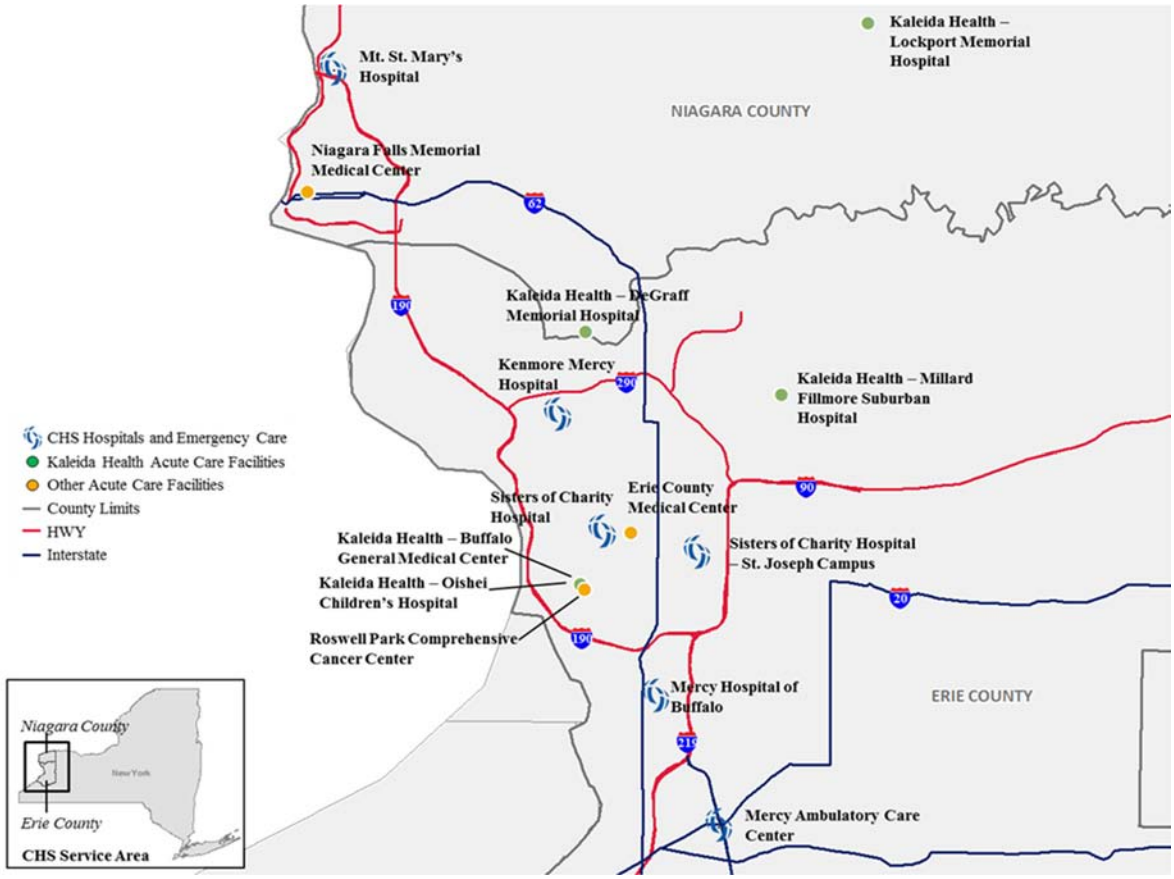
The following table presents the licensed beds, by location for Catholic Health and its competitors.

**LICENSED BEDS BY LOCATION**

| Facility | Licensed Beds | City/Town |
|---|---|---|
| Mercy | 389 | South Buffalo |
| SOC-MSC | 310 | Buffalo |
| SOC-SJC | 103 | Cheektowaga |
| Kenmore | 184 | Kenmore |
| Mount St. Mary's | 175 | Lewiston |
| **Catholic Health System** | **1,161** | |
| Buffalo General Hospital | 484 | Buffalo |
| DeGraff Memorial Hospital | 54 | N. Tonawanda |
| Millard Fillmore Suburban Hospital | 265 | Williamsville |
| Lockport Memorial Hospital | 116 | Lockport |
| Women and Children's Hospital | 185 | Buffalo |
| **Kaleida Health** | **1,104** | |
| Erie County Medical Center | 573 | Buffalo |
| Roswell Park Cancer Institute | 133 | Buffalo |
| Bertrand Chaffee Hospital | 24 | Springville |
| Niagara Falls Memorial Medical Center | 171 | Niagara Falls |
| **Total Erie County Market** | **2,650** | |
| **Total Niagara County Market** | **516** | |
| **Total Erie and Niagara Market** | **3,166** | |

Source: Truven Health Analytics, Market Expert

The map below depicts Catholic Health's hospitals and emergency care locations as well as those of its primary competitors.




**Erie County 2017 Market Share**

With a total of 1,161 acute care beds, Catholic Health experienced 42,837 inpatient discharges in 2017 representing a leading market share of 44.4% in Erie County up from a market share of 43.7% in 2015. In addition to leading market share as a system, Mercy accounts for the largest market share for any one hospital with 19.8% in 2017. Catholic Health's primary competitor in Erie County is Kaleida Health, with a market share of 39.6% in 2017.

**Niagara County 2017 Market Share**

In 2017, Catholic Health had a 31.6% market share. Mount St. Mary's accounts for the largest market share for any hospital in Niagara County at 19.1% in 2017. The three primary competitors in Niagara County are Niagara Falls Memorial, representing a 14.5% market share and Kaleida Health's Buffalo General and Lockport hospitals, which had a market share of 13.0% and 13.3% respectively.

The following tables present the discharges and market share from 2015 through 2017 for Catholic Health and its competitors.

**SERVICE AREA - MARKET COMPETITOR PROFILE SUMMARY**
**(System Discharges: 79.3% in Erie County and 14.3% in Niagara County)**

**Erie County**

| Location | 2015 | 2015 Market Share | 2016 | 2016 Market Share | 2017 | 2017 Market Share |
|---|---|---|---|---|---|---|
| Mercy | 18,086 | 19.4% | 19,033 | 20.0% | 19,074 | 19.8% |
| SOC-MSC | 12,424 | 13.3 | 12,883 | 13.5 | 13,126 | 13.6 |
| SOC-SJC | 3,509 | 3.8 | 3,596 | 3.8 | 3,833 | 4.0 |
| Kenmore | 6,407 | 6.9 | 6,405 | 6.7 | 6,479 | 6.7 |
| Mount St. Mary's * | 343 | 0.4 | 337 | 0.4 | 325 | 0.3 |
| **Catholic Health System** | **40,769** | **43.7** | **42,254** | **44.3** | **42,837** | **44.5** |
| Buffalo General Hospital | 16,422 | 17.6 | 17,142 | 18.0 | 17,798 | 18.5 |
| DeGraff Memorial Hospital* | 635 | 0.7 | 625 | 0.7 | 481 | 0.5 |
| Millard Fillmore Suburban Hospital | 13,351 | 14.3 | 13,417 | 14.1 | 13,317 | 13.8 |
| Women and Children's Hospital | 7,137 | 7.7 | 6,728 | 7.1 | 6,554 | 6.8 |
| **Kaleida Health** | **37,545** | **40.3** | **37,912** | **39.7** | **38,150** | **39.6** |
| **Erie County Medical Center** | **10,135** | **10.9** | **10,396** | **10.9** | **10,358** | **10.8** |
| **Roswell Park Cancer Institute** | **2,511** | **2.7** | **2,543** | **2.7** | **2,912** | **3.0** |
| **Others** | **2,321** | **2.5** | **2,279** | **2.4** | **2,040** | **2.1** |
| **Total Erie County Market** | **93,281** | **100%** | **95,384** | **100%** | **96,297** | **100%** |

**Niagara County**

| Location | 2015 | 2015 Market Share | 2016 | 2016 Market Share | 2017 | 2017 Market Share |
|---|---|---|---|---|---|---|
| Mercy* | 556 | 2.3% | 624 | 2.5% | 689 | 2.8% |
| SOC-MSC* | 1,115 | 4.5 | 1,173 | 4.7 | 1,140 | 4.6 |
| SOC-SJC | 75 | 0.3 | 111 | 0.4 | 109 | 0.4 |
| Kenmore* | 1,122 | 4.5 | 1,162 | 4.6 | 1185 | 4.7 |
| Mount St. Mary's | 4,894 | 19.8 | 5,161 | 20.5 | 4,763 | 19.1 |
| **Catholic Health System** | **7,762** | **31.5** | **8,231** | **32.7** | **7,886** | **31.6** |
| Buffalo General Hospital* | 2,938 | 11.9 | 3,122 | 12.4 | 3,244 | 13.0 |
| DeGraff Memorial Hospital | 1,096 | 4.4 | 1,075 | 4.3 | 714 | 2.9 |
| Millard Fillmore Suburban Hospital* | 2,607 | 10.6 | 2,788 | 11.1 | 3,215 | 12.9 |
| Lockport | 3,774 | 15.3 | 3,510 | 13.9 | 3,321 | 13.3 |
| Women and Children's Hospital* | 723 | 2.9 | 696 | 2.8 | 682 | 2.7 |
| **Kaleida Health** | **11,138** | **45.2** | **11,191** | **44.4** | **11,176** | **44.8** |
| **Niagara Fall Memorial** | **3,502** | **14.2** | **3,417** | **13.6** | **3,606** | **14.5** |
| **Others** | **2,261** | **9.2** | **2,361** | **9.4** | **2,287** | **9.2** |
| **Total Niagara County Market** | **24,663** | **100%** | **25,200** | **100%** | **24,955** | **100%** |

Source: Truven Health Analytics, Market Expert

(Excludes Burns, Psychiatry, and Transplants; <18 yr. olds removed from all but Neonatology, Normal Newborn, and Obstetrics)

* Hospital is in Erie County and has some discharges from Niagara County.

Note: Numbers might not total due to rounding.

The following table represents a further breakdown of the 2017 overall Catholic Health market share capture of 44.4% in Erie County and 31.6% in Niagara County by selected specialties.

**MARKET SHARE BREAKDOWN**

| Service Line | Erie Rank | Erie Market Share | Niagara Rank | Niagara Market Share |
|---|---|---|---|---|
| Cardiac Surgery | 2nd | 44.3% | 2nd | 23.8% |
| Cardiology | 1st | 47.3 | 1st | 30.0 |
| Gynecology | 1st | 54.2 | 1st | 45.7 |
| Interventional Cardiology | 1st | 51.7 | 2nd | 26.2 |
| Musculoskeletal | 1st | 38.9 | 1st | 36.3 |
| Neonatology | 2nd | 40.3 | 2nd | 23.9 |
| Neurosurgery | 2nd | 30.3 | 2nd | 20.7 |
| Normal Newborn | 1st | 54.2 | 2nd | 29.8 |
| Oncology | 2nd | 32.2 | 3rd | 22.0 |
| Spine | 1st | 52.1 | 1st | 45.8 |
| Stroke Medical | 2nd | 40.7 | 2nd | 33.6 |
| Stroke Surgical | 2nd | 22.3 | 3rd | 12.2 |
| Vascular | 1st | 49.4 | 1st | 41.9 |
| **Overall** | **1st** | **44.4%** | **2nd** | **31.6%** |

Source: Truven Health Analytics, Market Expert

(Excludes Burns, Psychiatry, and Transplants; <18 yr. olds removed from all but Neonatology, Normal Newborn, and Obstetrics)

With its strategically located facilities, the System is well positioned location to target market share growth in the suburban cities and towns within Erie County which have experienced growth in population over the past 15 years.

## FINANCIAL AND OPERATING INFORMATION

**Utilization**

The following is a summary of the Obligated Group's inpatient and outpatient utilization for each of the fiscal years ended December 31, 2016, 2017 and 2018.

**UTILIZATION STATISTICS**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2017** | **2018** |
| **Discharges** | | | |
| Medical | 28,975 | 29,055 | 29,041 |
| Surgical | 17,529 | 16,810 | 16,055 |
| Acute | 46,504 | 45,865 | 45,096 |
| Newborn | 6,137 | 6,135 | 5,857 |
| Rehab | 1,035 | 1,069 | 1,344 |
| **Total Discharges** | **53,676** | **53,069** | **52,297** |
| **Patient Days** | | | |
| Acute | 203,149 | 203,196 | 196,701 |
| Newborn | 27,089 | 25,217 | 25,222 |
| Rehab | 17,935 | 18,404 | 23,307 |
| SNF | 162,555 | 166,043 | 164,739 |
| **Total Patient Days** | **410,728** | **412,860** | **409,969** |
| **Average Length of Stay (days)** | | | |
| Acute | 4.50 | 4.50 | 4.43 |
| Newborn | 4.41 | 4.11 | 4.31 |
| Rehab | 17.33 | 16.85 | 17.01 |
| **Outpatient Services** | | | |
| Emergency | 179,818 | 173,099 | 168,908 |
| Observation | 7,186 | 7,042 | 8,676 |
| Ambulatory Surgery | 50,472 | 45,707 | 41,319 |
| Primary Care Visits | 130,488 | 235,578 | 259,535 |
| Clinic Visits | 36,846 | 38,572 | 39,759 |
| Referred Ambulatory | 560,419 | 542,750 | 519,036 |
| Home Care Visits | 305,280 | 302,555 | 308,820 |
| **Total Outpatient Services** | **1,270,509** | **1,345,303** | **1,346,053** |

**Management's Discussion of Recent Utilization Trends**

Utilization trends throughout the System (regardless of patient origin) have varied between inpatient and outpatient over the past three years. The System has been focusing on high acuity inpatient surgical volume within targeted service lines. While the System has experienced an overall decrease in surgical volume, the overall acuity has increased substantially over the past two years. The Medicare and Non-Medicare case mix has increased by 2.6% and 2.7% respectively when comparing 2018 against 2017. Against similar volume, the System experienced a revenue increase of approximately $8.7 million related to the increase in acuity.

Catholic Health has focused efforts to reduce unnecessary inpatient utilization through care management initiatives. These care management initiatives are designed to ensure patients are managed at an appropriate level of care, with a goal of achieving the highest level of quality, patient satisfaction and outcomes, while maintaining the lowest cost model possible. Through effective care management, patients are diverted from inpatient levels of care by leveraging alternative delivery models such as home care, sub-acute services, and/or managing at an observation level of care. Partnering with CMP, the System leverages its expanding primary care physicians to manage patients post-discharge to lower readmission rates. Similar to the increase in acuity within inpatient surgical discharges, the acuity of the inpatient medical discharges increased substantially in 2018. The Medicare and Non-Medicare case mix has increased by 2.3% and 5.5% respectively when comparing 2018 against 2017. Against similar volume, the System experienced a revenue increase of approximately $9.1 million related to the increase in acuity.

Through improved care coordination directly within its emergency departments, Catholic Heath experienced significant increases in observation utilization. Observation cases increased by 23% in 2018 versus 2017, which decreased the cost of care for the patients included in the global risk medical budgets, which are part of the risk contracts of the System with local payers. In addition to the above mentioned initiatives, CHS has launched a partnership with local payors to manage inpatient admissions through a concurrent review process. This initiative has resulted in a substantial decrease in post discharge clinical denials.

Outpatient volumes over the past three years have been mixed. Emergency department visits net of admissions and observation have decreased by 4,191 visits or 2.4% when compared to 2017. The emergency department figures detailed above do not include admitted patients whether in an inpatient or observation level of care. While the System has lost some low acuity emergency department visits, admissions from the emergency department have increased by 377 admissions or 1.3% when compared to 2017. Over the past 10 years, the System has made significant investments in emergency medicine, including a $32 million Emergency Center expansion at Mercy completed in 2010, an $8.6 million Emergency Center expansion at SOC - MSC in 2011, and a $14.8 million Emergency Center expansion at Kenmore in 2014.

**Payor Mix**

The following table of the System's payor mix, based on net patient service revenues, for each of the fiscal years ended December 31, 2016, 2017, and 2018.

**PAYOR MIX**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| **Payer** | **2016** | **2017** | **2018** |
| Medicare (Inc. HMOs) | 42.8% | 42.8% | 43.2% |
| Medicaid (Inc. HMOs) | 13.3 | 15.0 | 16.1 |
| Blue Cross | 20.6 | 18.6 | 17.8 |
| Commercial | 15.5 | 15.4 | 14.9 |
| Other* | 6.7 | 7.0 | 6.8 |
| Self-Pay | 1.1 | 1.2 | 1.2 |
| **Total** | **100%** | **100%** | **100%** |

* Other Includes: Hospice,Worker's Compensation and No Fault, among others

Source: CHS Records

**Historical Financial Information**

The following financial information reflects a summary of the operating results and financial condition of the consolidated System for each of the fiscal years ended December 31, 2016, 2017 and 2018. The results have been derived from the System's audited consolidated financial statements. In addition to the following summarized financial information, the complete audited consolidated financial statements for CHS and Subsidiaries for the year ended December 31, 2018, including the notes thereto, appear in Appendix B and should be reviewed in order to evaluate the System's operating results and financial condition. These audited consolidated financial statements of CHS and Subsidiaries were audited by Freed Maxick CPAs, P.C., as independent accountants.

***Balance Sheets***

The following is a summary of the System's balance sheet for each of the years ended December 31, 2016, 2017 and 2018:

**CATHOLIC HEALTH SYSTEM**
**BALANCE SHEET**

| *(Dollars in Thousands)* | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2017** | **2018** |
| **Assets** | | | |
| Current Assets | | | |
| Cash and cash equivalents | $ 227,231 | $ 245,193 | $ 276,731 |
| Patient/resident accounts receivable, net | 125,202 | 131,788 | 119,441 |
| Other current assets | 44,181 | 46,037 | 46,982 |
| **Total Current Assets** | 396,614 | 423,018 | 443,154 |
| Assets limited as to use | 38,059 | 47,937 | 57,002 |
| Investments | 179,045 | 196,082 | 185,013 |
| Property and equipment, net | 371,159 | 364,784 | 375,471 |
| Other assets | 111,489 | 109,010 | 114,675 |
| **Total Assets** | $ 1,096,366 | $ 1,140,831 | $ 1,175,315 |
| **Liabilities and Net Assets** | | | |
| Current Liabilities | | | |
| Current portion of long-term obligations | $ 15,312 | $ 18,157 | $ 20,029 |
| Line of credit payable | 4,310 | - | - |
| Accounts payable | 44,958 | 55,395 | 60,728 |
| Accrued expenses | 66,461 | 83,400 | 83,952 |
| Due to third-party payors | 47,881 | 40,862 | 43,236 |
| **Total Current Liabilities** | 178,922 | 197,814 | 207,945 |
| Long-term obligations, net | 195,760 | 192,703 | 198,812 |
| Other long-term liabilities | 488,144 | 517,354 | 504,516 |
| **Total Liabilities** | $ 862,826 | $ 907,871 | $ 911,273 |
| **Net Assets** | | | |
| Without donor restrictions | $ 225,122 | $ 224,896 | $ 256,336 |
| With donor restrictions | 8,418 | 8,064 | 7,706 |
| **Total Net Assets** | 233,540 | 232,960 | 264,042 |
| **Total Liabilities and Net Assets** | $ 1,096,366 | $ 1,140,831 | $ 1,175,315 |

Source: CHS Audited Financial Statements

***Statements of Operations***

The following is a summary of the System's statement of operations for each of the years ended December 31, 2016, 2017 and 2018:

**CATHOLIC HEALTH SYSTEM**
**STATEMENT OF OPERATIONS**

| *(Dollars in Thousands)* | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2017** | **2018** |
| Revenues and other support without donor restrictions | | | |
| Net patient/resident revenue less bad debts | $ 1,067,652 | $ 1,110,933 | $ 1,157,052 |
| Other revenue | 20,955 | 21,278 | 26,829 |
| Net assets released from restrictions | 230 | 595 | 540 |
| **Total revenues and other support without donor restrictions** | $ 1,088,837 | $ 1,132,806 | $ 1,184,421 |
| Expenses | | | |
| Salaries, wages, and benefits | $ 615,838 | $ 658,091 | $ 683,150 |
| Supplies and other expenses | 399,600 | 400,317 | 421,445 |
| Depreciation and amortization | 46,015 | 47,947 | 47,021 |
| Interest | 9,875 | 10,174 | 12,661 |
| **Total Expenses** | $ 1,071,328 | $ 1,116,529 | $ 1,164,277 |
| **Income from operations** | **17,509** | **16,277** | **20,144** |
| Nonoperating revenues and expenses | (6,894) | 8,991 | (19,491) |
| **Excess of revenues over expenses** | $ 10,615 | $ 25,268 | $ 653 |

Source: CHS Audited Financial Statements

**Management's Discussion of Operations**

The following discussion of operations reviews the operating results and the financial condition of the System.

Total net patient services revenue increased 4.2% ($46.1 million) for the year ended December 31, 2018 as compared to 2017. Overall discharges decreased by 1.7% (772) in 2018 when compared to 2017. This decrease was driven by lower inpatient medical and surgical utilization.

Through effective care management initiatives, the System leveraged observation, home care services, and its primary care network to ensure patients were managed at an appropriate level of care. As a result, inpatient medical discharges were flat in 2018 when compared to 2017 and observation utilization increased by 23.2% (1,634) in 2018 when compared to 2017. The System has also partnered with the local payers to launch a concurrent review process to ensure admitted patients were approved at the time of admit. In an effort to improve documentation, the System utilizes a clinical documentation initiative to ensure the admitting diagnosis and co-morbidities were properly documented prior to discharging the patient. These new processes better ensure that the medical records of all admitted patients are properly documented which has led to a reduction in the number of clinical denials received post-discharge.

Through improvements in technology (robotics and imaging), the System has experienced a reduction of inpatient surgical discharges which are now performed in an outpatient setting. As a result, the inpatient surgical discharges were reduced by 4.5% (755) in 2018 when compared to 2017. This decrease represents a shift from inpatient to outpatient procedures within the following surgical specialties: (1) bariatric surgical banding and other select digestive procedures, (2) OB/GYN procedures, and (3) interventional cardiac procedures.

As previously described, due to the management of certain disease states and surgical techniques, previous low acuity inpatient activity is now managed through outpatient services. In addition, the System has experienced increased competition of physician owned free-standing surgical centers. As such, low acuity outpatient surgical volume which has historically been performed in a hospital setting is now performed in free-standing surgical centers. During 2018, the System purchased a minority equity share of a free standing surgical center located in an affluent town south of Buffalo. This partnership will allow the System to strategically move low acuity procedures out of Mercy Hospital where the premium operating room block-times are often in high demand.

The System continues to grow its inpatient and outpatient substance abuse programs. Due to the opioid crisis, the System's capacity to serve the community has been constrained and wait lists exist. During 2018, the System opened up a new outpatient treatment center and added capacity to its inpatient treatment unit located at Mount St. Mary's. The new expansion was completed mid-2018 and resulted in an increase of 223 inpatient discharges which represented a 62% increase when compared to 2017.

Total expenses were $1.16 billion in 2018, as compared to $1.12 billion in 2017, an increase of $47.7 million or 4.3%.

Labor costs (salaries, wages, and benefits) are the most significant component of total operating expenses representing 58.7% and 58.9% of total operating expenses in 2018 and 2017, respectively. While wages and benefit costs have increased over the past year, the System launched several new labor management initiatives which have improved overall productivity while not impacting clinical resources at the bed side. Management has added strategic positions within select service lines in addition to targeted resources to improve care management and patient experience. Integrated within the System's budget solution, metric based productivity targets incorporated within the annual budget are hardwired into the labor analytic reporting. In addition, this new technology will provide real-time reporting and dashboards which will assist managers in flexing the workforce as demand requires. The System has developed models which predict future high and low census points. Moreover, clinical managers have the ability to move resources and/or close units during those planned low census points.

Year-over-year benefit costs increased by $11.1 million or 8.0%. This change was primarily driven by pension and employee health care costs. As part of the System's strategic initiatives to capture market share, the organization maintains a hospital-based Preferred Provider Organization called "First Choice". The implementation of First Choice has substantially increased the use of Catholic Health services and facilities by System employees. By increasing the utilization of Catholic Health services, the System has successfully controlled its costs when compared to market products. The System has marketed the First Choice product to other area employers within Western New York. In addition, pension expense increased by 9.6% ($3.2 million) as a result of a decrease in the discount rate utilized to calculate the periodic pension expense. The service cost portion of the pension expense which is included within benefits expense increased by 10.2% ($2.2 million). Effective in 2018, the System early adopted and retrospectively applied FASB Accounting Standards Update (ASU) 2017-07, Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires the service cost component of net periodic benefit cost related to defined benefit pension and postretirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. Other components of net periodic pension and postretirement cost are required to be presented separately from service costs and outside of income from operations in the statement of operations and changes in net assets. The adoption of this ASU has no effect on current or previously reported excess of revenues over expenses in the System's consolidated statement of operations and changes in net assets.

Supplies and other expenses, which included insurance, increased by $21.1 million or 5.3%. In an effort to lower overall supply costs, the System developed a comprehensive supply initiative which was integrated into the 2018 operating plan. The initiative included increased focus on product standardization, utilization management,

pricing controls, procurement process control improvements, and contract compliance. In addition, the System launched a new perpetuity inventory management solution as part of the overall ERP project. This new technology will allow the System to significantly decrease inventory par levels which will decrease waste due to expired and obsolete products. In addition, the System leadership has greater visibility in utilization patterns and vendor contract compliance.

Effective January 1, 2019 the System adopted FASB Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). This ASU requires recognition of an asset and a related liability that arise from lease arrangements. Upon initial adoption of this ASU, the System will recognize right to use assets and related lease liabilities of approximately $30,443.

**Historical/Pro Forma Capitalization**

The following table sets forth the capitalization of the System as of December 31, 2016, 2017, 2018 and 2018 as adjusted assuming the Series 2019 Bonds transaction were issued and outstanding on December 31, 2018.

**CATHOLIC HEALTH SYSTEM**

**HISTORICAL / PRO FORMA CAPITALIZATION**

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Type** | **2016** | **2017** | **2018** | **Pro Forma 2018** | **MTI Parity Obligation** |
| Series 2006 | $ 35,538 | $ 31,550 | $ 27,404 | $ - | Y |
| Series 2007 | 9,455 | 9,070 | 8,660 | 8,660 | N |
| Series 2008 | 20,170 | 19,400 | 18,597 | - | Y |
| Series 2012 | 15,864 | 15,421 | 14,970 | 14,970 | Y |
| Series 2015 | 102,135 | 100,874 | 96,794 | 96,794 | Y |
| Series 2019A | - | - | - | 140,720 | Y |
| Series 2019B | - | - | - | 43,925 | Y |
| Bridge loan financing | 5,822 | 14,634 | 26,075 | - | Y |
| Capital leases | 22,385 | 17,207 | 14,157 | 14,157 | N |
| Revolving line of credit | 4,310 | - | - | - | Y |
| Mortgages and other | 5,927 | 8,461 | 16,705 | 16,705 | N |
| Deferred financing costs | (6,224) | (5,757) | (4,521) | (4,521) | |
| **Total Debt** | $ 215,382 | $ 210,860 | $ 218,841 | $ 331,410 | |
| Net assets without donor restrictions | 225,122 | 224,896 | 256,336 | 256,336 | |
| Less: Net assets held in trust/escrow | (20,498) | (18,228) | (12,326) | (12,326) | |
| **Total Capitalization** | $ 420,006 | $ 417,528 | $ 462,851 | $ 575,420 | |
| **Total Debt as a percentage of Total Capitalization** | **51.3%** | **50.5%** | **47.3%** | **57.6%** | |

Source: CHS Audited Financial Statements and Records

**Debt Service Coverage**

The following table sets forth coverage of Maximum Annual Debt Service Requirements of the System on long-term indebtedness for each of the fiscal years ended December 31, 2016, 2017 and 2018.

**CATHOLIC HEALTH SYSTEM**

**DEBT SERVICE COVERAGE**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| ***(Dollars in Thousands)*** | **2016** | **2017** | **2018** |
| Excess of revenues over expenses | $ 10,615 | $ 25,268 | $ 653 |
| Plus: Depreciation and amortization | 46,015 | 47,947 | 47,021 |
| Plus: Interest expense | 9,875 | 10,174 | 12,661 |
| Less: Change in unrealized (gains) losses on investments | (3,692) | (14,770) | 10,461 |
| **Income Available for Debt Service** | $ 62,813 | $ 68,619 | $ 70,796 |
| Current Maximum Annual Debt Service Requirements on All Long-term Debt [(1)(2)(3)] | $ 22,744 | $ 23,983 | $ 24,177 |
| **Coverage of Current Maximum Annual Debt Service Requirement** | **2.8x** | **2.9x** | **2.9x** |
| Pro Forma of Current Maximum Annual Debt Service Requirement [(1)(2)(3)] | $ 22,523 | $ 22,523 | $ 22,523 |
| **Coverage of Pro Forma Maximum Annual Debt Service Requirement** | **2.8x** | **3.0x** | **3.1x** |

Source: CHS Audited Financial Statements and Records

(1) Unhedged variable rate bonds interest rate assumed at 3.00%

(2) Hedged variable rate bonds interest rate assumed at fixed payor swap rates.

(3) Balloon indebtedness is re-amortized over 30 years from the date of issuance.

**Liquidity**

The following table sets forth the System's days cash on hand for each of the fiscal years ended December 31, 2016, 2017 and 2018.

**CATHOLIC HEALTH SYSTEM**
**DAYS CASH ON HAND**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| ***(Dollars in Thousands)*** | **2016** | **2017** | **2018** |
| Unrestricted cash and cash equivalents, investments and board designated limited use assets | $ 401,593 | $ 434,037 | $ 466,720 |
| Total operating expenses | 1,071,328 | 1,116,529 | 1,164,277 |
| Less: Depreciation and amortization | (46,015) | (47,947) | (47,021) |
| Total Operating Expenses less Depreciation and Amortization | $ 1,025,313 | $ 1,068,582 | $ 1,117,256 |
| **Days Cash on Hand** | **143** | **148** | **152** |

Source: CHS Audited Financial Statements and Records

The following table sets forth the System's cash-to-debt ratios at December 31, 2016, 2017, 2018 and 2018 as adjusted assuming the Series 2019 Bonds transaction were issued and outstanding on December 31, 2018.

**CATHOLIC HEALTH SYSTEM**
**CASH-TO-DEBT**

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| ***(Dollars in Thousands)*** | **2016** | **2017** | **2018** | **Pro Forma 2018** |
| Unrestricted cash and cash equivalents, investments and board designated limited use assets [(1)] | $ 401,593 | $ 434,037 | $ 466,720 | $ 484,359 |
| Total Debt | 215,382 | 210,860 | 218,841 | 331,410 |
| **Cash-to-Debt** | **1.9x** | **2.1x** | **2.1x** | **1.5x** |

Source: CHS Audited Financial Statements and Records

(1) Pro Forma 2018 includes $17.6 million of funds that CHS will be reimbursed at closing.

**Investments and Investment Policy**

The System's investment portfolios are centrally managed through the Finance and Operations Committee of the Board. The primary investment strategy is centered on the preservation of capital while providing for the long-term growth of principal without undue exposure to risk. With the guidance of an investment advisor, the System utilizes Ascension Investment Management ("AIM") to manage the System's excess cash. Through AIM's Alpha fund, the System developed an investment strategy which increases risk as the System's cash reserves increase over time. The System's investment advisor closely monitors the various managers within the Alpha Fund and meets with AIM's leadership team on a frequent basis.

The following table sets forth the composition of the System's total cash and cash equivalents and investments (restricted and unrestricted), as of December 31, 2016, 2017, and 2018, and excludes pension assets.

**CATHOLIC HEALTH SYSTEM**

**INVESTMENTS & INVESTMENT POLICY**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| ***(Dollars in Thousands)*** | **2016** | **2017** | **2018** |
| Cash and cash equivalents | $ 259,312 | $ 287,743 | $ 328,563 |
| Government Bonds | 7,273 | 5,911 | 6,897 |
| Investment grade bonds | 5,972 | 8,760 | 10,708 |
| Mutual funds | 11,979 | 11,828 | 6,448 |
| Other (Ascension Alpha Fund LLC, cash surrender value of life insurance) | 159,799 | 174,970 | 166,130 |
| **Total Cash and cash equivalents and investments** | **$ 444,335** | **$ 489,212** | **$ 518,746** |

Source: CHS Records

**Insurance Arrangements**

The System participates in Trinity Health's insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits for healthcare professional and general liability are $20 million per occurrence and are insured by Venzke Insurance Company, LTD. ("Venzke"), Cayman-domiciled insurer wholly-owned by Trinity. Venzke also provides excess coverage to the System, and this excess coverage is fully reinsured with non-affiliated commercial insurance companies. Venzke retains the full risk in the primary layer and no risk in the excess layers.

The System's insurance for employee health costs is self-insured up to $375,000 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience.

**Pension**

Effective January 1, 2001, CHS established the Retirement Plan of the Catholic Health System (the "CHS Plan") which is a qualified defined benefit pension plan covering substantially all of its employees at its constituent hospitals. The System's combined retirement plan expense is equal to the required annual contributions to the CHS Plan, which are calculated based on actuarially determined methods. The CHS Plan bases benefits on years of service, age and earnings. Participants in the CHS Plan earn benefits under several different formulae including a

final average formula, career average formula, or cash balance formula. Based on the actuarial valuation, the CHS Plan was under-funded as of December 31, 2018 and 2017. The unfunded level as of both December 31, 2018 and 2017 was 46%. In 2018, Catholic Health contributed $33.1 million. Catholic Health's funding policy requires plan funding in excess of annual service costs. With the exception of the St. Joseph Hospital Retirement Income Plan, all CHS plans are classified as church-sponsored retirement plans and therefore are not subject to ERISA funding requirements. The St. Joseph Hospital Retirement Income Plan is over 100% funded.

## COMMUNITY BENEFIT

Since its founding, the System has been driven to provide quality, compassionate care to all patients and improve the lives of people in the communities it serves. The System serves a key role in its community and contributed more than $126.4 million in charity care and community benefit in 2018, which encompasses financial assistance and means-tested government programs which provide free and discounted healthcare services, unreimbursed costs for serving Medicaid Patients (including Medicaid HMOs), community health improvement programs, and services, healthcare professional education, and subsidized services which are part of the System's social responsibility and community stewardship mission framework.

CHS is committed to improving the health of the communities it serves. The System conducts a Community Health Needs Assessment every three years to better understand the health issues faced by area residents. The completed assessment provides a framework for the System to prioritize community health needs and develop a plan to meet those needs.

As in prior years, the 2016 assessment focused on addressing health disparities in the Western New York region to improve access to care, especially for the poor and disadvantaged, in line with New York State Prevention Agenda. Through CHS's network of primary care centers, targeted community outreach programs, physician recruitment efforts and clinical service line focused community education, the System is serving many of the area's most vulnerable residents. Because the System has ministries throughout both Erie and Niagara counties, the planning process to identify priorities includes the health departments of both counties, as well as cooperatively working with other hospitals and systems in the communities. The assessment process is a collaborative effort between CHS, its hospitals and many other local health and social service organizations concerned about the health of the Western New York community. In Erie County the process includes CMP, Erie County Department of Health, Buffalo State College, and SUNYAB, among others. In Niagara County, the process includes local hospitals, community not-for-profit organizations, medical providers and others, with the entire process coordinated by the regional Populations Health Collaborative. The completed assessments provide the framework for an implementation plan which addresses identified and prioritized community needs. Since a new assessment is done every three years, the System is in the midst of completing a new 2019 community health needs assessment which will be used to set future prevention agenda priorities.

## LITIGATION MATTERS

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation. In October 2017, CHS Home and Community Based Care entered into a Corporate Integrity Agreement with the U.S. Department of Health and Human Services ("DHHS") as part of a $6,000,000 Settlement Agreement with the U.S. Department of Justice and the Office of Inspector General DHHS to resolve claims that certain nursing homes affiliated with CHS had submitted false claims to Medicare for rehabilitation services. The Corporate Integrity Agreement has a five-year term and will expire in October 2022. Pursuant to the Corporate Integrity Agreement, the System has an independent review organization in place to monitor Medicare ongoing claims from these facilities. Government activity remains strong with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of additional significant fines and penalties, as well as, significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. Management believes it currently is in compliance with such laws and regulations. CHS and certain Members of the Obligated Group received notices from the Internal Revenue Service ("IRS") informing them of proposed employer shared responsibility payments ("ESRP") for the 2016 tax year in the aggregate amount of $3,889,440. CHS and the applicable Members of the

Obligated Group believe that the proposed ESRP amounts resulted in part from ministerial errors made on certain tax returns filed with the IRS, and CHS believes that facts and positions may be available to substantially reduce the amount of the proposed ESRPs. CHS and the applicable Members of the Obligated Group will pursue all available avenues to reduce or eliminate the respective proposed ESRP amounts. CHS management knows of no claims, which have not been asserted at this time, which could have a material adverse effect on the System's future financial position, results from operations or cash flows.

**APPENDIX B**

**CATHOLIC HEALTH SYSTEM, INC. AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018 WITH REPORT OF INDEPENDENT AUDITORS**

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**CONSOLIDATED FINANCIAL STATEMENTS**

# CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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**DECEMBER 31, 2018**

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONTENTS**

FreedMaxick CPAs, P.C.

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Catholic Health System, Inc.
Buffalo, New York

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Health System, Inc. and its subsidiaries (collectively, the System), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Health System, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 28, 2019

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(in thousands of dollars)**
**December 31,**

| ASSETS | 2018 | 2017 |
|---|---|---|
| **Current assets:** | | |
| Cash and cash equivalents | $ 276,731 | $ 245,193 |
| Patient/resident accounts receivable | 119,441 | 131,788 |
| Other receivables | 10,571 | 7,815 |
| Inventories | 23,635 | 26,071 |
| Prepaid expenses and other current assets | 12,776 | 12,151 |
| **Total current assets** | 443,154 | 423,018 |
| Assets limited as to use | 57,002 | 47,937 |
| Investments | 185,013 | 196,082 |
| Property and equipment, net | 375,471 | 364,784 |
| Other assets | 114,675 | 109,010 |
| **Total assets** | $ 1,175,315 | $ 1,140,831 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities:** | | |
| Current portion of long-term obligations | $ 20,029 | $ 18,157 |
| Accounts payable | 60,728 | 55,395 |
| Accrued expenses | 83,952 | 83,400 |
| Due to third-party payors | 43,236 | 40,862 |
| **Total current liabilities** | 207,945 | 197,814 |
| Long-term obligations, net | 198,812 | 192,703 |
| Other long-term obligations | 504,516 | 517,354 |
| **Total liabilities** | 911,273 | 907,871 |
| **Net assets:** | | |
| Without donor restrictions | 256,336 | 224,896 |
| With donor restrictions | 7,706 | 8,064 |
| **Total net assets** | 264,042 | 232,960 |
| **Total liabilities and net assets** | $ 1,175,315 | $ 1,140,831 |

See accompanying notes.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
**(in thousands of dollars)**
**For the Years Ended December 31,**

| | 2018 | 2017 |
|---|---|---|
| **Revenues and other support without donor restrictions:** | | |
| Net patient/resident service revenue before provision for bad debts | $ - | $ 1,136,549 |
| Provision for bad debts | - | (25,616) |
| Net patient/resident service revenue | 1,157,052 | 1,110,933 |
| Other revenue | 26,829 | 21,278 |
| Net assets released from restrictions | 540 | 595 |
| **Total revenues and other support without donor restrictions** | 1,184,421 | 1,132,806 |
| **Expenses:** | | |
| Salaries and wages | 533,955 | 519,969 |
| Employee benefits | 149,195 | 138,122 |
| Medical and professional fees | 51,582 | 48,404 |
| Purchased services | 111,010 | 106,415 |
| Supplies | 214,885 | 199,110 |
| Depreciation and amortization | 47,021 | 47,947 |
| Interest | 12,661 | 10,174 |
| Insurance | 12,601 | 15,686 |
| Other expenses | 31,367 | 30,702 |
| **Total expenses** | 1,164,277 | 1,116,529 |
| **Income from operations** | 20,144 | 16,277 |
| **Nonoperating revenues and expenses:** | | |
| Investment income (loss) | (7,281) | 20,120 |
| Other components of net periodic pension cost | (12,751) | (11,760) |
| Other revenues and gains, net | 541 | 631 |
| **Total nonoperating revenues and expenses** | (19,491) | 8,991 |
| **Excess of revenues over expenses** | $ 653 | $ 25,268 |

See accompanying notes.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)**
**(in thousands of dollars)**
**For the Years Ended December 31,**

| | 2018 | 2017 |
|---|---|---|
| **Net assets without donor restrictions:** | | |
| Excess of revenues over expenses | $ 653 | $ 25,268 |
| Change in unrealized gain on interest rate swaps | 828 | 313 |
| Change in pension obligation, other than net periodic cost | 22,228 | (28,257) |
| Net assets released from restrictions used for capital | 1,653 | 1,609 |
| Amortization of terminated interest rate swaps | 1,833 | 783 |
| Capital grants | 3,927 | 8 |
| Contributions | 94 | 80 |
| Other | (98) | (43) |
| Increase (decrease) in net assets without donor restrictions before effects of discontinued operations | 31,118 | (239) |
| Gain from discontinued operations | 322 | 13 |
| Increase (decrease) in net assets without donor restrictions | 31,440 | (226) |
| **Net assets with donor restrictions:** | | |
| Contributions | 1,890 | 1,434 |
| Investment income (loss) | (23) | 37 |
| Special events revenue, net | 83 | 438 |
| Change in interest in related Foundation | (267) | (55) |
| Net assets released from restrictions | (2,193) | (2,204) |
| Other | 152 | (4) |
| Increase (decrease) in net assets with donor restrictions | (358) | (354) |
| Increase (decrease) in net assets | 31,082 | (580) |
| Net assets, beginning of year | 232,960 | 233,540 |
| Net assets, end of year | $ 264,042 | $ 232,960 |

See accompanying notes.

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands of dollars)**
**For the Years Ended December 31,**

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Increase (decrease) in net assets | $ 31,082 | $ (580) |
| Gain in net assets from discontinued operations | (322) | (13) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 47,021 | 47,947 |
| Change in minimum pension liability adjustment | (22,228) | 28,257 |
| Undistributed earnings in equity investees | 316 | (267) |
| Amortization of discount on debt issuance | 61 | 61 |
| Amortization of premium on debt issuance | (571) | (574) |
| Amortization of debt issuance costs | 1,283 | 466 |
| Loss (gain) on sale of property and equipment | 24 | (160) |
| Change in unrealized loss (gain) on investments | 11,242 | (16,726) |
| Realized gain on investments | (1,315) | (941) |
| Realized gain on interest rate swaps | (846) | (319) |
| Other | (175) | (137) |
| Decrease (increase) in assets: | | |
| Patient/resident accounts receivables | 12,347 | (6,571) |
| Other receivables | (2,756) | 1,660 |
| Inventories | 2,436 | (2,471) |
| Prepaid expenses and other current assets | (1,141) | 256 |
| Other assets | (4) | 13 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 5,033 | 8,716 |
| Accrued expenses | 570 | 4,243 |
| Due to third-party payors | 2,376 | (4,881) |
| Other liabilities | 9,069 | 4,573 |
| Total from continuing operations | 93,502 | 62,552 |
| Total used in discontinued operations | (2,542) | (3,204) |
| **Net cash provided by operating activities** | 90,960 | 59,348 |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | (54,715) | (38,518) |
| Proceeds from sale of property and equipment | 21 | 305 |
| Purchase of assets limited as to use | (25,430) | (33) |
| Proceeds from sale of assets limited as to use | 16,690 | 3,146 |
| Purchase of investments | (5,115) | (8,382) |
| Proceeds from sale of investments | 6,304 | 9,028 |
| Purchase of equity investments | (2,270) | (1,351) |
| **Net cash used in investing activities** | (64,515) | (35,805) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of long-term obligations, net | 21,519 | 12,937 |
| Repayments of current and long-term obligations | (16,426) | (18,518) |
| **Net cash provided by (used in) financing activities** | 5,093 | (5,581) |
| **Increase in cash and cash equivalents** | 31,538 | 17,962 |
| Cash and cash equivalents - beginning of year | 245,193 | 227,231 |
| Cash and cash equivalents - end of year | $ 276,731 | $ 245,193 |

See accompanying notes.

## NOTE 1. ORGANIZATION

Catholic Health System, Inc. and Subsidiaries (CHS or the System) is an integrated healthcare delivery system in Western New York jointly sponsored by the Diocese of Buffalo, New York, and Catholic Health Ministries. Trinity Health and the Diocese of Buffalo are the corporate members of CHS, with equal ownership interest.

Catholic Health System, Inc. and Subsidiaries is the also the sole corporate member of the following subsidiaries:

**Acute Care Subsidiaries:** The Acute Care Subsidiaries (also collectively referred to as the Hospitals) include Mercy Hospital of Buffalo (MHB), Kenmore Mercy Hospital including KMH Homes Inc. and The McAuley Residence (KMH), Sisters of Charity Hospital of Buffalo, New York (SCH) and Mount St. Mary's Hospital of Niagara Falls (MSM).

**Home and Community Based Subsidiaries:** The Home and Community Based Subsidiaries include Western New York Catholic Long-Term Care, Inc. d/b/a Father Baker Manor (FBM), St. Francis Geriatric and Healthcare Services, Inc. (SFG), Niagara Homemakers Services, Inc. d/b/a Mercy Home Care (MHC), McAuley Seton Home Care Corporation (MSHC) and Catholic Health Infusion Pharmacy (Infusion Pharmacy).

**Other Subsidiaries:** The Other Subsidiaries include, Our Lady of Victory Renaissance Corporation (OLV Renaissance), Continuing Care Foundation (CCF), Catholic Health System Program of All Inclusive Care for the Elderly, Inc. (LIFE), Trinity Medical WNY, P.C. (Trinity), and Niagara Medicine, P.C. (Niagara Medicine).

**Discontinued Operations:** The Discontinued Operations include St. Elizabeth's Home (SEH) and St. Vincent's Home for the Aged (SVH) (both sold 2016), St. Francis Home of Williamsville (sold 2015), and Nazareth Home of the Franciscan Sisters of the Immaculate Conception (closed 2007, sold 2015).

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

**Principles of Consolidation:** The consolidated financial statements of the System include the accounts of CHS (commonly referred to as the Parent) and each of its wholly-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

**Recently Adopted Accounting Pronouncements:** In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09), using a modified retrospective method of application to all contracts existing on January 1, 2018. The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition. The core principle of the revenue model is that the System recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the System expects to be entitled in exchange for those goods or services.

***(in thousands of dollars)***

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The System's process for implementation began with a preliminary evaluation of ASU 2014-09 and consideration of subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the American Institute of Certified Public Accountants. The System performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient/resident service revenue, the System performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts and presented as a reduction to net patient/resident service revenue on the consolidated statements of operations and changes in net assets is treated as an implicit price concession that reduces the transaction price, which is reported as net patient/resident service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 is not material to total revenues and other support without donor restrictions, excess of revenues over expenses or net assets without donor restrictions.

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities" (ASU 2016-14). This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities. The System implemented ASU 2016-14 in 2018 and applied the changes retrospectively. The new standard changes the following aspects of the consolidated financial statements: Temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class now called net assets with donor restrictions; Unrestricted net asset class has been renamed net assets without donor restrictions; and the consolidated financial statements include a disclosure about liquidity and availability of resources (Note 3) and certain categories of expenses that are attributable to more than one program or supporting function (Note 17).

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07). This ASU requires the service cost component of net periodic benefit cost related to defined benefit pension and postretirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. Other components of net periodic pension cost are required to be presented separately from service costs and outside of income from operations in the consolidated statements of operations and changes in net assets. Further, only the service cost component of net periodic pension cost will be eligible for capitalization in assets. The System adopted ASU 2017-07 in 2018 and applied the changes retrospectively. The adoption of ASU 2017-07 had no impact on excess of revenues over expenses.

The following table presents the impact of the ASU 2017-07 adoption on the System's consolidated statements of operations and changes in net assets:

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | **Previously Reported** | **Impact of Adoption** | **As Reported** |
| Employee benefits | $ 149,882 | $ (11,760) | $ 138,122 |
| Income from operations | $ 4,517 | $ 11,760 | $ 16,277 |
| Other components of net periodic pension cost | $ - | $ (11,760) | $ (11,760) |
| Total nonoperating expenses and revenues | $ 20,751 | $ (11,760) | $ 8,991 |
| Excess of revenues over expenses | $ 25,268 | $ - | $ 25,268 |

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New Accounting Pronouncements:** In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01), which requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in excess of revenues over expenses unless the investments qualify for the new practicability exception. The amendments in ASU 2016-01 are effective for the System beginning in 2019.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" (ASU 2016-02), which affects any entity that enters into a lease (as that term is defined in ASU 2016-02), with some specified scope exceptions. The main difference between the guidance in ASU 2016-02 and current accounting principles generally accepted in the United States of America (US GAAP) is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current US GAAP. Under ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements", which allows lessees and lessors to recognize and measure leases at the beginning of the period of adoption without modifying the comparative period financial statements. This guidance will be effective for the System beginning in 2019.

In June 2018, the FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made" (ASU 2018-08). This standard clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal and/or state and local government grants as donor-restricted conditional contributions, rather than as exchange transactions. The amendments in ASU 2018-08 are effective for interim and annual periods beginning after December 15, 2018. The amendment should be applied on a modified prospective basis, and early adoption is permitted. In the first set of financial statements following the effective date, the amendments should be applied to agreements that are either not completed as of the effective date, or entered into after the effective date.

In August 2018, the FASB issued ASU 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans" (ASU 2018-14), which applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14, which remove, modify or add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements, are effective for the System beginning in 2021.

In August 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer's accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" (ASU 2018-15). This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software and hosting arrangements that include internal use software license. This update also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangements. Such expenses should be presented in the income statement in the same line as the expenses associated with the hosting arrangement and to classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payment made for fees associated with the hosting element. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 31, 2020, and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Use of Estimates:** The preparation of consolidated financial statements in conformity with US GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the System include, but are not limited to, the reserves for asset retirement obligations, implicit price concessions, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for workers' compensation, health insurance, professional and general liability, and actuarial assumptions used in determining pension obligations.

**Risks and Uncertainties:** Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term could materially affect the net assets of the System.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to third-party payment matters will change by a material amount in the near term.

**Cash and Cash Equivalents:** The System considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short term investments, excluding amounts limited as to use, to be cash equivalents. The System maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance limits.

Supplemental disclosure of cash flow information and non-cash investing and financing transactions for the years ended December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | $ 8,732 | $ 8,985 |
| Non-cash investing and financing transactions: | | |
| Assets acquired under capital lease obligations | $ 2,115 | $ 652 |
| Increase in construction related payables | $ 300 | $ 1,890 |

**Other Receivables and Other Assets:** Other receivables consist primarily of managed care risk sharing receivables, physician loans, Foundation receivables, and other receivables. There is no allowance for doubtful accounts established against these receivables. Other non-current assets consist of insurance recoveries, investments in healthcare ventures, and other miscellaneous deferred charges.

*(in thousands of dollars)*

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The composition of current other receivables and other non-current assets is as follows at December 31:

| | 2018 | 2017 |
|---|---|---|
| **Current other receivables:** | | |
| Physician loans | $ 1,618 | $ 3,107 |
| Foundation receivables | 1,625 | 1,352 |
| Managed care risk receivables | 980 | 417 |
| Lease and rent receivables | 1,135 | 1,057 |
| Third-party receivables | 3,421 | 987 |
| Other | 1,792 | 895 |
| Other receivables | $ 10,571 | $ 7,815 |
| **Non-current other assets:** | | |
| Insurance recoveries | $ 106,735 | $ 102,846 |
| Investments in healthcare ventures | 4,782 | 3,007 |
| Goodwill and other | 3,158 | 3,157 |
| Other assets | $ 114,675 | $ 109,010 |

**Inventories:** Inventory consists primarily of drugs, medical supplies and food. These inventories are generally stated at the lower of cost (first-in, first-out) or net realizable value.

**Investments:** Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated balance sheets.

Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are included in nonoperating revenues and expenses in the consolidated statements of operations and changes in net assets as the investments are trading securities.

**Assets Limited as to Use:** Assets limited as to use include assets set aside for debt service as required by trustee or indenture agreements, and assets set aside by the Board of Directors for specific future purposes. The Board retains control of these funds and may at its discretion subsequently use for other purposes.

**Property and Equipment:** Property and equipment are stated at cost if purchased, or if contributed, at the fair value on the date contributed. Depreciation is computed using the straight-line method over useful lives ranging from three to forty years. Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations and changes in net assets

Gifts of long-lived assets such as land, building, or equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

*(in thousands of dollars)*

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Debt Issuance Costs:** Debt issuance costs are presented as a reduction of the carrying amount of debt rather than as an asset and amortized over the life of the related obligation. Amortization of debt issuance costs is reported as interest expense in the consolidated statements of operations and changes in net assets.

**Impairment of Long-Lived Assets:** The System evaluates its long-lived assets for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The System evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. Based on these evaluations, there are no adjustments to the carrying value of long-lived assets for the years ended December, 31, 2018 and 2017.

**Asset Retirement Obligations:** The System accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the System will recognize a gain or loss for any difference between the settlement amount and liability recorded. Accretion expense for the years ended December 31, 2018 and 2017 was $623 and $591, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

**Other Long-Term Obligations:** Other long-term obligations consist primarily of insurance liabilities, long-term pension obligations, asset retirement obligations, interest rate swap liabilities, contingent performance obligation and other long-term obligations. The composition of other long-term obligations is as follows at December 31:

| | 2018 | 2017 |
|---|---|---|
| Insurance liabilities | $ 164,828 | $ 157,445 |
| Long-term pension obligations | 318,143 | 336,682 |
| Asset retirement obligations | 10,151 | 10,114 |
| Interest rate swap | 3,667 | 4,513 |
| Contingent performance obligation | 7,242 | 7,242 |
| Other | 485 | 1,358 |
| Other long-term obligations | $ 504,516 | $ 517,354 |

**Net Patient/Resident Service Revenue:** Net patient/resident service revenue is reported at the estimated net realizable amounts from patients/residents, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Management believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and management does not believe it is required to provide additional goods or services to the patient.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Third-party payors retain the right to review and propose adjustments to amounts recorded by the System. Such 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. The System's Healthcare Assistance Program (HAP) provides discounts to patients based on need. In addition, the System will also assist patients with the application process for free or low-cost insurance. Those uninsured patients who do not qualify for the HAP or low-cost insurance are provided an uninsured discount based on a service-specific uninsured rate. This uninsured rate is similar in calculation method and amount to third-party payor methods and rates. The System estimates the transaction price for patients with deductibles and coinsurance from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient/resident service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant in the twelve months ended December 31, 2018 or 2017.

A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The System also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other services are based upon a fee schedule and other methodologies.

- **Medicaid and other:** Under the New York Health Care Reform Act (NYHCRA) hospitals are authorized to negotiate reimbursement rates for inpatient acute care services with all other non-Medicare payors except for Medicaid, Workers' Compensation and No-Fault, which are regulated by New York State. These negotiated rates may take the form of rates per discharge, reimbursed costs, and discounted charges or as per diem payments. Reimbursement rates for non-Medicare payors regulated by New York State are determined on a prospective basis. These rates also vary according to a patient classification system defined by NYHCRA that is based on clinical, diagnostic, and other factors. Outpatient services are paid under various reimbursement methodologies, including prospective determined rates, cost reimbursement, fee schedules, and charges.

In addition, under NYHCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amount of the surcharge varies by payor and applies to a broad array of health care services. Surcharges are included in patient/resident accounts receivable and the offset is in third-party liabilities. Surcharges are generally received and paid to the state within a few months. The System is required to prepare and file various reports on actual and allowable costs annually. Management believes that adequate provisions have been made in the consolidated financial statements for prior and current years' estimated settlements. The difference between the amount estimated and the actual final settlement is recorded as an adjustment to net patient/resident service revenue in the year the final settlement is determined.

***(in thousands of dollars)***

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Amounts recognized for the years ended December 31, 2018 and 2017, related to prior years, including adjustments to prior year estimates, increased revenues by approximately $3,650 and $2,980, respectively. These changes in estimates related to estimates for prior years cost report reopening, appeals, and tentative final cost reports, some of which are still subject to audit, additional reopening, and/or appeals.

There are various proposals at the federal and state level that could, among other things, adjust payment rates. The outcome of these proposals, regulatory changes and other market conditions cannot presently be determined.

**Implicit Price Concessions:** Implicit price concessions are based upon management's assessment of expected net collections considering economic experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the collectability of accounts not covered by insurance based on historical cash collections. The results of this review are then used to make modifications to the implicit price concessions recognized at time of service. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient/resident have been exhausted, the System follows established guidelines for placing certain past-due patient/resident balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Patient/resident accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. The implicit price concession for the year ended December 31, 2018 amounted to $23,477.

Patient/resident service revenue recognized in the period from these major payor sources is as follows for the years ended December 31:

| | 2018 | 2017 |
|---|---|---|
| Medicare | 42% | 42% |
| Medicaid | 13 | 12 |
| Commercial | 37 | 36 |
| Self-pay/other | 8 | 10 |
| | 100% | 100% |

The adoption of ASU 2014-09 has no impact on the System's patient/resident accounts receivable as it was historically recorded net of allowance for doubtful accounts on the consolidated balance sheets. The allowance for doubtful accounts for the year ended December 31, 2017 amounted to $24,138.

**Charity Care:** The New York State Public Health Law requires all hospitals to implement financial aid policies and procedures for their patients. The law also requires hospitals to develop and make publicly available a summary of its financial aid policies and procedures. The System provides health care services to all patients on the basis of medical need, not on the ability to pay for services. For patients who meet certain criteria under the System's charity care policy, the System provides care to these patients without charge or at amounts less than its established rates and does not pursue collection of amounts. The System has determined it has provided an implicit price concession to uninsured patients/residents with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients/residents and the amounts the System expects to collect based on its collection history with those patients/residents. Those patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates and the System has determined it has thus provided an implicit price concession. Price concessions, including charity care, are not reported as net patient service revenue.

In addition to charity care, the System provides services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid may be at or below costs in addition to the cost of care for patients without insurance.

*(in thousands of dollars)*

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Of the System's total expenses reported, an estimated $10,630 and $10,156 arose from providing services to charity patients for the years ended December 31, 2018 and 2017, respectively. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the HCRA. Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

**Collective Bargaining Agreements:** The System has approximately 42% of its employees working under thirteen collective bargaining agreements. The agreements are set to expire beginning April 30, 2019 through March 31, 2022.

**Operating and Nonoperating Revenue and Losses:** The System's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The System is committed to providing a broad range of general and specialized health care services including inpatient, primary care, long-term care, outpatient services, and other health care related services. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Such activities include operation of cafeterias, parking lots, rental real estate and other ancillary activities. Other activities that result in gains or losses unrelated to the System's primary mission are considered to be nonoperating activities.

**Other Revenue:** The composition of other revenue for the years ended December 31, is set forth in the following table:

| | 2018 | 2017 |
|---|---|---|
| Cafeteria revenue | $ 3,037 | $ 2,735 |
| Parking revenue | 1,103 | 1,253 |
| Donor contributions to the Foundations without donor restrictions | 2,125 | 2,021 |
| Grant revenue | 2,321 | 1,149 |
| 340(b) program revenue | 5,016 | 1,936 |
| Medicaid health home care coordination revenue | 2,425 | 3,034 |
| Shared services | 5,042 | 3,458 |
| Rental income | 3,725 | 2,255 |
| Other | 2,035 | 3,437 |
| Other revenue | $ 26,829 | $ 21,278 |

**Other Expenses:** The composition of other expenses for the years ended December 31, is set forth in the following table:

| | 2018 | 2017 |
|---|---|---|
| Rents and operating leases | $ 10,482 | $ 9,544 |
| Rental equipment | 2,989 | 3,451 |
| Dues | 3,332 | 5,422 |
| NYS DOH cash receipts assessment | 6,983 | 6,023 |
| Conferences, seminars and travel | 2,171 | 2,276 |
| Licenses and taxes | 442 | 389 |
| Sponsorships | 391 | - |
| Subscriptions | 640 | 387 |
| Other | 3,937 | 3,210 |
| Other expenses | $ 31,367 | $ 30,702 |

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Contributions:** Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor restrictions.

Contributions and pledges that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished in the reporting period in which the contribution is recognized. All other donor-restricted support is reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets released from restrictions.

**Excess of Revenues over Expenses:** The consolidated statements of operations and changes in net assets include excess of revenues over expenses, commonly referred to as the performance indicator. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), the effective portion of cash flow hedging derivatives, pension liability adjustments, other than net periodic costs, and discontinued operations.

**Net Assets without Donor Restrictions:** Net assets without donor restrictions are available for the general operating purposes of the System and are not subject to any donor limitations.

**Net Assets with Donor Restrictions:** Net assets with donor restrictions include those which have been restricted by donors to be maintained in perpetuity as well as those whose use is limited by donors to a specific period or purpose and include the Hospitals' interest in the donor-restricted net assets of the Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., Kenmore Mercy Hospital Foundation, Inc., Mount St. Mary's Hospital Foundation, and Continuing Care Foundation, Inc. (collectively, the Foundations). Net assets with donor restrictions represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or are met by specific actions of the Foundations. Some donor-imposed restrictions are temporary in nature and when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions used for capital. Net assets with donor restrictions are released to net assets without donor restrictions as restrictions are met, which can occur within the same period. Gifts whose restrictions are met within the same period in which they are received are recorded as an increase in net assets without donor restrictions. Other donor-imposed restrictions are perpetual in nature, consisting primarily of endowments, which require that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Net assets with donor restrictions, which amounted to $7,706 at December 31, 2018 ($8,064 - 2017), consist primarily of contributions restricted for use towards various capital projects at the Hospitals. Proceeds from these contributions are included in the consolidated balance sheets under the captions of cash and cash equivalents and investments. Investment returns are included in net assets without donor restrictions unless the return is restricted by donor or law. Contributions receivable are included under the captions of other receivables within the consolidated balance sheets.

**Endowments:** For the years ended December 31, 2018 and 2017, the Mercy Hospital Foundation, Inc. and the Sisters Hospital Foundation Inc., had $246 of net assets with donor restrictions to be maintained in perpetuity from the proceeds of a Charitable Remainder Unitrusts (CRUT). The CRUTs are included under the caption of investments within the balance sheets. The Foundations segregated these restricted funds that are to be maintained in perpetuity to enable preservation of purchasing power, as well as to ensure maintenance of the donor's intent. Mount St. Mary's Hospital Foundation, Inc. had $50 of net assets with donor restrictions to be maintained in perpetuity, from the proceeds of a trust, as of December 31, 2018 ($51 - 2017). The trust is included under the caption of investments within the consolidated balance sheets. Per the trust agreement, earnings shall be divided such that half of the earnings are to be to be used by the Foundation in line with donor-imposed stipulations and the other half is to be added to the principal and remain in perpetuity.

*(in thousands of dollars)*

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income Taxes:** The consolidated financial statements do not include a provision for income taxes, as the System is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the Internal Revenue Code which are reported under the caption of other expenses in the consolidated statements of operations and changes in net assets.

**Transactions among Subsidiaries:** Common costs incurred by CHS are allocated to the subsidiaries on a pro-rata cost basis formula. The allocation of these costs is recorded as other revenue by CHS and are recorded by the subsidiaries as a component of the natural account classification. The related income and expense are eliminated in the consolidated financial statements. The respective assets and liabilities are also eliminated in the consolidated financial statements.

**Capitalized Software Costs:** The System capitalizes certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with accounting guidance. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. CHS capitalized software and other external costs in the amount of $2,377 and $3,001 for the years ended December, 31 2018 and 2017, respectively. Capitalized project labor costs amounted to $94 for the year ended December 31, 2017. There were no capitalized project labor costs for the year ended December 31, 2018.

**Reclassifications:** Certain prior year amounts were reclassified to conform to the 2018 consolidated financial statement presentation, primarily related to the adoption of ASU 2016-14 and ASU 2017-07.

**Subsequent Events:** The System evaluated subsequent events through March 28, 2019, which was the date the consolidated financial statements were available to be issued.

## NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 are:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 276,731 |
| Patient/resident accounts receivable and other receivables | | 128,271 |
| Investments | | 177,770 |
| Assets limited as to use | | 44,092 |
| Financial assets available to meet general expenditures within one year | $ | 626,864 |

The System has certain board-designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The System has other assets limited as to use for donor-restricted purposes and debt service. Additionally, certain other board-designated assets are designated for future capital expenditures. These assets limited as to use, which are more fully detailed in Note 4, are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

As part of the System's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Additionally, the System maintains a $20,000 line of credit as of December 31, 2018, as discussed in more detail in Note 7.

***(in thousands of dollars)***

## NOTE 4. ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows at December 31:

| | 2018 | 2017 |
|---|---|---|
| By Board for capital improvements: | | |
| Funded depreciation: | | |
| Cash and cash equivalents | $ 19,512 | $ 7,322 |
| U.S. government obligations | 3,472 | 3,929 |
| Interest receivable | 16 | 21 |
| | 23,000 | 11,272 |
| Held by Trustee under Indenture Agreement: | | |
| Cash and cash equivalents | 7,584 | 13,670 |
| U.S. government obligations | 964 | 962 |
| | 8,548 | 14,632 |
| Held by Trustee under Letter of Credit Agreement: | | |
| Cash and cash equivalents | 2,792 | 2,760 |
| Board Designated for long-term care reinvestment: | | |
| Cash and cash equivalents | 2,602 | 2,601 |
| Delivery System Reform Incentive Payment funds | 19,074 | 15,836 |
| Other | 986 | 836 |
| Assets limited as to use | $ 57,002 | $ 47,937 |

## NOTE 5. INVESTMENTS

Investments consisted of the following as of December 31:

| | 2018 | 2017 |
|---|---|---|
| Investment in debt and equity securities: | | |
| Fair value | $ 185,013 | $ 196,082 |
| Cost | 174,434 | 174,146 |
| Unrealized gain | $ 10,579 | $ 21,936 |

Investment income (loss) is summarized as follows for the years ended December 31:

| | 2018 | 2017 |
|---|---|---|
| Interest and dividend income | $ 2,646 | $ 2,453 |
| Net unrealized and realized gains (losses) on investments | (9,927) | 17,667 |
| Investment income (loss) | $ (7,281) | $ 20,120 |

Included in investments is $5,720 of restricted investments held by the Foundations due to donor restrictions ($6,339 - 2017).

***(in thousands of dollars)***

## NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment, recorded at cost, consists of the following at December 31:

| | 2018 | 2017 |
|---|---|---|
| Land and land improvements | $ 9,003 | $ 8,126 |
| Buildings | 285,598 | 270,223 |
| Equipment | 304,270 | 280,988 |
| Capital leases | 50,449 | 45,235 |
| Leasehold improvements | 134,716 | 117,765 |
| | 784,036 | 722,337 |
| Accumulated depreciation | (383,261) | (341,007) |
| Accumulated amortization on capital leases | (40,512) | (36,574) |
| | 360,263 | 344,756 |
| Construction in progress | 15,208 | 20,028 |
| Property and equipment, net | $ 375,471 | $ 364,784 |

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to $42,338 and $42,249, respectively. Amortization expense on equipment under capital leases amounted to $4,060 and $5,107 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 7. LONG-TERM OBLIGATIONS

Long-term obligations are comprised of the following at December 31:

| | 2018 | 2017 |
|---|---|---|
| **Mercy Hospital of Buffalo** | | |
| Series 2006 Revenue Bonds (a) | $ 5,781 | $ 6,549 |
| Series 2008 Revenue Bonds (b) | 18,597 | 19,400 |
| Series 2012 Revenue Bonds (c) | 2,683 | 2,764 |
| Series 2015 Revenue Bonds (d) | 10,751 | 11,001 |
| 2017 Bridge loan financing (f) | 14,000 | 6,472 |
| Cafeteria renovation loan with Aramark Healthcare, in monthly payments of $3, matures August 2018 | - | 71 |
| Capital lease obligations and other, at interest rates ranging from 2.73% to 4.25%, collateralized by equipment | 6,555 | 8,441 |
| | 58,367 | 54,698 |
| **Kenmore Mercy Hospital** | | |
| Series 2006 Revenue Bonds (a) | 5,059 | 6,240 |
| Series 2012 Revenue Bonds (c) | 12,287 | 12,657 |
| Series 2015 Revenue Bonds (d) | 3,771 | 3,860 |
| 2016 Bridge loan financing (e) | 5,075 | 5,449 |
| Term Loan for KMH Homes, Inc. (g) | 3,193 | 3,752 |
| Capital lease obligations and other, at various rates of interest ranging from 2.98% to 4.00%, collateralized by equipment | 3,879 | 3,057 |
| Other | - | 6 |
| | 33,264 | 35,021 |

***(in thousands of dollars)***

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

| | 2018 | 2017 |
|---|---|---|
| **Sisters of Charity Hospital** | | |
| Series 2006 Revenue Bonds (a) | 16,564 | 18,761 |
| Series 2015 Revenue Bonds (d) | 5,069 | 5,188 |
| 2017 Bridge loan financing (f) | 7,000 | 2,713 |
| Capital lease obligations, at various rates of interest ranging from 3.13% to 4.87%, collateralized by equipment | 3,593 | 5,121 |
| | 32,226 | 31,783 |
| **Mount St. Mary's Hospital and Health Center** | | |
| Capital lease obligations, at a 3.81% rate of interest, collateralized by equipment | - | 15 |
| **Father Baker Manor** | | |
| Mortgage payable to Century Health Capital, Inc. (h) | 4,060 | 4,592 |
| **McAuley Seton Home Health Care Corporation** | | |
| Term loan to bank (i) | - | 40 |
| **Our Lady of Victory Renaissance Corporation** | | |
| Series 2007A Variable Rate Demand Bonds (j) | 7,460 | 7,810 |
| Series 2007B Variable Rate Demand Bonds (j) | 1,200 | 1,260 |
| | 8,660 | 9,070 |
| **Trinity Medical WNY** | | |
| Capital lease obligations, at various rates of interest ranging from 3.15% to 5.79%, collateralized by equipment | 130 | 304 |
| **Catholic Health System (Parent)** | | |
| Series 2015 Revenue Bonds (d) | 77,203 | 80,825 |
| Capital lease obligation for financing of VOIP telephone system, in monthly installments of $22, including interest ranging from 2.92% to 2.97%, collateralized by equipment | - | 269 |
| | 77,203 | 81,094 |
| **St. Francis Geriatric and Healthcare Services, Inc.** | | |
| Promissory Note (k) | 9,452 | - |
| Total long-term obligations | 223,362 | 216,617 |
| Less: Deferred financing costs | (4,521) | (5,757) |
| Less: Current portion of long-term obligations | (20,029) | (18,157) |
| Long-term obligations, net | $ 198,812 | $ 192,703 |

a. In November 2006, the System executed a restructuring transaction related to its outstanding debt. The System formed the Catholic Health System Obligated Group (the Obligated Group), consisting of its three primary hospitals (Mercy Hospital of Buffalo, Sisters of Charity Hospital, and Kenmore Mercy Hospital) and CHS. No subsidiaries of CHS other than the Members of the Obligated Group were included in this offering. On November 29, 2006, $68,820 of Dormitory Authority of the State of New York (DASNY) Catholic Health System Obligated Group Revenue Bonds, Series 2006 were issued. The bonds consisted of the following:

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

- Series 2006A Bonds for $13,360 were loaned to Mercy Hospital of Buffalo in order to finance the cost of Mercy Hospital of Buffalo's operating room expansion, other expansions and improvements at Mercy Hospital of Buffalo's facility.

- Series 2006B Bonds for $30,295 were loaned to Sisters of Charity Hospital for the purpose of refunding DASNY's Sisters of Charity Hospital Insured Revenue Bonds, Series 2003, which bonds were issued for the purpose of refunding a series of bonds issued in 1991, the proceeds of which were applied to finance the construction and renovation of the Sisters of Charity Hospital facilities and to refinance outstanding indebtedness. Series 2006D for $8,435 was loaned to the former St. Joseph Hospital, which was merged into Sisters of Charity Hospital in 2009, to finance the cost of the St. Joseph Hospital's emergency room expansion project.

- Series 2006C Bonds for $16,730 were loaned to Kenmore Mercy Hospital for the purpose of refunding the NYS Medical Care Facilities Finance Agency FHA - Insured Mortgage Project Revenue Bonds, 1995 Series B which were applied to finance the construction of a three floor patient tower, certain renovations to the Kenmore Mercy Hospital facility and to refinance outstanding indebtedness.

  In connection with the issuance of the Series 2006 Bonds, the Obligated Group entered into a Loan Agreement (the Loan Agreement) whereby the Obligated Group is required to pay funds sufficient in timing and amount to pay the principal and redemption price of the Series 2006 Bonds and related interest and administrative expenses as they come due. The Series 2006 Bonds pay interest at a variable remarketed rate and are collateralized by a letter of credit with HSBC Bank which expires on November 29, 2019. In the event the letter of credit is not renewed at expiration, and no event of default exists, then the outstanding Bonds, at the option of the members of the Obligated Group, would be subject to a mandatory tender and will convert to a five year (initial) Term Loan. Repayment of the principal of Initial Term Loan shall be identical to the scheduled principal payments on the Bonds with the remaining amount due at the end of the five year term.

The interest borne by the Series 2006 Bonds will be determined by the Remarketing Agent to be the lowest rate that, in the judgment of the Remarketing Agent, under prevailing financial market conditions, enables such Series 2006 Bonds to be sold at a price of par. The variable interest rate was 1.74% and 1.75% at December 31, 2018 and 2017, respectively.

Certain financial covenants must be maintained by the Obligated Group. Failure to comply with these covenants requires a formal consultant's report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of day's cash on hand; (ii) long-term debt service coverage; and (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2018 and 2017.

b. On November 19, 2008, $24,700 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008 was issued. Series 2008 was loaned to the Obligated Group for the purpose of financing the cost of an approximately 48,300 square foot addition (Mercy Hospital of Buffalo) for a new emergency department, new imaging facilities, construction of a new main entrance and lobby area, a new ambulance entrance, construction of a rooftop helipad, renovation of library space into conference rooms, other mechanical and electrical improvements and associated demolition and equipment costs. Proceeds of the Series 2008 Bonds were also applied to pay certain costs of issuing the Bonds. The discount on the bonds of $322 will be accreted over the life of the bonds.

***(in thousands of dollars)***

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

The Series 2008 Bonds were issued under the Master Trust Indenture that was created in 2006 pursuant to the formation of the Obligated Group. All material components of the Series 2008 issue mirror the Series 2006 issue. Among these items are the following: 1) a variable remarketed rate (determined by the Security Industry and Financial Markets Association (SIFMA)) collateralized by a letter of credit with HSBC Bank expiring November 18, 2019 (with the option of an initial term loan), 2) a security interest in and assignment of gross receipts of the Mercy Hospital of Buffalo, together with the Mercy Hospital of Buffalo's right to receive or collect the gross receipts, 3) consistent financial covenants, and 4) execution of an interest rate swap agreement (with HSBC Bank) consistent with the terms utilized in the 2006 swap agreement (see Note 8). The variable interest rate was 1.71% at December 31, 2018 and 2017.

c. On July 12, 2012, $17,315 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued. The Bonds consisted of the following:

- Series 2012A Bonds for $14,235 were loaned to Kenmore Mercy Hospital for the purpose of financing the cost of a new two-story addition, which includes approximately 19,000 square feet on the first floor for a new emergency department, an approximately 14,794 square feet shell space on the second floor, and an approximately 16,000 square feet basement, as well as the cost of renovating existing space, expanding the existing parking lot and related demolition, and other mechanical and infrastructure improvements. Proceeds of the Series 2012A Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of $157 and $159, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

- Series 2012B Bonds for $3,080 were loaned to Mercy Hospital of Buffalo for the purpose of funding the cost of improvements to Mercy Hospital of Buffalo’s existing approximately 381,000 square foot parking facility containing approximately 1,026 spaces. Proceeds of the Series 2012B Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of $32 and $46, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2012 Bonds were issued under the Master Trust Indenture that was created in 2006 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2012 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group is required to make monthly payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the Series 2012 Bonds as they become due. The Series 2012 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2018 are as follows:

| | | |
|---|---|---|
| 3.50% Term Bonds Due July 1, 2022 | $ | 1,610 |
| 4.00% Term Bonds Due July 1, 2027 | | 2,385 |
| 5.00% Term Bonds Due July 1, 2032 (i) | | 2,960 |
| 4.75% Term Bonds Due July 1, 2039 | | 5,530 |
| Total Series 2012A Bonds | | 12,485 |
| | | |
| 3.50% Term Bonds Due July 1, 2022 | | 710 |
| 5.00% Term Bonds Due July 1, 2032 (i) | | 1,160 |
| 4.75% Term Bonds Due July 1, 2039 | | 1,210 |
| Total Series 2012B Bonds | | 3,080 |
| | | |
| Total Series 2012 Bonds | $ | 15,565 |

***(in thousands of dollars)***

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

(i) Optional redemption on July 1, 2022 at a redemption price of 100% of the principal amount of such Series 2012 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

The Series 2006, 2008 and 2012 Loan Agreements specifies that the Obligated Group shall continuously pledge, as security for the payment of all liabilities and the performance of all obligations of the Obligated Group pursuant to the Loan Agreement, a security interest in and assignment of the gross receipts of the Obligated Group, together with the Hospitals' right to receive or collect the gross receipts. Further, the Obligated Group delivered a mortgage to secure all obligations and liabilities of the Hospitals under the Loan Agreement. As further security to the Loan Agreement, the Obligated Group granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Obligated Group. In addition, a letter of credit in the amount of the bonds was entered into with HSBC Bank to provide security on the 2006 Bonds. The financial covenants required under the Loan Agreement are consistent with those of the Series 2006 Bonds and Series 2008 Bonds.

d. On April 29, 2015, $93,800 of Buffalo and Erie County Industrial Land Development Corporation Catholic Health System Obligated Group Revenue Bonds, Series 2015 were issued. Series 2015 was loaned to the Obligated Group for the purpose of financing the cost of improvements to the Labor & Delivery department, Pre/Post-Operative Holding areas, upgrading the electrical switchgear (Mercy Hospital of Buffalo), Ambulatory Surgery Center (Sisters Hospital, St. Joseph Campus), Operating Room Expansion (Kenmore Mercy Hospital), Enterprise Resource Planning software, leasehold improvements to the Administrative Regional Training Center, and purchase of the Administrative Regional Training Center (Catholic Health System). Proceeds of the Series 2015 Bonds were also applied to pay certain costs of issuing the Bonds. The premium on the bonds of $9,968 is attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2015 Bonds were issued under the Master Trust Indenture that was created in 2006 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2015 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group is required to make monthly payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the Series 2015 Bonds as they become due. The Series 2015 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2018 are as follows:

| | | |
|---|---|---|
| 5.00% Serial Bonds Due July 1, 2019 | $ | 3,690 |
| 5.00% Serial Bonds Due July 1, 2020 | | 3,870 |
| 5.00% Serial Bonds Due July 1, 2021 | | 4,075 |
| 5.00% Serial Bonds Due July 1, 2022 | | 4,265 |
| 5.00% Serial Bonds Due July 1, 2023 | | 4,480 |
| 5.00% Serial Bonds Due July 1, 2024 | | 4,705 |
| 5.00% Serial Bonds Due July 1, 2025 | | 4,955 |
| 5.00% Serial Bonds Due July 1, 2026 | | 1,900 |
| 5.00% Serial Bonds Due July 1, 2027 | | 1,995 |
| 5.00% Serial Bonds Due July 1, 2028 | | 2,095 |
| 5.00% Serial Bonds Due July 1, 2029 | | 2,200 |
| 5.00% Serial Bonds Due July 1, 2030 | | 2,305 |
| 5.25% Term Bonds Due July 1, 2035 | | 13,440 |
| 5.00% Term Bonds Due July 1, 2040 | | 17,275 |
| 4.00% Term Bonds Due July 1, 2045 | | 17,630 |
| Total Series 2015 Bonds | $ | 88,880 |

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

e. On December 30, 2016, Kenmore Mercy Hospital entered into a loan agreement with HSBC Bank in the amount of $5,822. The term loan calls for monthly principal payments of $45 plus interest (30-day LIBOR plus 200). The loan matures on December 30, 2021 with a balloon payment of the outstanding balance at that time. It is management's intention and ability to pay down these outstanding loans with the 2019 Series bond issue, expected to close in April 2019.

f. On April 7, 2017, Mercy Hospital of Buffalo and Sisters of Charity Hospital entered into two loan agreements with KeyBank in the amount of $14,000 and $7,000, respectively. Promissory notes representing a borrowing under the 2017 loan agreements were signed December 14, 2018 at the full amount of the original loan agreements. Variable interest only payments are made monthly with the maturity date for the principal balance due May 31, 2019. It is management's intention and ability to pay down these outstanding loans with the 2019 Series bond issue, expected to close in April 2019.

g. On December 20, 2017, KMH Homes, Inc. entered into a term note with M&T Bank in the amount of $3,752. The loan calls for monthly payments of $64, which includes principal and interest. Initial payment began on February 1, 2018 with the final payment in July 2023. The debt is guaranteed by the Obligated Group.

h. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of $64 including fixed interest of 5.375%. Monthly payments continue through maturity in March 2025. The mortgage is collateralized by the building and equipment.

i. MSHC entered into a term loan agreement with HSBC Bank in the amount of $2,385. Outstanding borrowings under this agreement bear interest at a fixed rate of 2.62% at December 31, 2017. The term loan called for monthly principal payments of $40 plus interest and matured on December 28, 2017. Outstanding borrowings were secured by substantially all the revenues and receipts of MSHC. The term loan contained various loan covenants, including a debt service coverage ratio. MSHC was in compliance with all covenants as of December 31, 2017. The term loan was paid in full in January 2018.

j. On April 1, 2007, OLV Renaissance entered into agreements with the Erie County Industrial Development Agency (the Agency) for the purpose of obtaining revenue bonds used to finance construction of its Skilled Nursing Facility (SNF) and Program of All-Inclusive Care for the Elderly (PACE) facilities. The agency took title to the facility through a lease agreement and simultaneously conveyed title back to OLV Renaissance through an installment sale of the lease interests. OLV Renaissance is obligated to make lease rental payments to the bond trustee, as the Agency's assignee, in amounts which correspond to the principal and interest payments on the bonds. At the expiration of the leases' term (April 2032), title fully reverts back to OLV Renaissance. On April 25, 2007, the Agency issued variable rate demand revenue bonds with an aggregate principal amount of $11,860. The bond issue consists of two series of bonds: $10,220 in variable rate demand Revenue Bonds Series 2007A (Series 2007A Bonds) and $1,640 in variable rate demand Revenue Bonds Series 2007B (Series 2007B Bonds).

   The variable interest rate is determined by the remarketing agent based on (1) market interest rates for comparable securities; (2) other financial market rates and indices (including, but not limited to treasury bills, commercial paper, commercial bank prime rates, HUD project notes, federal fund rates and LIBOR); (3) general financial and credit market conditions; (4) credit rating and financial condition of OLV Renaissance; and (5) applicable tender provisions which may have bearing on the rate. The variable interest rate was 1.80% and 1.84% for the Series 2007A bonds and 2.60% and 1.59% for the Series 2007B bonds at December 31, 2018 and 2017, respectively. See Note 8 regarding the interest rate swap agreement OLV Renaissance entered into with respect to the Series 2007A Revenue Bonds.

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

The bonds are subject to conversion to a fixed interest rate at the written direction of OLV Renaissance. Upon conversion, the remarketing agent shall determine the fixed interest rate as the lowest rate of interest that would be necessary to sell the bonds in the secondary market at par plus accrued interest, based on prevailing market conditions and the yields at which comparable securities are being sold.

The Series 2007A Revenue Bonds are subject to mandatory sinking fund redemptions in years 2016 to 2032 in amounts ranging from $310 to $740 at variable interest rates. The Series 2007B Revenue Bonds are subject to mandatory sinking fund redemptions in years 2016 to 2032 in amounts ranging from $55 to $115.

Under the terms of the financing documents, OLV Renaissance has guaranteed payment of all amounts due under the Bonds. Additionally, the bonds are secured by first mortgage liens on all buildings, improvements and equipment now owned or subsequently acquired by OLV Renaissance, all accounts receivable without donor restrictions and a right of setoff against OLV Renaissance's funds held by the trustee.

In accordance with the financing documents, at the option of the Issuer and upon notice given by OLV Renaissance, the Series 2007A Revenue Bonds are subject to optional redemption at 100%. In connection with the Bond financing, OLV Renaissance has executed an irrevocable direct pay letter of credit with a financial institution for a maximum amount of $10,261. The letter of credit expires May 1, 2020. There is no outstanding amount at December 31, 2018 or 2017. OLV Renaissance is required to pay an annual fee of 1.25% to maintain the letter of credit which is calculated on maximum amount available.

The bond agreements require certain covenants including debt service coverage and debt to capitalization to be maintained. OLV Renaissance's primary tenant, Mercy Hospital of Buffalo, is also required to comply with a covenant to maintain minimum long-term debt service coverage and a minimum day’s cash on hand as of any testing date.

Mercy Hospital of Buffalo was in compliance with this covenant as of December 31, 2018 and 2017. OLV Renaissance was in compliance with this covenant as of December 31, 2018 and 2017.

k. On January 19, 2018, St. Francis Geriatric and Healthcare Services, Inc. entered into a promissory note with Five Star Bank in the amount of $9,750. The loan calls for monthly payments of $59, which includes principal and interest. Payments began on February 19, 2018 with the final payment due on January 19, 2028.

***(in thousands of dollars)***

**NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)**

Aggregate maturities of long-term obligations, including capital lease obligations, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, subsequent to December 31, 2018 are as follows:

| | Long-Term Debt | Capital Leases | Total |
|---|---|---|---|
| 2019 | $ 16,121 | $ 4,242 | $ 20,363 |
| 2020 | 14,722 | 3,224 | 17,946 |
| 2021 | 15,642 | 2,056 | 17,698 |
| 2022 | 18,791 | 1,575 | 20,366 |
| 2023 | 14,455 | 1,192 | 15,647 |
| Thereafter | 129,474 | 3,619 | 133,093 |
| | 209,205 | 15,908 | 225,113 |
| Less: Deferred financing costs | (4,521) | - | (4,521) |
| Less: Interest | - | (1,751) | (1,751) |
| Long-term obligations | $ 204,684 | $ 14,157 | $ 218,841 |

The System had a revolving line of credit of $20,000 as of December 31, 2018 and 2017. There was no amount outstanding on the revolving line of credit as of December 31, 2018 or 2017.

**Operating Leases:** Future minimum lease payments under noncancelable operating leases for equipment and property (net of sublease rentals) are as follows at December 31, 2018:

| | |
|---|---|
| 2019 | $ 11,734 |
| 2020 | 10,616 |
| 2021 | 9,899 |
| 2022 | 8,102 |
| 2023 | 7,352 |
| Thereafter | 11,775 |
| | 59,478 |
| Less: Minimum sublease rental | (3,291) |
| | $ 56,187 |

Total expense for rents and operating type leases for equipment and property was $13,471 and $12,995 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the Series 2006 and 2008 Bonds and execution of the Loan Agreement, the Hospitals entered into interest rate swap agreements (derivative agreements) with HSBC Bank and JP Morgan Chase (the Financial Institutions) for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospitals agreed not to take or omit to take any action that could reasonably be expected to result in the termination of the derivative agreement unless otherwise approved by the Financial Institutions, provided, however, that termination of the derivative agreement shall not constitute an event of default for purposes of the Loan Agreement, but upon any such termination of the derivative agreement, the Financial Institutions may require that the Hospitals direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The interest rate swap agreements outstanding on the Series 2006 Bonds were settled in 2014. Termination costs in the amount of $5,772 will be amortized over the remaining life of the bonds. Amortization expense related to the termination costs was $1,833 and $783 for the years ended December 31, 2018 and 2017, respectively.

The terms of the Series 2008 swap require the Hospitals to pay 3.785% on the notional amount of $19,220 and $20,020 at December 31, 2018 and 2017, respectively, and in exchange, the Hospitals will receive a variable rate payment based upon the SIFMA, calculated weekly. The 2008 swap agreement was executed on November 19, 2008 and expires on July 1, 2034. These dates correlate to the issue date and due date of the Bonds. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes in net assets.

During 2007, OLV Renaissance entered into a hedging agreement with respect to interest rate exposure on the Series 2007A Revenue Bond. OLV Renaissance uses the interest rate swap agreement to reduce its exposure to interest rate changes. The interest rate swap fixes the interest rate paid by OLV Renaissance at 4.143% over the life of the bond, which matures in April 2032. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes in net assets.

The fair value of derivative instruments as of December 31 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| (in thousands of dollars) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate contracts floating to fixed | Other long-term obligations | $ 3,667 | Other long-term obligations | $ 4,513 |

The effects of derivative instruments on the consolidated statements of operations and changes in net assets at December 31 is as follows:

| | Ineffective portion in Statement of Operations | | Effective portion in Net Assets | |
|---|---|---|---|---|
| (in thousands of dollars) | 2018 | 2017 | 2018 | 2017 |
| Change in fair value of interest rate swaps | $ 18 | $ 6 | $ 828 | $ 313 |

The Hospitals measure their interest rate swaps at fair value on a recurring basis. The fair value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level II within the fair value hierarchy defined in Note 14.

## NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION

In November 2006, the System formed the Obligated Group, consisting of its three primary hospitals (MHB, SCH, which includes St. Joseph Hospital (SJH), and KMH) and the Parent. In 2006, the System issued $68,820 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2006. In 2008, the System issued $24,700 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008. In 2012, the System issued $17,315 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2012. In 2015, the System issued $93,800 of Buffalo and Erie County Industrial Land Development Corporation Revenue Bonds, Series 2015. These Revenue Bonds are joint and several obligations of the members of the Obligated Group. No affiliate of CHS, other than Members of the Obligated Group, is obligated for amounts due under the Series 2006, Series 2008, Series 2012, and Series 2015 Obligations. Management has determined that certain immaterial subsidiaries (Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., Kenmore Mercy Hospital Foundation, Inc., and KMH Homes, Inc.) should be excluded from the Obligated Group financial information.

The following supplemental consolidating financial information for the Obligated Group presents the balance sheets as of December 31, 2018 and 2017 and statements of operations and changes in net assets, and cash flows for the years then ended December 31, 2018 and 2017.

**These statements do not represent the results of the System.**

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Balance Sheet**
December 31, 2018

| ASSETS | Parent | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | $ 44,880 | $ 73,603 | $ 56,435 | $ 48,139 | $ - | $ 223,057 |
| Patient/resident accounts receivable | - | 44,896 | 31,311 | 18,050 | - | 94,257 |
| Other receivables | 1,265 | 2,121 | 2,673 | 1,829 | - | 7,888 |
| Inventories | 10 | 11,785 | 6,113 | 2,503 | - | 20,411 |
| Prepaid expenses and other current assets | 6,654 | 2,267 | 1,695 | 588 | - | 11,204 |
| Due from affiliates | 106,244 | 538 | 635 | 80 | (103,286) | 4,211 |
| **Total current assets** | 159,053 | 135,210 | 98,862 | 71,189 | (103,286) | 361,028 |
| Assets limited as to use | 20,842 | 968 | 19,552 | 2,420 | - | 43,782 |
| Investments | - | 30,842 | 91,654 | 22,008 | - | 144,504 |
| Property and equipment, net | 78,802 | 104,063 | 71,191 | 63,981 | - | 318,037 |
| Other assets | 13,256 | 45,762 | 35,922 | 14,155 | - | 109,095 |
| Due from affiliates | 5,210 | - | 10,304 | 1,456 | (16,876) | 94 |
| **Total assets** | $ 277,163 | $ 316,845 | $ 327,485 | $ 175,209 | $ (120,162) | $ 976,540 |
| **LIABILITIES AND NET ASSETS** | | | | | | |
| **Current liabilities:** | | | | | | |
| Current portion of long-term obligations | $ 5,015 | $ 5,127 | $ 4,445 | $ 4,004 | $ - | $ 18,591 |
| Accounts payable | 8,283 | 18,665 | 16,097 | 9,719 | - | 52,764 |
| Accrued expenses | 21,061 | 12,985 | 29,713 | 5,962 | - | 69,721 |
| Due to third-party payors | 33 | 16,788 | 10,922 | 5,892 | - | 33,635 |
| Due to affiliates | 1,069 | 21,005 | 23,399 | 21,924 | (65,876) | 1,521 |
| **Total current liabilities** | 35,461 | 74,570 | 84,576 | 47,501 | (65,876) | 176,232 |
| Long-term obligations, net | 70,216 | 52,399 | 27,391 | 28,384 | - | 178,390 |
| Other long-term obligations | 61,016 | 213,541 | 134,398 | 53,403 | - | 462,358 |
| Due to affiliates | 12,128 | - | - | - | (11,760) | 368 |
| **Total liabilities** | 178,821 | 340,510 | 246,365 | 129,288 | (77,636) | 817,348 |
| **Net assets (deficit):** | | | | | | |
| Without donor restrictions | 98,342 | (23,665) | 81,120 | 45,921 | (42,526) | 159,192 |
| **Total net assets (deficit)** | 98,342 | (23,665) | 81,120 | 45,921 | (42,526) | 159,192 |
| **Total liabilities and net assets (deficit)** | $ 277,163 | $ 316,845 | $ 327,485 | $ 175,209 | $ (120,162) | $ 976,540 |

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Statement of Operations and Changes in Net Assets (Deficit)**
For the Year Ended December 31, 2018

| | Parent | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenues and other support without donor restrictions:** | | | | | | |
| Net patient/resident service revenue | $ - | $ 437,494 | $ 321,415 | $ 181,936 | $ (113) | $ 940,732 |
| Other revenue | 154,860 | 5,579 | 11,809 | 1,524 | (138,727) | 35,045 |
| **Total revenues and other support without donor restrictions** | 154,860 | 443,073 | 333,224 | 183,460 | (138,840) | 975,777 |
| **Expenses:** | | | | | | |
| Salaries and wages | 73,246 | 180,778 | 152,257 | 74,135 | (63,401) | 417,015 |
| Employee benefits | 20,795 | 53,377 | 43,511 | 20,276 | (18,227) | 119,732 |
| Medical and professional fees | 9,764 | 18,820 | 15,630 | 4,979 | (2,816) | 46,377 |
| Purchased services | 32,275 | 38,624 | 33,463 | 15,078 | (29,833) | 89,607 |
| Supplies | 859 | 92,755 | 58,168 | 40,151 | (727) | 191,206 |
| Depreciation and amortization | 7,489 | 16,706 | 14,021 | 9,148 | (7,187) | 40,177 |
| Interest | 3,154 | 4,719 | 3,912 | 2,570 | (2,789) | 11,566 |
| Insurance | 499 | 4,841 | 3,582 | 1,805 | (475) | 10,252 |
| Other expenses | 5,501 | 16,885 | 11,134 | 5,518 | (12,378) | 26,660 |
| **Total expenses** | 153,582 | 427,505 | 335,678 | 173,660 | (137,833) | 952,592 |
| **Income (loss) from operations** | 1,278 | 15,568 | (2,454) | 9,800 | (1,007) | 23,185 |
| **Nonoperating revenues and expenses:** | | | | | | |
| Investment income (loss) | 1,188 | (391) | (4,050) | (589) | (1,021) | (4,863) |
| Other components of net periodic pension cost | (2,928) | (7,117) | (3,155) | (1,659) | 2,568 | (12,291) |
| Other revenues and gains, net | 462 | 174 | 321 | 86 | (540) | 503 |
| **Total nonoperating revenues and expenses** | (1,278) | (7,334) | (6,884) | (2,162) | 1,007 | (16,651) |
| **Excess (deficiency) of revenues over expenses** | $ - | $ 8,234 | $ (9,338) | $ 7,638 | $ - | $ 6,534 |

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Statement of Operations and Changes in Net Assets (Deficit) (Continued)**
For the Year Ended December 31, 2018

| | Parent | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Net assets without donor restrictions:** | | | | | | |
| Excess (deficiency) of revenues over expenses | $ - | $ 8,234 | $ (9,338) | $ 7,638 | $ - | $ 6,534 |
| Change in unrealized gain on interest rate swaps | - | 594 | - | - | - | 594 |
| Change in pension obligation, other than net periodic cost | 5,520 | 10,326 | 5,183 | 1,612 | - | 22,641 |
| Amortization of terminated interest rate swaps | - | 395 | 1,132 | 306 | - | 1,833 |
| Transfers (to) from parent or affiliate | (3,735) | 767 | 1,301 | 605 | - | (1,062) |
| Capital grants | 3,848 | 35 | 44 | - | - | 3,927 |
| Contributions | 94 | 210 | 1,122 | 261 | - | 1,687 |
| Other | - | - | - | (87) | - | (87) |
| Valuation allowance on intercompany receivables | - | - | - | - | (10,165) | (10,165) |
| Increase (decrease) in net assets without donor restrictions | 5,727 | 20,561 | (556) | 10,335 | (10,165) | 25,902 |
| Increase (decrease) in net assets | 5,727 | 20,561 | (556) | 10,335 | (10,165) | 25,902 |
| Net assets (deficit), beginning of year | 92,615 | (44,226) | 81,676 | 35,586 | (32,361) | 133,290 |
| Net assets (deficit), end of year | $ 98,342 | $ (23,665) | $ 81,120 | $ 45,921 | $ (42,526) | $ 159,192 |

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Balance Sheet**
December 31, 2017

| ASSETS | Parent | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | $ 55,556 | $ 55,311 | $ 53,427 | $ 36,438 | $ - | $ 200,732 |
| Patient/resident accounts receivable | - | 49,200 | 34,783 | 20,941 | - | 104,924 |
| Other receivables | 778 | 2,641 | 2,268 | 690 | - | 6,377 |
| Inventories | 8 | 13,517 | 6,780 | 2,825 | - | 23,130 |
| Prepaid expenses and other current assets | 5,629 | 2,199 | 1,877 | 532 | - | 10,237 |
| Due from affiliates | 100,247 | 354 | 770 | 67 | (99,118) | 2,320 |
| **Total current assets** | 162,218 | 123,222 | 99,905 | 61,493 | (99,118) | 347,720 |
| Assets limited as to use | 13,202 | 2,683 | 16,315 | 2,776 | - | 34,976 |
| Investments | - | 32,488 | 96,545 | 23,183 | - | 152,216 |
| Property and equipment, net | 84,154 | 99,626 | 71,048 | 65,637 | - | 320,465 |
| Other assets | 11,946 | 40,961 | 36,736 | 13,054 | - | 102,697 |
| Due from affiliates | 5,116 | - | 10,303 | 1,456 | (16,875) | - |
| **Total assets** | $ 276,636 | $ 298,980 | $ 330,852 | $ 167,599 | $ (115,993) | $ 958,074 |
| **LIABILITIES AND NET ASSETS** | | | | | | |
| **Current liabilities:** | | | | | | |
| Current portion of long-term obligations | $ 5,049 | $ 4,181 | $ 4,134 | $ 3,601 | $ - | $ 16,965 |
| Accounts payable | 7,401 | 17,762 | 14,201 | 8,938 | - | 48,302 |
| Accrued expenses | 21,728 | 14,614 | 27,899 | 6,558 | - | 70,799 |
| Due to third-party payors | - | 16,336 | 11,119 | 5,303 | - | 32,758 |
| Due to affiliates | 784 | 23,439 | 25,463 | 23,655 | (71,872) | 1,469 |
| **Total current liabilities** | 34,962 | 76,332 | 82,816 | 48,055 | (71,872) | 170,293 |
| Long-term obligations, net | 73,947 | 49,131 | 26,889 | 30,370 | - | 180,337 |
| Other long-term obligations | 75,112 | 217,743 | 139,471 | 53,588 | (11,760) | 474,154 |
| **Total liabilities** | 184,021 | 343,206 | 249,176 | 132,013 | (83,632) | 824,784 |
| **Net assets (deficit):** | | | | | | |
| Without donor restrictions | 92,615 | (44,226) | 81,676 | 35,586 | (32,361) | 133,290 |
| **Total net assets (deficit)** | 92,615 | (44,226) | 81,676 | 35,586 | (32,361) | 133,290 |
| **Total liabilities and net assets (deficit)** | $ 276,636 | $ 298,980 | $ 330,852 | $ 167,599 | $ (115,993) | $ 958,074 |

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Statement of Operations and Changes in Net Assets (Deficit)**
For the Year Ended December 31, 2017

| | Parent | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenues and other support without donor restrictions:** | | | | | | |
| Net patient/resident service revenue before provision for bad debts | $ - | $ 420,858 | $ 333,222 | $ 173,005 | $ (97) | $ 926,988 |
| Provision for bad debts | - | (8,120) | (7,551) | (3,655) | - | (19,326) |
| Net patient/resident service revenue | - | 412,738 | 325,671 | 169,350 | (97) | 907,662 |
| Other revenue | 152,296 | 5,017 | 12,238 | 1,308 | (136,805) | 34,054 |
| **Total revenues and other support without donor restrictions** | 152,296 | 417,755 | 337,909 | 170,658 | (136,902) | 941,716 |
| **Expenses:** | | | | | | |
| Salaries and wages | 75,709 | 180,004 | 149,842 | 71,498 | (63,972) | 413,081 |
| Employee benefits | 19,069 | 50,141 | 40,931 | 18,616 | (16,874) | 111,883 |
| Medical and professional fees | 4,375 | 22,888 | 15,241 | 4,882 | (2,783) | 44,603 |
| Purchased services | 32,050 | 35,661 | 32,284 | 15,513 | (29,853) | 85,655 |
| Supplies | 904 | 81,380 | 57,071 | 38,658 | (745) | 177,268 |
| Depreciation and amortization | 7,868 | 17,216 | 14,560 | 9,029 | (7,532) | 41,141 |
| Interest | 3,281 | 3,906 | 2,793 | 2,304 | (2,898) | 9,386 |
| Insurance | 518 | 6,228 | 4,836 | 2,146 | (493) | 13,235 |
| Other expenses | 6,894 | 15,084 | 10,242 | 4,699 | (10,298) | 26,621 |
| **Total expenses** | 150,668 | 412,508 | 327,800 | 167,345 | (135,448) | 922,873 |
| **Income (loss) from operations** | 1,628 | 5,247 | 10,109 | 3,313 | (1,454) | 18,843 |
| **Nonoperating revenues and expenses:** | | | | | | |
| Investment income (loss) | 312 | 3,772 | 8,880 | 2,145 | - | 15,109 |
| Other components of net periodic pension costs | (2,693) | (6,734) | (2,686) | (1,664) | 2,335 | (11,442) |
| Other revenues and gains, net | 538 | 360 | 317 | 131 | (881) | 465 |
| **Total nonoperating revenues and expenses** | (1,843) | (2,602) | 6,511 | 612 | 1,454 | 4,132 |
| **Excess (deficiency) of revenues over expenses** | $ (215) | $ 2,645 | $ 16,620 | $ 3,925 | $ - | $ 22,975 |

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Statement of Operations and Changes in Net Assets (Deficit) (Continued)**
For the Year Ended December 31, 2017

| | Parent | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Net assets without donor restrictions:** | | | | | | |
| Excess (deficiency) of revenues over expenses | $ (215) | $ 2,645 | $ 16,620 | $ 3,925 | $ - | $ 22,975 |
| Change in unrealized gain on interest rate swaps | - | 191 | - | - | - | 191 |
| Change in pension obligation, other than net periodic cost | (6,405) | (11,331) | (7,706) | (999) | - | (26,441) |
| Amortization of terminated interest rate swaps | - | 155 | 446 | 182 | - | 783 |
| Transfers (to) from parent or affiliate | 26,010 | (8,683) | (11,599) | (6,203) | - | (475) |
| Capital grants | - | - | - | 8 | - | 8 |
| Contributions | 94 | 334 | 823 | 1,309 | - | 2,560 |
| Other | - | - | - | 99 | - | 99 |
| Valuation allowance on intercompany receivables | - | - | - | - | (10,598) | (10,598) |
| Increase (decrease) in net assets without donor restrictions | 19,484 | (16,689) | (1,416) | (1,679) | (10,598) | (10,898) |
| Increase (decrease) in net assets | 19,484 | (16,689) | (1,416) | (1,679) | (10,598) | (10,898) |
| Net assets (deficit), beginning of year | 73,131 | (27,537) | 83,092 | 37,265 | (21,763) | 144,188 |
| Net assets (deficit), end of year | $ 92,615 | $ (44,226) | $ 81,676 | $ 35,586 | $ (32,361) | $ 133,290 |

*(in thousands of dollars)*

**NOTE 9. OBLIGATED GROUP FINANCIAL INFORMATION (CONTINUED)**

**Consolidating Statements of Cash Flows**
For the Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Increase (decrease) in net assets | $ 25,902 | $ (10,898) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 40,177 | 41,141 |
| Change in minimum pension liability adjustment | (22,641) | 26,441 |
| Valuation allowance of intercompany receivables | 10,165 | 10,598 |
| Unrealized and realized loss (gain) on investments | 7,647 | (13,230) |
| Change in realized gain on interest rate swap | (605) | (194) |
| Realized gain on investments | (206) | - |
| Loss on sale of property and equipment | 20 | - |
| Undistributed earnings in equity investees | (73) | (267) |
| Amortization of discount on debt issuance | 61 | 61 |
| Amortization of premium on debt issuance | (572) | (574) |
| Amortization of debt issuance costs | 1,217 | 403 |
| Other | (1) | (140) |
| (Increase) decrease in assets | | |
| Patient/resident accounts receivables | 10,667 | (3,372) |
| Other receivables | (1,511) | 1,543 |
| Inventories | 2,719 | (2,020) |
| Prepaid expenses and other current assets | (1,469) | 269 |
| Due from affiliates | (12,150) | (5,591) |
| Other assets | 2 | (16) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 4,834 | 7,230 |
| Accrued expenses | (1,078) | 1,438 |
| Due to affiliate | 420 | 914 |
| Due to third-party payors | 877 | (3,149) |
| Other liabilities | 7,120 | 1,416 |
| **Net cash provided by operating activities** | 71,522 | 52,003 |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | (35,454) | (32,329) |
| Proceeds from sale of property and equipment | 22 | 286 |
| Purchase of assets limited as to use | (25,430) | (33) |
| Proceeds from sale of assets limited as to use | 16,690 | 2,435 |
| Purchase of investments | - | (434) |
| Purchase of equity investments | (2,270) | - |
| Proceeds from sale of investments | 387 | - |
| **Net cash used in investing activities** | (46,055) | (30,075) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of long-term obligations | 11,815 | 12,937 |
| Repayments of current and long-term obligations | (14,957) | (16,706) |
| **Net cash used in financing activities** | (3,142) | (3,769) |
| **Increase in cash and cash equivalents** | 22,325 | 18,159 |
| Cash and cash equivalents - beginning of year | 200,732 | 182,573 |
| Cash and cash equivalents - end of year | $ 223,057 | $ 200,732 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the year for interest | $ 8,175 | $ 7,795 |
| **Non-cash transactions:** | | |
| Assets acquired under capital lease obligations | $ 2,115 | $ 652 |
| (Decrease) increase in construction related payables | $ (372) | $ 1,742 |

***(in thousands of dollars)***

## NOTE 10. EMPLOYEE BENEFIT PLANS

**Pension Arrangements:** Effective January 1, 2001, the System began maintaining a qualified defined benefit pension plan covering substantially all of its employees at its constituent hospitals. As of that date, active participants in the KMH, MHB, and SCH plans who were employed at the Hospitals are covered under the Retirement Plan of the Catholic Health System (the Plan). Effective January 1, 2002, all other entities in the System, with the exception of the Nazareth Home, began participation in the Plan. Pension assets and liabilities from legacy plans, if any, were transferred to the Plan on September 25, 2002.

Effective January 1, 2001 or 2002, as applicable, all nonunion employees who had met the age and service requirements under their previous plan were given the option of choosing to participate in the cash balance feature of the Plan. Those who choose not to participate in the cash balance feature accrue benefits under the same formula as their previous plan. All nonunion employees who become participants after that date automatically participate under the cash balance formula.

The Plan bases benefits upon both years of service and earnings. Participants under the Hospitals formula earn benefits under a final average formula or a career average formula. The cash balance formula is a hypothetical account balance formula. A participant's benefit obligation is assigned to the location at which the person works. As participants transfer within the System to other CHS subsidiaries, the obligations and a proportional amount of the plan's assets transfer, accordingly.

**Funded Status:** The following tables summarize changes in the projected benefit obligation, the plan assets and the funded status of the CHS pension plan as well as the components of net periodic benefit costs, including key assumptions as of December 31:

| | 2018 | 2017 |
|---|---|---|
| **Projected Benefit Obligations** | | |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 725,508 | $ 636,377 |
| Service cost | 24,140 | 21,904 |
| Interest cost | 26,743 | 27,510 |
| Expenses | (1,239) | (424) |
| Benefits paid | (23,497) | (21,093) |
| Actuarial (gain) loss | (61,495) | 61,234 |
| Projected benefit obligation at end of year | $ 690,160 | $ 725,508 |
| **Accumulated benefit obligations at end of year** | $ 634,520 | $ 658,757 |
| **Plan Assets** | | |
| Change in plan assets: | | |
| Fair value of assets at beginning of year | $ 388,940 | $ 328,601 |
| Actual return on plan assets | (25,273) | 48,725 |
| System contribution | 33,131 | 33,131 |
| Expenses | (1,284) | (538) |
| Benefits paid | (23,497) | (21,093) |
| Fair value of plan assets at end of year | $ 372,017 | $ 388,826 |
| **Funded status at end of year** | $ (318,143) | $ (336,682) |

*(in thousands of dollars)*

## NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINIUED)

| | 2018 | 2017 |
|---|---|---|
| **Amounts recognized in the consolidated balance sheets:** | | |
| Non-current liabilities | $ (318,143) | $ (336,682) |
| Net amounts recognized | $ (318,143) | $ (336,682) |
| **Amounts recognized in net assets without donor restrictions consists of:** | | |
| Actuarial net loss | $ (178,372) | $ (200,534) |
| Prior service cost | (186) | (252) |
| Total amount recognized | $ (178,558) | $ (200,786) |
| **Other changes recognized in net assets without donor restrictions:** | | |
| Net (loss) gain arising during the period | $ (8,402) | $ 37,843 |
| Amortization of prior service cost | (66) | (57) |
| Amortization of loss | (13,860) | (9,430) |
| Total amount recognized | $ (22,328) | $ 28,356 |
| **Components of net periodic benefit cost:** | | |
| Service cost | $ 24,140 | $ 21,904 |
| Interest cost | 26,743 | 27,509 |
| Expected return on plan assets | (27,911) | (25,244) |
| Amortization of prior service cost | 66 | 57 |
| Amortization of net loss | 13,833 | 9,411 |
| Recognized actuarial loss | 20 | 27 |
| Net periodic pension cost | $ 36,891 | $ 33,664 |

The System's estimated prior service cost of $178 and net loss of $7,750 will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year.

The Plan's investment policies and strategies were used to develop the expected long-term rate of return on risk-free investment (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return of each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

The Plan's target asset allocation and the actual asset allocation percentages for 2018 and 2017 are as follows at the respective measurement dates:

| | | Actual | |
|---|---|---|---|
| **Asset Category** | **Target** | **2018** | **2017** |
| Equities | 70% | 69% | 71% |
| Fixed income | 25 | 26 | 24 |
| Other | 5 | 5 | 5 |
| | 100% | 100% | 100% |

**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, alternatives (a fund of hedge funds), and cash. Asset mix is targeted to a specific allocation that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The Statement of Policy and Investment Objectives governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Catholic Health Benefit Plan Committee oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

Accounting Standards Codification Topic 820 allows for the use of a practical expedient for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value. For investments in non-unitized investments, the equivalent is the Plan's proportionate share of the partner's capital of the investment partnerships as reported by the general partners. Through its monitoring activities, the Plan believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

**Cash and Cash Equivalents:** Include certain instruments in highly liquid debt instruments with original maturities of three months or less at date of purchase.

**Equity Securities:** Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities.

**Debt Securities:** Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

**Mutual Funds:** Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

**Commingled Funds:** Commingled funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

**Hedge Funds:** Hedge funds utilize either a direct or a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

*(in thousands of dollars)*

## NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the Plan's financial instruments as of December 31, 2018, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 14.

| At December 31, 2018 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| **Pension plans:** | | | | |
| Cash and cash equivalents | $ 8,125 | $ - | $ - | $ 8,125 |
| Equity securities | 60,350 | - | - | 60,350 |
| Debt securities: | | | | |
| Government and government agency obligations | - | 17,232 | - | 17,232 |
| Corporate bonds | - | 50,162 | - | 50,162 |
| Asset backed securities | - | 11,620 | - | 11,620 |
| Mutual funds: | | | | |
| Equity mutual funds | 45,287 | - | - | 45,287 |
| Fixed mutual funds | 20,185 | - | - | 20,185 |
| Subtotal | $ 133,947 | $ 79,014 | $ - | 212,961 |
| **Investment measured at net asset value:** | | | | |
| Commingled funds: | | | | |
| Equity commingled funds | | | | 123,633 |
| Fixed income commingled funds | | | | 17,591 |
| Hedge funds | | | | 17,876 |
| **Total** | | | | $ 372,061 |

*(in thousands of dollars)*

**NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)**

| At December 31, 2017 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| **Pension plans:** | | | | |
| Cash and cash equivalents | $ 17,728 | $ - | $ - | $ 17,728 |
| Equity securities | 65,583 | - | - | 65,583 |
| Debt securities: | | | | |
| Government and government agency obligations | - | 11,971 | - | 11,971 |
| Corporate bonds | - | 53,697 | - | 53,697 |
| Asset backed securities | - | 8,441 | - | 8,441 |
| Mutual funds: | | | | |
| Equity mutual funds | 44,814 | - | - | 44,814 |
| Fixed mutual funds | 23,097 | - | - | 23,097 |
| Subtotal | $ 151,222 | $ 74,109 | $ - | 225,331 |
| **Investment measured at net asset value:** | | | | |
| Commingled funds: | | | | |
| Equity commingled funds | | | | 128,754 |
| Fixed income commingled funds | | | | 17,388 |
| Hedge funds | | | | 17,467 |
| **Total** | | | | $ 388,940 |

**Contributions:** Contributions to the Plan are made to make benefit payments to plan participants. The funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements plus such additional amounts as may be determined to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants.

The System is expected to contribute an aggregate amount of approximately $33,004 to the pension plan trust in 2019 to be allocated amongst participating entities.

**Benefit Payments:** Estimated future benefit payments by the System are as follows as of December 31:

| | |
|---|---|
| 2019 | $ 28,101 |
| 2020 | $ 30,481 |
| 2021 | $ 32,976 |
| 2022 | $ 35,575 |
| 2023 | $ 38,388 |
| 2024 - 2028 | $ 222,809 |

*(in thousands of dollars)*

## NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

| | 2018 | 2017 |
|---|---|---|
| **Weighted average assumptions used to determine end of the year benefit obligations:** | | |
| Discount rate | 4.45% | 3.75% |
| Rate of compensation increase | Age Based | Age Based |
| **Weighted average assumptions used to determine net periodic pension cost:** | | |
| Discount rate | 3.75% | 4.40% |
| Expected long-term rate of return on plan assets | 7.25% | 7.25% |
| Rate of compensation increase | Age Based | Age Based |
| Measurement date | 12/31/2018 | 12/31/2017 |

## NOTE 11. INSURANCE ARRANGEMENTS

**Professional and General Liability Arrangements**
The System participates in the Trinity Health insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits were $20,000 per occurrence for healthcare professional liability and general liability for the years ending December 31, 2018 and 2017. Professional and general liabilities are insured by Trinity Assurance, Ltd. (TAL), formerly Venzke Insurance Company, Ltd. (Venzke). TAL is a Cayman-domiciled insurer wholly-owned by Trinity Health. Excess coverage was also provided to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies.

The coverage provided is on a claims-made basis. The System therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the consolidated financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 3% for the years ended December 31, 2018 and 2017. The System's reserve for unpaid and incurred but not reported claims at December 31, 2018 and 2017 is $93,447 and $89,640, respectively, and is included within other long-term obligations. The charges to expenses for professional and general liability for the years ended December 31, 2018 and 2017 were $11,159 and $13,558, respectively, which has been included in insurance expense. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis. Amounts recognized as insurance receivables related to the claims were $80,953 and $76,713 at December 31, 2018 and 2017, respectively, and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance on uncollectible amounts.

**Workers' Compensation Arrangements**
The System's insurance program for workers' compensation has a deductible of $750 per occurrence in 2018 and 2017. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting programs were accrued on a discounted basis based upon actuarial estimates of the settlement of such claims. The discount rate applied is 3% in 2018 and 2017, respectively. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2018 and 2017 is $8,949 and $9,128, respectively, and is included in accrued expenses. The System's long-term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2018 and 2017 is $71,381 and $67,805, respectively, and is included in other long-term obligations.

*(in thousands of dollars)*

## NOTE 11. INSURANCE ARRANGEMENTS (CONTINUED)

The charges to expenses for workers' compensation costs approximated $11,833 and $10,524 for the years ended December 31, 2018 and 2017, respectively, which has been included in employee benefits expense. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis. The System's current portion of insurance receivables related to the claims at December 31, 2018 and 2017 is $677 and $519, respectively, and is included in prepaid expenses and other current assets. The System's long-term portion of insurance receivables related to the claims at December 31, 2018 and 2017 is $25,782 and $26,132, respectively, and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

**Employee Health Arrangements**
The System's insurance for employee health costs is self-insured up to $375 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience. The System's liability for unpaid health insurance claims, which has been included in accrued expenses at December 31, 2018 and 2017, was $8,344 and $7,310, respectively.

## NOTE 12. LEGAL MATTERS

The System is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. While certain regulatory inquiries have been made at December 31, 2018, compliance with such laws and regulations is currently subject to government review and interpretation as well as regulatory actions unknown and/or unasserted at this time. Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims were known at this time, which could have a material adverse affect on the System's future financial position, results from operations or cash flows.

## NOTE 13. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of who are residents of Western New York and are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Medicare | 34% | 35% |
| Medicaid | 20 | 21 |
| Blue Cross | 8 | 7 |
| Other third-party payors | 26 | 27 |
| Patients/residents | 12 | 10 |
| | 100% | 100% |

The System maintains funds in excess of amounts insured by the Federal Depository Insurance limits. The System has diversified its deposit amounts in a variety of institutions to reduce the level of concentrated credit risk.

## NOTE 14. FAIR VALUE MEASUREMENTS

The System's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis on the System's consolidated balance sheets include cash and cash equivalents, equity securities, debt securities, exchange traded funds mutual funds, commingled funds and interest rate swaps. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the System uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I) and the lowest priority to unobservable inputs (level III). The three levels of the fair value hierarchy are described as follows:

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level II: Inputs other than quoted prices included within level I that are observable for the asset or liability, either directly or indirectly such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level II input must be observable for substantially the full term of the asset or liability.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

**NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)**

In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depends on the type of security being priced but are typically benchmark yields, credit spreads, prepayment speeds, reported trades and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in insolation would result in a significantly different fair value measurement, respectively. The System classifies these securities as Level II within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

**Cash and Cash Equivalents:** The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets. The System considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short term investments excluding amounts limited as to use, to be cash equivalents.

**Equity Securities:** Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities.

**Debt Securities and Government Agency Obligations:** Debt securities and government agency obligations are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

**Exchange Traded Funds:** Exchange traded funds are valued at the closing price reported on the applicable exchange on which the security traded is tracked.

**Mutual Funds:** Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

**Other:** Other investments consist of life insurance policies which are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

**Investment in Ascension Alpha Fund, LLC:** This fund is wholly owned subsidiary of Ascension Health and includes pooled short term investment funds, equity securities, and fixed income securities. The fund's investments also include alternative investments and other investments, which are valued at the net asset value of the investments.

***(in thousands of dollars)***

**NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)**

**Interest Rate Swap Liability:** The fair value of the interest rate swap is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The fair value of these interest rate derivatives are based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivative is considered a Level II item in the fair value hierarchy.

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2018 and 2017:

| At December 31, 2018 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| **Assets limited as to use:** | | | | |
| Cash and cash equivalents | $ 51,359 | $ - | $ - | $ 51,359 |
| Equity securities | 8 | - | - | 8 |
| Government and government agency obligations | 3,472 | 2,147 | - | 5,619 |
| Subtotal | $ 54,839 | $ 2,147 | $ - | 56,986 |
| Interest receivable | | | | 16 |
| **Total** | | | | $ 57,002 |
| **Investments:** | | | | |
| Cash and cash equivalents | $ 494 | $ - | $ - | $ 494 |
| Equity securities | 10,109 | - | - | 10,109 |
| Debt securities | 1,403 | 1,328 | - | 2,731 |
| Exchange traded funds | 3,810 | - | - | 3,810 |
| Mutual funds | 1,738 | - | - | 1,738 |
| Other | - | 500 | - | 500 |
| Subtotal | $ 17,554 | $ 1,828 | $ - | 19,382 |
| **Investment measured at net asset value:** | | | | |
| Investment in Ascension Alpha Fund, LLC | | | | 165,631 |
| **Total** | | | | $ 185,013 |
| Interest rate swap liability | $ - | $ 3,667 | $ - | $ 3,667 |

*(in thousands of dollars)*

## NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

| At December 31, 2017 | Level I | Level II | Level III | Total |
|---|---|---|---|---|
| **Assets limited as to use:** | | | | |
| Cash and cash equivalents | $ 41,993 | $ - | $ - | $ 41,993 |
| Equity securities | 8 | - | - | 8 |
| Government and government agency obligations | 3,929 | 1,987 | - | 5,916 |
| Subtotal | $ 45,930 | $ 1,987 | $ - | 47,917 |
| Interest receivable | | | | 20 |
| **Total** | | | | $ 47,937 |
| **Investments:** | | | | |
| Cash and cash equivalents | $ 527 | $ - | $ - | $ 527 |
| Equity securities | 10,486 | - | - | 10,486 |
| Debt securities | 1,203 | 1,463 | - | 2,666 |
| Exchange traded funds | 4,423 | - | - | 4,423 |
| Mutual funds | 3,011 | - | - | 3,011 |
| Other | - | 500 | - | 500 |
| Subtotal | $ 19,650 | $ 1,963 | $ - | 21,613 |
| **Investment measured at net asset value:** | | | | |
| Investment in Ascension Alpha Fund, LLC | | | | 174,469 |
| **Total** | | | | $ 196,082 |
| Interest rate swap liability | $ - | $ 4,513 | $ - | $ 4,513 |

## NOTE 15. RELATED PARTY TRANSACTIONS

Trinity Health charged the System dues for participation in certain programs and governance matters. For the year ended December 31, 2017, amounts charged to expense related to these dues amounted to approximately $2,100 and are included as a component of other expenses. Effective July 1, 2017, Trinity Health no longer charges the System dues for participation in certain programs and governance matters.

CIPA WNY IPA d/b/a “Catholic Medical Partners” was incorporated in 1996 to establish managed care contracts that support clinical integration and provider accountability for cost and quality. The hospitals, long-term care, and home care subsidiaries are members of Catholic Medical Partners. The System has five of its executive staff on the Catholic Medical Partners’ Board of Directors.

As discussed in Note 11, the System obtains insurance coverage from Trinity Health.

East Aurora Medical Building, L.P. (EAMB) is a joint venture between Olean RE Property, LLC., Buffalo Family Group, Inc., Aurora Mercy Corporation (a wholly owned Corporation of Mercy Hospital of Buffalo), and seven other joint venture limited partners. On April 10, 2018, EAMB refinanced its outstanding debt of $2,200 at which time MHB became sole guarantor of principal and interest on the debt. For the year ended December 31, 2018, the outstanding balance of debt was $2,170.

## NOTE 15. RELATED PARTY TRANSACTIONS (CONTINUED)

Caritas Medical Arts Building L.L.C. is a joint venture between Sisters of Charity Hospital and Ciminelli Development Company. For the year ended December 31, 2018, there was $1,579 ($1,681 - 2017) of debt outstanding related to the Caritas Medical Arts Building L.L.C., of which Sisters of Charity Hospital has guaranteed $526 ($560 - 2017). Per the guaranty agreement, Sisters of Charity Hospital's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, MHB, Alsace Abbott Corporation (a wholly owned Corporation of MHB), and three other joint venture partners. For the year ended December 31, 2018, there was $4,559 ($4,700 - 2017) of debt outstanding related to the Marian Professional Center Associates, L.P., of which the Obligated Group has guaranteed $2,280 ($4,700 - 2017). Per the guaranty agreement, the Obligated Group's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

NR Physician Group, P.L.L.C. is a joint venture between Niagara Medicine, P.C., Roswell Park Comprehensive Cancer Center and Buffalo Medical Group. NR Physician Group, P.L.L.C. provides radiation oncology services.

Niagara Falls Memorial Medical Center Cath Lab is a joint venture between Catholic Health System, Inc., Kaleida Health, Erie County Medical Center Corporation and Niagara Falls Memorial Medical Center. The joint operating agreement's purpose is to establish the joint operating responsibilities for the Cath Lab on the campus of Niagara Falls Memorial Medical Center and provide Cath Lab Services for the residents or Niagara County.

Catholic Health System, Inc. and Subsidiaries, through its wholly-owned subsidiary CH Emmaus, Inc., owns a 40% equity stake in Sterling Surgical Center, L.L.C. Sterling Surgical is a multi-specialty ambulatory surgery center.

## NOTE 16. DISCONTINUED OPERATIONS

The following subsidiaries, which have been closed or sold as referenced, have been accounted for within discontinued operations: Nazareth Home of the Franciscan of the Immaculate Conception (closed 2007), St. Francis Home of Williamsville (sold 2015), St. Elizabeth's Home and St. Vincent's Home for the Aged (both sold 2016). During 2018, St. Francis Geriatric Healthcare Services, Inc., previously closed during 2009, resumed operations and is accounted for within home and community based subsidiaries.

The residual assets (net of inter-company receivables), liabilities, and net (deficit) assets of the discontinued operations were $9,584, $14,961 and ($3,434), respectively, as of December 31, 2018 and are included within their natural classifications in the accompanying consolidated balance sheets. The residual assets (net of inter-company receivables), liabilities, and net (deficit) assets of these discontinued operations were $13,906, $18,391 and ($2,543), respectively, as of December 31, 2017.

The aggregate gain (loss) from discontinued operations for assets held for sale as well as the closed facilities was approximately $322 and $13 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 17. FUNCTIONAL EXPENSES

As discussed in Note 2, ASU No. 2016-14 requires the System to provide an analysis of expenses by both natural and functional classification. Expenses were allocated by function using a reasonable and consistent approach that was primarily based on personnel costs directly attributable by function.

*(in thousands of dollars)*

## NOTE 17. FUNCTIONAL EXPENSES (CONTINUED)

| | December 31, 2018 | | |
|---|---|---|---|
| | Healthcare Services | Management and General | Total |
| Salaries and wages | $ 478,384 | $ 55,571 | $ 533,955 |
| Employee benefits | 133,695 | 15,500 | 149,195 |
| Medical and professional fees | 40,919 | 10,663 | 51,582 |
| Purchased services | 100,185 | 10,825 | 111,010 |
| Supplies | 212,452 | 2,433 | 214,885 |
| Depreciation and amortization | 44,111 | 2,910 | 47,021 |
| Interest | 10,685 | 1,976 | 12,661 |
| Insurance | 12,441 | 160 | 12,601 |
| Other expenses | 27,255 | 4,112 | 31,367 |
| Total | $ 1,060,127 | $ 104,150 | $ 1,164,277 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Healthcare Services | Management and General | Total |
| Salaries and wages | $ 465,868 | $ 54,101 | $ 519,969 |
| Employee benefits | 123,776 | 14,346 | 138,122 |
| Medical and professional fees | 42,835 | 5,569 | 48,404 |
| Purchased services | 95,384 | 11,031 | 106,415 |
| Supplies | 196,900 | 2,210 | 199,110 |
| Depreciation and amortization | 44,929 | 3,018 | 47,947 |
| Interest | 7,375 | 2,799 | 10,174 |
| Insurance | 15,539 | 147 | 15,686 |
| Other expenses | 25,566 | 5,136 | 30,702 |
| Total | $ 1,018,172 | $ 98,357 | $ 1,116,529 |

FreedMaxick CPAs, P.C.

## INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING SUPPLEMENTARY INFORMATION

To the Board of Directors
Catholic Health System, Inc.
Buffalo, New York

We have audited the consolidated financial statements of Catholic Health System, Inc. and its subsidiaries (together the System) as of December 31, 2018 and 2017 and for the years then ended and our report thereon appears on pages 1 - 2 of this document. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited) is the responsibility of management and is provided for purposes of additional analysis of the consolidated financial statements. Such information is unaudited and therefore, we do not express an opinion on the Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited).

The consolidating information for Catholic Health System, Inc. and its subsidiaries, presented on pages 51 through 63, and the consolidating information for Kenmore Mercy Hospital and subsidiaries, presented on pages 64 through 66, is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2018 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 28, 2019

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**SCHEDULE OF NET COST OF PROVIDING CARE OF PERSONS LIVING IN POVERTY AND COMMUNITY BENEFIT PROGRAMS (SCHEDULE OF SOCIAL ACCOUNTABILITY - UNAUDITED)**
**Years Ended December 31, 2018 and 2017**
***(in thousands of dollars)***

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The total net costs related to the care of the poor and benefits for the broader community as of December 31, 2018 and 2017 are set forth in the following table:

| | 2018 | 2017 |
|---|---|---|
| Charity care | $ 10,630 | $ 10,156 |
| Cost of community benefit programs | 51,085 | 48,678 |
| Unpaid cost of Medicaid programs | 64,716 | 70,409 |
| | $ 126,431 | $ 129,243 |

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**
**(in thousands of dollars)**
**December 31, 2018**

| ASSETS | Parent | Acute Care Subsidiaries | Home and Community Based Subsidiaries | Other Subsidiaries | Discontinued Operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | | |
| Cash and cash equivalents | $ 44,880 | $ 187,347 | $ 21,954 | $ 17,473 | $ 5,027 | $ 50 | $ 276,731 |
| Patient/resident accounts receivable | - | 103,345 | 12,923 | 3,173 | - | - | 119,441 |
| Other receivables | 1,265 | 8,510 | 203 | 593 | - | - | 10,571 |
| Inventories | 10 | 22,659 | 966 | - | - | - | 23,635 |
| Prepaid expenses and other current assets | 6,654 | 4,938 | 855 | 326 | 3 | - | 12,776 |
| Due from affiliates | 106,244 | 1,055 | 163 | 1,158 | 1,575 | (110,195) | - |
| **Total current assets** | 159,053 | 327,854 | 37,064 | 22,723 | 6,605 | (110,145) | 443,154 |
| Interest in net assets of related Foundations | - | - | 114 | 18 | 129 | (261) | - |
| Assets limited as to use | 20,842 | 22,941 | 10,828 | 1,300 | 1,091 | - | 57,002 |
| Investments | - | 163,887 | 21,126 | - | - | - | 185,013 |
| Property and equipment, net | 78,802 | 265,239 | 15,529 | 15,901 | - | - | 375,471 |
| Other assets | 30,281 | 97,509 | 9,669 | 913 | 3,334 | (27,031) | 114,675 |
| Due from affiliates | 5,210 | 11,759 | 1,058 | - | 368 | (18,395) | - |
| **Total assets** | $ 294,188 | $ 889,189 | $ 95,388 | $ 40,855 | $ 11,527 | $ (155,832) | $ 1,175,315 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | | |
| **Current liabilities:** | | | | | | | |
| Current portion of long-term obligations | $ 5,015 | $ 13,577 | $ 899 | $ 538 | $ - | $ - | $ 20,029 |
| Accounts payable | 8,283 | 47,914 | 614 | 3,917 | - | - | 60,728 |
| Accrued expenses | 21,061 | 53,727 | 4,687 | 4,210 | 267 | - | 83,952 |
| Due to third-party payors | 33 | 37,661 | 1,376 | 3,729 | 437 | - | 43,236 |
| Due to affiliates | 1,069 | 67,560 | 9,803 | 27,739 | 10,244 | (116,415) | - |
| **Total current liabilities** | 35,461 | 220,439 | 17,379 | 40,133 | 10,948 | (116,415) | 207,945 |
| Long-term obligations, net | 70,216 | 108,174 | 12,348 | 8,074 | - | - | 198,812 |
| Due to affiliates, net | 12,128 | - | - | - | - | (12,128) | - |
| Other long-term obligations | 61,016 | 416,115 | 21,318 | 2,054 | 4,013 | - | 504,516 |
| **Total liabilities** | 178,821 | 744,728 | 51,045 | 50,261 | 14,961 | (128,543) | 911,273 |
| **Net assets (deficit):** | | | | | | | |
| Without donor restrictions | 111,908 | 137,473 | 44,229 | (9,894) | (3,434) | (23,946) | 256,336 |
| With donor restrictions | 3,459 | 6,988 | 114 | 488 | - | (3,343) | 7,706 |
| **Total net assets (deficit)** | 115,367 | 144,461 | 44,343 | (9,406) | (3,434) | (27,289) | 264,042 |
| **Total liabilities and net assets (deficit)** | $ 294,188 | $ 889,189 | $ 95,388 | $ 40,855 | $ 11,527 | $ (155,832) | $ 1,175,315 |

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Parent | Acute Care Subsidiaries | Home and Community Based Subsidiaries | Other Subsidiaries | Discontinued Operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Revenues and other support without donor restrictions:** | | | | | | | |
| Net patient/resident service revenue | $ - | $ 1,035,244 | $ 84,253 | $ 47,392 | $ - | $ (9,837) | $ 1,157,052 |
| Other revenue | 154,860 | 26,030 | 2,205 | 8,989 | - | (165,255) | 26,829 |
| Net assets released from restrictions | - | 540 | - | - | - | - | 540 |
| **Total revenues and other support without donor restrictions** | 154,860 | 1,061,814 | 86,458 | 56,381 | - | (175,092) | 1,184,421 |
| **Expenses:** | | | | | | | |
| Salaries and wages | 73,246 | 458,663 | 46,299 | 29,049 | - | (73,302) | 533,955 |
| Employee benefits | 20,795 | 132,545 | 12,949 | 3,700 | - | (20,794) | 149,195 |
| Medical and professional fees | 9,764 | 43,852 | 1,129 | 3,288 | - | (6,451) | 51,582 |
| Purchased services | 32,275 | 98,810 | 3,352 | 19,161 | - | (42,588) | 111,010 |
| Supplies | 859 | 202,725 | 10,661 | 2,566 | - | (1,926) | 214,885 |
| Depreciation and amortization | 7,489 | 43,866 | 1,345 | 1,829 | - | (7,508) | 47,021 |
| Interest | 3,154 | 11,220 | 974 | 932 | - | (3,619) | 12,661 |
| Insurance | 499 | 11,215 | 770 | 616 | - | (499) | 12,601 |
| Other expenses | 5,501 | 37,769 | 3,162 | 2,679 | - | (17,744) | 31,367 |
| **Total expenses** | 153,582 | 1,040,665 | 80,641 | 63,820 | - | (174,431) | 1,164,277 |
| **Income (loss) from operations** | 1,278 | 21,149 | 5,817 | (7,439) | - | (661) | 20,144 |
| **Nonoperating revenues and expenses:** | | | | | | | |
| Investment income (loss) | 1,188 | (6,029) | (792) | 3 | - | (1,651) | (7,281) |
| Other components of net periodic pension cost | (2,928) | (12,181) | (527) | (43) | - | 2,928 | (12,751) |
| Other revenues and gains, net | 462 | 629 | 19 | 41 | - | (610) | 541 |
| **Total nonoperating revenues and expenses** | (1,278) | (17,581) | (1,300) | 1 | - | 667 | (19,491) |
| **Excess (deficiency) of revenues over expenses** | $ - | $ 3,568 | $ 4,517 | $ (7,438) | $ - | $ 6 | $ 653 |

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Parent | Acute Care Subsidiaries | Home and Community Based Subsidiaries | Other Subsidiaries | Discontinued Operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Net assets without donor restrictions:** | | | | | | | |
| Excess (deficiency) of revenues over expenses | $ - | $ 3,568 | $ 4,517 | $ (7,438) | $ - | $ 6 | $ 653 |
| Change in unrealized gain on interest rate swaps | - | 594 | - | 234 | - | - | 828 |
| Change in pension obligation, other than net periodic cost | 5,520 | 16,583 | 128 | (3) | - | - | 22,228 |
| Net assets released from restrictions used for capital | - | 1,653 | - | - | - | - | 1,653 |
| Amortization of terminated interest rate swaps | - | 1,833 | - | - | - | - | 1,833 |
| Capital grants | 3,848 | 79 | - | - | - | - | 3,927 |
| Contributions | 94 | - | - | - | - | - | 94 |
| Other | (3,735) | 3,170 | 304 | 156 | 389 | (382) | (98) |
| Increase (decrease) in net assets without donor restrictions before effects of discontinued operations | 5,727 | 27,480 | 4,949 | (7,051) | 389 | (376) | 31,118 |
| Gain from discontinued operations | - | - | - | - | 322 | - | 322 |
| Increase (decrease) in net assets without donor restrictions | 5,727 | 27,480 | 4,949 | (7,051) | 711 | (376) | 31,440 |
| **Net assets with donor restrictions:** | | | | | | | |
| Contributions | - | 1,673 | - | 217 | - | - | 1,890 |
| Investment income (loss) | - | (23) | - | - | - | - | (23) |
| Special events revenue, net | - | 83 | - | - | - | - | 83 |
| Change in interest in related Foundation | - | - | 9 | (441) | - | 165 | (267) |
| Net assets released from restrictions | - | (2,193) | - | - | - | - | (2,193) |
| Other | - | (88) | - | - | (129) | 369 | 152 |
| Increase (decrease) in net assets with donor restrictions | - | (548) | 9 | (224) | (129) | 534 | (358) |
| Increase (decrease) in net assets | 5,727 | 26,932 | 4,958 | (7,275) | 582 | 158 | 31,082 |
| Net assets (deficit), beginning of year | 109,640 | 117,529 | 39,385 | (2,131) | (4,016) | (27,447) | 232,960 |
| Net assets (deficit), end of year | $ 115,367 | $ 144,461 | $ 44,343 | $ (9,406) | $ (3,434) | $ (27,289) | $ 264,042 |

**CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**
**(in thousands of dollars)**
**December 31, 2018**

| ASSETS | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Mount St. Mary's Hospital | Total |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 74,224 | $ 57,213 | $ 48,219 | $ 7,691 | $ 187,347 |
| Patient/resident accounts receivable | 44,897 | 31,311 | 18,050 | 9,087 | 103,345 |
| Other receivables | 2,358 | 3,433 | 1,994 | 725 | 8,510 |
| Inventories | 11,832 | 6,113 | 2,503 | 2,211 | 22,659 |
| Prepaid expenses and other current assets | 2,268 | 1,705 | 588 | 377 | 4,938 |
| Due from affiliates | 485 | 481 | 87 | 2 | 1,055 |
| **Total current assets** | 136,064 | 100,256 | 71,441 | 20,093 | 327,854 |
| Assets limited as to use | 968 | 19,553 | 2,420 | - | 22,941 |
| Investments | 32,874 | 100,240 | 25,000 | 5,773 | 163,887 |
| Property and equipment, net | 104,064 | 71,191 | 63,983 | 26,001 | 265,239 |
| Other assets | 45,762 | 35,923 | 14,160 | 1,664 | 97,509 |
| Due from affiliates | - | 10,303 | 1,456 | - | 11,759 |
| **Total assets** | $ 319,732 | $ 337,466 | $ 178,460 | $ 53,531 | $ 889,189 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | |
| **Current liabilities:** | | | | | |
| Current portion of long-term obligations | $ 5,127 | $ 4,446 | $ 4,004 | $ - | $ 13,577 |
| Accounts payable | 18,715 | 16,113 | 9,741 | 3,345 | 47,914 |
| Accrued expenses | 12,985 | 29,799 | 5,962 | 4,981 | 53,727 |
| Due to third-party payors | 16,788 | 10,921 | 5,892 | 4,060 | 37,661 |
| Due to affiliates | 21,024 | 23,426 | 21,921 | 1,189 | 67,560 |
| **Total current liabilities** | 74,639 | 84,705 | 47,520 | 13,575 | 220,439 |
| Long-term obligations, net | 52,399 | 27,391 | 28,384 | - | 108,174 |
| Other long-term obligations | 213,541 | 134,398 | 53,403 | 14,773 | 416,115 |
| **Total liabilities** | 340,579 | 246,494 | 129,307 | 28,348 | 744,728 |
| **Net assets (deficit):** | | | | | |
| Without donor restrictions | (22,351) | 87,727 | 48,976 | 23,121 | 137,473 |
| With donor restrictions | 1,504 | 3,245 | 177 | 2,062 | 6,988 |
| **Total net assets (deficit)** | (20,847) | 90,972 | 49,153 | 25,183 | 144,461 |
| **Total liabilities and net assets (deficit)** | $ 319,732 | $ 337,466 | $ 178,460 | $ 53,531 | $ 889,189 |

**CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Mount St. Mary's Hospital | Total |
|---|---|---|---|---|---|
| **Revenues and other support without donor restrictions:** | | | | | |
| Net patient/resident service revenue | $ 437,489 | $ 321,413 | $ 181,936 | $ 94,406 | $ 1,035,244 |
| Other revenue | 6,212 | 12,362 | 1,940 | 5,516 | 26,030 |
| Net assets released from restrictions | 144 | 233 | 6 | 157 | 540 |
| **Total revenues and other support without donor restrictions** | 443,845 | 334,008 | 183,882 | 100,079 | 1,061,814 |
| **Expenses:** | | | | | |
| Salaries and wages | 181,046 | 152,467 | 74,335 | 50,815 | 458,663 |
| Employee benefits | 53,506 | 43,582 | 20,334 | 15,123 | 132,545 |
| Medical and professional fees | 18,840 | 15,647 | 4,989 | 4,376 | 43,852 |
| Purchased services | 38,756 | 33,676 | 15,163 | 11,215 | 98,810 |
| Supplies | 92,878 | 58,182 | 40,154 | 11,511 | 202,725 |
| Depreciation and amortization | 16,707 | 14,021 | 9,149 | 3,989 | 43,866 |
| Interest | 4,719 | 3,912 | 2,570 | 19 | 11,220 |
| Insurance | 4,841 | 3,583 | 1,805 | 986 | 11,215 |
| Other expenses | 17,015 | 11,371 | 5,637 | 3,746 | 37,769 |
| **Total expenses** | 428,308 | 336,441 | 174,136 | 101,780 | 1,040,665 |
| **Income (loss) from operations** | 15,537 | (2,433) | 9,746 | (1,701) | 21,149 |
| **Nonoperating revenues and expenses:** | | | | | |
| Investment income (loss) | (478) | (4,631) | (779) | (141) | (6,029) |
| Other components of net periodic pension costs | (7,117) | (3,156) | (1,659) | (249) | (12,181) |
| Other revenues and gains, net | 170 | 321 | 86 | 52 | 629 |
| **Total nonoperating revenues and expenses** | (7,425) | (7,466) | (2,352) | (338) | (17,581) |
| **Excess (deficiency) of revenues over expenses** | $ 8,112 | $ (9,899) | $ 7,394 | $ (2,039) | $ 3,568 |

**CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Mercy Hospital | Sisters Hospital | Kenmore Mercy Hospital | Mount St. Mary's Hospital | Total |
|---|---|---|---|---|---|
| **Net assets without donor restrictions:** | | | | | |
| Excess (deficiency) of revenues over expenses | $ 8,112 | $ (9,899) | $ 7,394 | $ (2,039) | $ 3,568 |
| Change in unrealized gain on interest rate swaps | 594 | - | - | - | 594 |
| Change in pension obligation, other than net periodic cost | 10,326 | 5,183 | 1,612 | (538) | 16,583 |
| Net assets released from restrictions used for capital | 204 | 1,066 | 34 | 349 | 1,653 |
| Amortization of terminated interest rate swaps | 395 | 1,132 | 306 | - | 1,833 |
| Capital grants | 35 | 44 | - | - | 79 |
| Other | 779 | 1,301 | 610 | 480 | 3,170 |
| Increase (decrease) in net assets without donor restrictions | 20,445 | (1,173) | 9,956 | (1,748) | 27,480 |
| **Net assets with donor restrictions:** | | | | | |
| Contributions | 838 | 522 | 133 | 180 | 1,673 |
| Investment income (loss) | (22) | 2 | - | (3) | (23) |
| Special events revenue, net | 29 | - | 25 | 29 | 83 |
| Net assets released from restrictions | (348) | (1,299) | (40) | (506) | (2,193) |
| Other | - | 2 | (90) | - | (88) |
| Increase (decrease) in net assets with donor restrictions | 497 | (773) | 28 | (300) | (548) |
| Increase (decrease) in net assets | 20,942 | (1,946) | 9,984 | (2,048) | 26,932 |
| Net assets (deficit), beginning of year | (41,789) | 92,918 | 39,169 | 27,231 | 117,529 |
| Net assets (deficit), end of year | $ (20,847) | $ 90,972 | $ 49,153 | $ 25,183 | $ 144,461 |

**CATHOLIC HEALTH SYSTEM - HOME AND COMMUNITY BASED SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**
**(in thousands of dollars)**
**December 31, 2018**

| ASSETS | Father Baker Manor | St. Francis Geriatric | Mercy Home Care | McAuley Seton Home Care | Infusion Pharmacy | Total |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | $ 422 | $ 473 | $ 1,665 | $ 16,724 | $ 2,670 | $ 21,954 |
| Patient/resident accounts receivable | 3,102 | - | 225 | 8,201 | 1,395 | 12,923 |
| Other receivables | 14 | 8 | 104 | 72 | 5 | 203 |
| Inventories | 32 | - | - | 53 | 881 | 966 |
| Prepaid expenses and other current assets | 19 | 5 | 2 | 32 | 797 | 855 |
| Due from affiliates | 20 | 7 | - | 42 | 94 | 163 |
| **Total current assets** | 3,609 | 493 | 1,996 | 25,124 | 5,842 | 37,064 |
| Interest in net assets of related Foundations | 114 | - | - | - | - | 114 |
| Assets limited as to use | 10,828 | - | - | - | - | 10,828 |
| Investments | - | - | - | 21,126 | - | 21,126 |
| Property and equipment, net | 4,383 | 10,645 | - | 235 | 266 | 15,529 |
| Other assets | 4,306 | 507 | 693 | 3,650 | 513 | 9,669 |
| Due from affiliates | - | - | 1,058 | - | - | 1,058 |
| **Total assets** | $ 23,240 | $ 11,645 | $ 3,747 | $ 50,135 | $ 6,621 | $ 95,388 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | |
| **Current liabilities:** | | | | | | |
| Current portion of long-term obligations | $ 562 | $ 337 | $ - | $ - | $ - | $ 899 |
| Accounts payable | 244 | 10 | 1 | 146 | 213 | 614 |
| Accrued expenses | 1,312 | 41 | 454 | 2,309 | 571 | 4,687 |
| Due to third-party payors | 257 | - | 17 | 1,031 | 71 | 1,376 |
| Due to affiliates | 9,623 | 48 | 3 | 94 | 35 | 9,803 |
| **Total current liabilities** | 11,998 | 436 | 475 | 3,580 | 890 | 17,379 |
| Long-term obligations, net | 3,278 | 9,070 | - | - | - | 12,348 |
| Other long-term obligations | 7,984 | 522 | 2,421 | 9,796 | 595 | 21,318 |
| **Total liabilities** | 23,260 | 10,028 | 2,896 | 13,376 | 1,485 | 51,045 |
| **Net assets (deficit):** | | | | | | |
| Without donor restrictions | (134) | 1,617 | 851 | 36,759 | 5,136 | 44,229 |
| With donor restrictions | 114 | - | - | - | - | 114 |
| **Total net assets (deficit)** | (20) | 1,617 | 851 | 36,759 | 5,136 | 44,343 |
| **Total liabilities and net assets (deficit)** | $ 23,240 | $ 11,645 | $ 3,747 | $ 50,135 | $ 6,621 | $ 95,388 |

**CATHOLIC HEALTH SYSTEM - HOME AND COMMUNITY BASED SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Father Baker Manor | St. Francis Geriatric | Mercy Home Care | McAuley Seton Home Care | Infusion Pharmacy | Total |
|---|---|---|---|---|---|---|
| **Revenues and other support without donor restrictions:** | | | | | | |
| Net patient/resident service revenue | $ 18,502 | $ - | $ 6,513 | $ 46,349 | $ 12,889 | $ 84,253 |
| Other revenue | 81 | 1,541 | 166 | 219 | 198 | 2,205 |
| **Total revenues and other support without donor restrictions** | 18,583 | 1,541 | 6,679 | 46,568 | 13,087 | 86,458 |
| **Expenses:** | | | | | | |
| Salaries and wages | 11,672 | 317 | 4,587 | 26,926 | 2,797 | 46,299 |
| Employee benefits | 3,102 | 79 | 1,249 | 7,821 | 698 | 12,949 |
| Medical and professional fees | 165 | - | 28 | 913 | 23 | 1,129 |
| Purchased services | 1,096 | 454 | 353 | 1,223 | 226 | 3,352 |
| Supplies | 1,283 | 76 | 7 | 1,186 | 8,109 | 10,661 |
| Depreciation and amortization | 533 | 310 | 16 | 413 | 73 | 1,345 |
| Interest | 306 | 355 | 26 | 282 | 5 | 974 |
| Insurance | 561 | 42 | 43 | 93 | 31 | 770 |
| Other expenses | 837 | 13 | 221 | 1,576 | 515 | 3,162 |
| **Total expenses** | 19,555 | 1,646 | 6,530 | 40,433 | 12,477 | 80,641 |
| **Income (loss) from operations** | (972) | (105) | 149 | 6,135 | 610 | 5,817 |
| **Nonoperating revenues and expenses:** | | | | | | |
| Investment income (loss) | 97 | 3 | 35 | (930) | 3 | (792) |
| Other components of net periodic pension cost | (151) | - | (49) | (302) | (25) | (527) |
| Other revenues and gains, net | 8 | - | - | 10 | 1 | 19 |
| **Total nonoperating revenues and expenses** | (46) | 3 | (14) | (1,222) | (21) | (1,300) |
| **Excess (deficiency) of revenue over expenses** | $ (1,018) | $ (102) | $ 135 | $ 4,913 | $ 589 | $ 4,517 |
| **Net assets without donor restrictions:** | | | | | | |
| Excess (deficiency) of revenue over expenses | $ (1,018) | $ (102) | $ 135 | $ 4,913 | $ 589 | $ 4,517 |
| Change in pension obligation, other than net periodic cost | 9 | - | 7 | 127 | (15) | 128 |
| Other | 58 | 246 | - | - | - | 304 |
| Increase (decrease) in net assets without donor restrictions | (951) | 144 | 142 | 5,040 | 574 | 4,949 |
| **Net assets with donor restrictions:** | | | | | | |
| Change in interest in related Foundations | 9 | - | - | - | - | 9 |
| Increase (decrease) in net assets with donor restrictions | 9 | - | - | - | - | 9 |
| Increase (decrease) in net assets | (942) | 144 | 142 | 5,040 | 574 | 4,958 |
| Net asset (deficit), beginning of year | 922 | 1,473 | 709 | 31,719 | 4,562 | 39,385 |
| Net assets (deficit), end of year | $ (20) | $ 1,617 | $ 851 | $ 36,759 | $ 5,136 | $ 44,343 |

**CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**
**(in thousands of dollars)**
**December 31, 2018**

| ASSETS | OLV Renaissance | Continuing Care Foundation | LIFE | Trinity | Niagara Medicine | Total |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | $ 1,522 | $ 466 | $ 14,677 | $ 665 | $ 143 | $ 17,473 |
| Patient accounts receivable | - | - | 1,401 | 1,709 | 63 | 3,173 |
| Other receivables | 53 | 11 | 386 | 143 | - | 593 |
| Prepaid expenses and other current assets | 13 | - | 15 | 298 | - | 326 |
| Due from affiliates | 57 | 10 | 100 | 991 | - | 1,158 |
| **Total current assets** | 1,645 | 487 | 16,579 | 3,806 | 206 | 22,723 |
| Interest in net assets of related Foundations | 18 | - | - | - | - | 18 |
| Assets limited as to use | 322 | - | 978 | - | - | 1,300 |
| Property and equipment, net | 12,677 | - | 2,531 | 693 | - | 15,901 |
| Other assets | 300 | - | 16 | - | 597 | 913 |
| **Total assets** | $ 14,962 | $ 487 | $ 20,104 | $ 4,499 | $ 803 | $ 40,855 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | |
| **Current liabilities:** | | | | | | |
| Current portion of long-term obligations | $ 425 | $ - | $ - | $ 113 | $ - | $ 538 |
| Accounts payable | 183 | - | 3,174 | 557 | 3 | 3,917 |
| Accrued expenses | 349 | - | 1,041 | 2,820 | - | 4,210 |
| Due to third-party payors | 300 | - | 3,429 | - | - | 3,729 |
| Due to affiliates | 4,180 | 100 | 613 | 21,510 | 1,336 | 27,739 |
| **Total current liabilities** | 5,437 | 100 | 8,257 | 25,000 | 1,339 | 40,133 |
| Long-term obligations, net | 8,057 | - | - | 17 | - | 8,074 |
| Other long-term obligations | 1,216 | - | 788 | - | 50 | 2,054 |
| **Total liabilities** | 14,710 | 100 | 9,045 | 25,017 | 1,389 | 50,261 |
| **Net assets (deficit):** | | | | | | |
| Without donor restrictions | 234 | 17 | 10,959 | (20,518) | (586) | (9,894) |
| With donor restrictions | 18 | 370 | 100 | - | - | 488 |
| **Total net assets (deficit)** | 252 | 387 | 11,059 | (20,518) | (586) | (9,406) |
| **Total liabilities and net assets (deficit)** | $ 14,962 | $ 487 | $ 20,104 | $ 4,499 | $ 803 | $ 40,855 |

**CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | OLV Renaissance | Continuing Care Foundation | LIFE | Trinity | Niagara Medicine | Total |
|---|---|---|---|---|---|---|
| **Revenues and other support without donor restrictions:** | | | | | | |
| Net patient service revenue | $ - | $ - | $ 22,805 | $ 24,240 | $ 347 | $ 47,392 |
| Other revenue | 5,166 | 13 | 18 | 4,112 | (320) | 8,989 |
| **Total revenues and other support without donor restrictions** | 5,166 | 13 | 22,823 | 28,352 | 27 | 56,381 |
| **Expenses:** | | | | | | |
| Salaries and wages | 293 | - | 2,276 | 26,480 | - | 29,049 |
| Employee benefits | 99 | - | 668 | 2,933 | - | 3,700 |
| Medical and professional fees | 22 | - | 56 | 2,830 | 380 | 3,288 |
| Purchased services | 1,714 | 9 | 16,057 | 1,354 | 27 | 19,161 |
| Supplies | 83 | - | 594 | 1,889 | - | 2,566 |
| Depreciation and amortization | 1,390 | - | 79 | 360 | - | 1,829 |
| Interest | 461 | - | - | 468 | 3 | 932 |
| Insurance | 54 | - | 9 | 553 | - | 616 |
| Other expenses | 67 | 1 | 500 | 2,111 | - | 2,679 |
| **Total expenses** | 4,183 | 10 | 20,239 | 38,978 | 410 | 63,820 |
| **Income (loss) from operations** | 983 | 3 | 2,584 | (10,626) | (383) | (7,439) |
| **Nonoperating revenues and expenses:** | | | | | | |
| Investment income (loss) | - | 2 | 1 | - | - | 3 |
| Other components of net periodic pension cost | - | - | (43) | - | - | (43) |
| Other revenues and gains, net | 39 | - | 5 | (3) | - | 41 |
| **Total nonoperating revenues and expenses** | 39 | 2 | (37) | (3) | - | 1 |
| **Excess (deficiency) of revenues over expenses** | $ 1,022 | $ 5 | $ 2,547 | $ (10,629) | $ (383) | $ (7,438) |

**CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | OLV Renaissance | Continuing Care Foundation | LIFE | Trinity | Niagara Medicine | Total |
|---|---|---|---|---|---|---|
| **Net assets without donor restrictions:** | | | | | | |
| Excess (deficiency) of revenues over expenses | $ 1,022 | $ 5 | $ 2,547 | $ (10,629) | $ (383) | $ (7,438) |
| Change in unrealized gain on interest rate swaps | 234 | - | - | - | - | 234 |
| Change in pension obligation, other than net periodic cost | - | - | (3) | - | - | (3) |
| Other | 158 | - | (2) | - | - | 156 |
| Increase (decrease) in net assets without donor restrictions | 1,414 | 5 | 2,542 | (10,629) | (383) | (7,051) |
| **Net assets with donor restrictions:** | | | | | | |
| Contributions | - | 117 | 100 | - | - | 217 |
| Change in interest in related Foundations | (164) | (277) | - | - | - | (441) |
| Increase (decrease) in net assets with donor restrictions | (164) | (160) | 100 | - | - | (224) |
| Increase (decrease) in net assets | 1,250 | (155) | 2,642 | (10,629) | (383) | (7,275) |
| Net assets (deficit), beginning of year | (998) | 542 | 8,417 | (9,889) | (203) | (2,131) |
| Net assets (deficit), end of year | $ 252 | $ 387 | $ 11,059 | $ (20,518) | $ (586) | $ (9,406) |

**CATHOLIC HEALTH SYSTEM - DISCONTINUED OPERATIONS**

**CONSOLIDATING BALANCE SHEET**
**(in thousands of dollars)**
**December 31, 2018**

| | Discontinued Operations | | | | |
|---|---|---|---|---|---|
| **ASSETS** | **St. Francis Home** | **St. Elizabeth's Home** | **St. Vincent's Home** | **Nazareth Home** | **Total** |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 2,565 | $ 658 | $ 426 | $ 1,378 | $ 5,027 |
| Prepaid expenses and other current assets | 3 | - | - | - | 3 |
| Due from affiliates | 2 | - | - | 1,573 | 1,575 |
| **Total current assets** | 2,570 | 658 | 426 | 2,951 | 6,605 |
| Interest in net assets of related Foundations | 68 | 60 | 1 | - | 129 |
| Assets limited as to use | 1,091 | - | - | - | 1,091 |
| Other assets | 3,289 | 24 | 21 | - | 3,334 |
| Due from affiliates | - | 368 | - | - | 368 |
| **Total assets** | $ 7,018 | $ 1,110 | $ 448 | $ 2,951 | $ 11,527 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | |
| **Current liabilities:** | | | | | |
| Accrued expenses | $ 232 | $ 33 | $ 2 | $ - | $ 267 |
| Due to third-party payors | 434 | 3 | - | - | 437 |
| Due to affiliates | 7,427 | 1,342 | 1,475 | - | 10,244 |
| **Total current liabilities** | 8,093 | 1,378 | 1,477 | - | 10,948 |
| Other long-term obligations | 3,803 | 155 | 55 | - | 4,013 |
| **Total liabilities** | 11,896 | 1,533 | 1,532 | - | 14,961 |
| **Net assets (deficit):** | | | | | |
| Without donor restrictions | (4,878) | (423) | (1,084) | 2,951 | (3,434) |
| **Total net assets (deficit)** | (4,878) | (423) | (1,084) | 2,951 | (3,434) |
| **Total liabilities and net assets (deficit)** | $ 7,018 | $ 1,110 | $ 448 | $ 2,951 | $ 11,527 |

**CATHOLIC HEALTH SYSTEM - DISCONTINUED OPERATIONS**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Discontinued Operations | | | | |
|---|---|---|---|---|---|
| | St. Francis Home | St. Elizabeth's Home | St. Vincent's Home | Nazareth Home | Total |
| **Net assets without donor restrictions:** | | | | | |
| Other | $ 68 | $ 60 | $ 1 | $ 260 | $ 389 |
| Increase (decrease) in net assets without donor restrictions before effects of discontinued operations | 68 | 60 | 1 | 260 | 389 |
| Gain from discontinued operations | 194 | 98 | 30 | - | 322 |
| Increase (decrease) in net assets without donor restrictions | 262 | 158 | 31 | 260 | 711 |
| **Net assets with donor restrictions:** | | | | | |
| Other | (68) | (60) | (1) | - | (129) |
| Increase (decrease) in net assets with donor restrictions | (68) | (60) | (1) | - | (129) |
| Increase (decrease) in net assets | 194 | 98 | 30 | 260 | 582 |
| Net assets (deficit), beginning of year | (5,072) | (521) | (1,114) | 2,691 | (4,016) |
| Net assets (deficit), end of year | $ (4,878) | $ (423) | $ (1,084) | $ 2,951 | $ (3,434) |

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)**
**CONSOLIDATING BALANCE SHEET**
**(in thousands of dollars)**
**December 31, 2018**

| ASSETS | Kenmore Mercy Hospital | The McAuley Residence | The Kenmore Mercy Foundation | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 43,071 | $ 5,068 | $ 80 | $ - | $ 48,219 |
| Patient/resident accounts receivable | 14,617 | 3,433 | - | - | 18,050 |
| Other receivables | 471 | 1,358 | 165 | - | 1,994 |
| Inventories | 2,503 | - | - | - | 2,503 |
| Prepaid expenses and other current assets | 489 | 99 | - | - | 588 |
| Due from affiliates | 50 | 42 | 28 | (33) | 87 |
| **Total current assets** | 61,201 | 10,000 | 273 | (33) | 71,441 |
| Interest in net assets of affiliated Foundation | 3,227 | - | - | (3,227) | - |
| Assets limited as to use | 1,221 | 1,199 | - | - | 2,420 |
| Investments | 22,008 | - | 2,992 | - | 25,000 |
| Property and equipment, net | 55,198 | 8,783 | 2 | - | 63,983 |
| Other assets | 11,394 | 4,363 | - | (1,597) | 14,160 |
| Due from affiliates | 1,456 | - | - | - | 1,456 |
| **Total assets** | $ 155,705 | $ 24,345 | $ 3,267 | $ (4,857) | $ 178,460 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | |
| **Current liabilities:** | | | | | |
| Current portion of long-term obligations | $ 3,363 | $ 641 | $ - | $ - | $ 4,004 |
| Accounts payable | 9,357 | 362 | 22 | - | 9,741 |
| Accrued expenses | 4,202 | 1,760 | - | - | 5,962 |
| Due to third-party payors | 5,268 | 624 | - | - | 5,892 |
| Due to affiliates | 8,193 | 13,743 | 18 | (33) | 21,921 |
| **Total current liabilities** | 30,383 | 17,130 | 40 | (33) | 47,520 |
| Long-term obligations, net | 25,832 | 2,552 | - | - | 28,384 |
| Other long-term obligations | 43,479 | 9,924 | - | - | 53,403 |
| **Total liabilities** | 99,694 | 29,606 | 40 | (33) | 129,307 |
| **Net assets (deficit):** | | | | | |
| Without donor restrictions | 55,834 | (5,261) | 3,050 | (4,647) | 48,976 |
| With donor restrictions | 177 | - | 177 | (177) | 177 |
| **Total net assets (deficit)** | 56,011 | (5,261) | 3,227 | (4,824) | 49,153 |
| **Total liabilities and net assets (deficit)** | $ 155,705 | $ 24,345 | $ 3,267 | $ (4,857) | $ 178,460 |

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)**
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Kenmore Mercy Hospital | The McAuley Residence | The Kenmore Mercy Foundation | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Revenue and other support without donor restrictions:** | | | | | |
| Net patient/resident service revenue | $ 160,957 | $ 20,979 | $ - | $ - | $ 181,936 |
| Other revenue | 1,410 | 114 | 416 | - | 1,940 |
| Net assets released from restriction | - | - | 6 | - | 6 |
| **Total revenue and other support without donor restrictions** | 162,367 | 21,093 | 422 | - | 183,882 |
| **Expenses:** | | | | | |
| Salaries and wages | 61,897 | 12,238 | 200 | - | 74,335 |
| Employee benefits | 16,911 | 3,365 | 58 | - | 20,334 |
| Medical and professional fees | 4,754 | 225 | 10 | - | 4,989 |
| Purchased services | 13,691 | 1,387 | 85 | - | 15,163 |
| Supplies | 38,711 | 1,440 | 3 | - | 40,154 |
| Depreciation and amortization | 8,408 | 740 | 1 | - | 9,149 |
| Interest | 2,388 | 182 | - | - | 2,570 |
| Insurance | 1,568 | 237 | - | - | 1,805 |
| Other expenses | 4,482 | 1,036 | 380 | (261) | 5,637 |
| **Total expenses** | 152,810 | 20,850 | 737 | (261) | 174,136 |
| **Income (loss) from operations** | 9,557 | 243 | (315) | 261 | 9,746 |
| **Nonoperating revenues and expenses:** | | | | | |
| Investment income (loss) | (619) | 30 | (190) | - | (779) |
| Other components of net periodic pension cost | (1,445) | (214) | - | - | (1,659) |
| Other revenues and gains, net | 65 | 21 | - | - | 86 |
| **Total nonoperating revenues and expenses** | (1,999) | (163) | (190) | - | (2,352) |
| **Excess (deficiency) of revenues over expenses** | $ 7,558 | $ 80 | $ (505) | $ 261 | $ 7,394 |

**CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)**
**CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)**
**(in thousands of dollars)**
**For the Year Ended December 31, 2018**

| | Kenmore Mercy Hospital | The McAuley Residence | The Kenmore Mercy Foundation | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Net assets without donor restrictions:** | | | | | |
| Excess (deficiency) of revenues over expenses | $ 7,558 | $ 80 | $ (505) | $ 261 | $ 7,394 |
| Change in interest in affiliated Foundation | (473) | - | - | 473 | - |
| Change in pension obligation, other than net periodic cost | 1,306 | 306 | - | - | 1,612 |
| Net assets released from restrictions used for capital | - | 3 | 31 | - | 34 |
| Amortization of terminated interest rate swaps | 306 | - | - | - | 306 |
| Contributions | 261 | - | - | (261) | - |
| Other | 563 | 47 | - | - | 610 |
| Increase (decrease) in net assets without donor restrictions | 9,521 | 436 | (474) | 473 | 9,956 |
| **Net assets with donor restrictions:** | | | | | |
| Contributions | - | - | 133 | - | 133 |
| Special events revenue, net | - | - | 25 | - | 25 |
| Net assets released from restrictions | - | (3) | (37) | - | (40) |
| Change in interest in the KMH Foundation, Inc. | 121 | - | - | (121) | - |
| Other | - | (90) | - | - | (90) |
| Increase (decrease) in net assets with donor restrictions | 121 | (93) | 121 | (121) | 28 |
| Increase (decrease) in net assets | 9,642 | 343 | (353) | 352 | 9,984 |
| Net assets (deficit), beginning of year | 46,369 | (5,604) | 3,580 | (5,176) | 39,169 |
| Net assets (deficit), end of year | $ 56,011 | $ (5,261) | $ 3,227 | $ (4,824) | $ 49,153 |

# APPENDIX C

## CERTAIN DEFINITIONS

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**APPENDIX C**

## CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement.

"Act" means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, and constituting Title 4 of Article 8 of the Public Authorities Law), as the same may be amended from time to time, including, but not limited to, the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of New York 1973, as amended.

"Annual Administrative Fee" as defined in the Resolution means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in an amount more particularly described in the Loan Agreement.

"Applicable" means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, Debt Service Reserve Fund or any other fund, the fund so designated and established by a Series Resolution authorizing a Series of Bonds relating to a particular Project(s), (ii) with respect to any Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the related Series Resolution or Bond Series Certificate, (iii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for particular Projects, (v) with respect to any Loan Agreement, the Loan Agreement by and between the Authority and any one or more Institutions and the contractual obligations contained therein relating to particular Projects for each such Institution, (vi) with respect to any Institution, the Institution identified in the related Series Resolution, (vii) with respect to a Bond Series Certificate, such certificate authorized pursuant to a related Series Resolution (viii) with respect to any Credit Facility, if any, or Credit Facility Issuer, if any, the Credit Facility or Credit Facility Issuer relating to a particular Series of Bonds and (ix) with respect to a Supplemental Indenture and an Obligation authorized to be issued thereunder, the Supplemental Indenture entered into pursuant to an Obligation issued under the Master Indenture for the purpose of securing a Series of Bonds.

"Arbitrage Rebate Fund" means each fund so designated and established by the Applicable Series Resolution pursuant to the Resolution with respect to a Series of Tax-Exempt Bonds.

"Authority" means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which succeeds to the rights, powers, duties and functions of the Authority.

"Authority Fee" means a fee payable to the Authority equal to the payment to be made upon the issuance of a Series of Bonds in an amount set forth in the Applicable Loan Agreement, unless otherwise provided in the Applicable Series Resolution.

"Authorized Newspaper" means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

"Authorized Officer" means (i) in the case of the Authority, the Chair, the Vice-Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the

Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance and Portfolio Monitoring, the Managing Director of Construction, the General Counsel and any other person authorized by a resolution or the by-laws of the Authority, from time to time, to perform any specific act or execute any specific document; (ii) in the case of an Institution, the person or persons authorized by a resolution or the by-laws of such Institution to perform any act or execute any document; and (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee; and (iv) in the case of a Credit Facility Issuer, a Vice President, a Senior Vice President, an Administrative Vice President, an Executive Vice President and the President of such Credit Facility Issuer, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Credit Facility Issuer or the by-laws of such Credit Facility Issuer.

"Bank Bond" means any Tendered Bond during the period from and including the date the Purchase Price thereof is paid by a Provider pursuant to a Credit Facility or Liquidity Facility to, but excluding, the earliest of (i) the date on which the principal, Redemption Price or Purchase Price of such Bond, together with all interest accrued thereon, is paid with amounts other than amounts drawn under the Credit Facility or Liquidity Facility, (ii) the date on which the registered owner of a Bond has given written notice of its determination not to sell such Bond following receipt of a purchase notice from the Remarketing Agent with respect to such Bond, or, if notice of such determination is not given on or before the next Business Day succeeding the day such purchase notice is received, the second Business Day succeeding receipt of such purchase notice, or (iii) the date on which such Bond is to be purchased pursuant to an agreement by the registered owner of such Bond to sell such Bond following receipt of a purchase notice from the Remarketing Agent with respect to such Bond, if the Trustee then holds, in trust for the benefit of such registered owner, sufficient money to pay the Purchase Price of such Bond, together with the interest accrued thereon to the date of purchase.

"Bank Bond Rate" means the rate at which a Bank Bond bears interest in accordance with a Credit Facility or Liquidity Facility or the Reimbursement Agreement providing for the issuance of a Credit Facility or Liquidity Facility; ***provided, however,*** that in no event shall such rate exceed the Maximum Rate applicable thereto.

"Bond" or "Bonds" means any of the bonds of the Authority authorized pursuant to the Resolution and issued on behalf of the Institution pursuant to an Applicable Series Resolution.

"Bond Counsel" means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

"Bond Series Certificate" means a certificate of the Authority fixing terms, conditions and other details of Bonds of an Applicable Series in accordance with the delegation of power to do so under an Applicable Series Resolution as it may be amended from time to time.

"Bond Year" means, unless otherwise stated in the Applicable Series Resolution or Applicable Bond Series Certificate, a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

"Bondholder", "Holder of Bonds", "Holder", "owner" or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Bonds of such Series, except as provided in the Resolution.

"Business Day" means a day other than (a) a Saturday and Sunday or (b) a day on which any of the following are authorized or required to remain closed: (i) banks or trust companies chartered by the State of New York or the United States of America, (ii) the Trustee, or (iii) the New York Stock Exchange.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Construction Fund" means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution.

"Contract Documents" means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the Institution relating to the construction of a Project, and any amendments to the foregoing.

"Conversion" means a change in the Rate Mode of the Bonds made in accordance with the provisions of the Bond Series Certificate.

"Conversion Date" means the day on which the Bonds are converted from one Rate Mode to a different Rate Mode or were proposed to be converted from one Rate Mode to another Rate Mode, which date must be a Reset Date or an Interest Payment Date.

"Conversion Notice" means a notice given pursuant to the Bond Series Certificate.

"Costs of Issuance" means the items of expense incurred in connection with the authorization, sale, issuance and delivery of a Series of Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee and any Credit Facility Issuer and Remarketing Agent, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, costs and expenses of refunding such Bonds, commitment fees or similar costs in connection with obtaining any Credit Facility and any Liquidity Facility, Reserve Fund Facility, or a Hedge Agreement, costs and expenses of refunding of other bonds or notes of the Authority with proceeds of such Series including termination fees for any Hedge Agreement in connection with such refunding such Bonds and other costs, charges and fees, including those of the Authority, incurred in connection with the foregoing.

"Costs of the Project(s)" means, with respect to a Project(s), the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such Project(s), including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project(s), (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project(s), which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental

inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of the Project(s), (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project(s), (vii) any sums required to reimburse the Institution, or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project(s) (including interest on moneys borrowed from parties other than the Institution), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of the Project(s), and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project(s) or pursuant to the Resolution or to the Loan Agreement, or a Remarketing Agreement in connection with Option Bonds or Variable Interest Rate Bonds, or a Reserve Fund Facility relating to such Project(s).

"Counterparty" means any person with which the Authority or an Institution has entered into a Hedge Agreement, provided that, at the time the Hedge Agreement is executed, the senior or uncollateralized long–term debt obligations of such person, or of any person that has guaranteed for the term of the Hedge Agreement the obligations of such person thereunder, are rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, not lower than in the third highest rating category by each Rating Service.

"Credit Facility" as defined in the Resolution means (i) any municipal bond insurance policy satisfactory to the Authority which insures payment of principal, interest and, if agreed to by the Credit Facility Issuer and the Institution, redemption premium on the Bonds of any Series when due and issued and delivered to the Trustee, (ii) a letter of credit issued by a Credit Facility Issuer with respect to any Series of Bonds or one or more Series of Bonds on the date of issuance of such Series of Bonds or (iii) similar insurance or credit enhancement or guarantee facility if so designated, all in accordance with the Applicable Series Resolution.

"Credit Facility Default" means with respect to a Credit Facility Issuer any of the following: (a) there shall occur a default in the payment of principal of or any interest on any Bond or Purchase Price thereof by the Credit Facility Issuer when required to be made under the terms of the Credit Facility, (b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction or (c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

"Credit Facility Issuer" means, with respect to any Series of Bonds for which a Credit Facility is held by the Trustee, the bank, trust company, a national banking association, firm, association or corporation, including public bodies and governmental agencies, acceptable to the Authority, which has issued such Credit Facility in connection with such Series of Bonds, and any successors or assigns of the obligations of such bank, trust company, a national banking association, firm, association or corporation under such Credit Facility.

"Credit Facility Repayment Fund" means each fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution.

"Debt Service Fund" means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution.

"Debt Service Reserve Fund" means each fund so designated, created and established pursuant to the Resolution and by the Applicable Series Resolution or Bond Series Certificate.

"Debt Service Reserve Fund Requirement" means the amount of moneys, if any, required to be on deposit in the Debt Service Reserve Fund, if any, with respect to an Applicable Series of Bonds as determined in accordance with the Applicable Series Resolution or Bond Series Certificate.

"Default Notice" means a notice given by a Provider of a Credit Facility or Liquidity Facility pursuant to such Credit Facility or Liquidity Facility or the applicable Reimbursement Agreement to the effect that an event of default thereunder has occurred and that the Credit Facility or Liquidity Facility will terminate on the date specified in such notice, which termination date shall be not less than three (3) Business Days following the date of the notice.

"Defeasance Security" means, unless otherwise provided in an Applicable Series Resolution, any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations (other than an obligation subject to variation in principal repayment); Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the interest payment dates and the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the Government Obligations which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two Rating Services in the highest rating category for such Exempt Obligation (without regard to qualification of such rating by symbols such as "+" or "-" and numerical notations); provided, however, that (1) with respect to the above, such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

"Department of Health" means the Department of Health of the State of New York.

"Depository" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Applicable Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series.

"Direct Purchaser" means the purchaser of all or a portion of the Bonds in a direct private placement.

"Excess Earnings" means, with respect to the Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code.

"Exempt Obligation" means any of the following: (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, no lower than the second highest rating category for such obligation by at least two Rating Services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Expiration Date" means, when used in connection with a particular Credit Facility or Liquidity Facility, the date on which such Credit Facility or Liquidity Facility will expire by its terms, as such date may be extended from time to time, or any earlier date on which such Credit Facility or Liquidity Facility shall terminate, expire or be canceled upon delivery of a substitute Credit Facility or Liquidity Facility in accordance with the Bond Series Certificate, but does not include a Termination Date.

"Facility Provider" means the issuer of a Reserve Fund Facility delivered to the Trustee pursuant to the Resolution.

"Federal Agency Obligation" means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

"Fitch" means Fitch Ratings, Inc., a corporation organized and existing under the State of New York, and its successors and assigns.

"Government Obligation" means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

"Governmental Requirements" means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to a Project or Mortgaged Property, if any, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and

having or asserting jurisdiction over a Project or any part thereof, or Mortgaged Property, if any, including, but not limited to, Article 28, Article 28A or 28-B, as applicable, of the Public Health Law of the State of New York.

"Gross Proceeds" means, with respect to any Applicable Series of Tax-Exempt Bonds, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds, (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, (v) securities or obligations pledged by the Authority or the Institution as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds.

"Gross Receipts" shall have the meaning accorded such term in the Master Indenture, as amended from time to time.

"Hedge Agreement" means (i) an agreement entered into by the Authority or the Institution in connection with the issuance of or which relates to all or a portion of Bonds of a Series which provides that during the term of such agreement the Authority or the Institution is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on an amount equal to a principal amount of such Bonds, or the applicable portion thereof, and that the Counterparty is to pay to the Authority or the Institution an amount based on the interest accruing on a principal amount equal to the same principal amount of such Bonds at a fixed or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement or (ii) interest rate cap agreements, interest rate floor agreements, interest rate collar agreements and any other interest rate related agreements or arrangements; provided, however, that no such agreement entered into by the Institution shall constitute a Hedge Agreement for purposes hereof unless a copy thereof has been delivered to the Authority.

"Institution" means Catholic Health System, Inc. or other entity or person that is a Member of the Obligated Group and for whose benefit the Authority has, as authorized under the Public Health Law or any other law or regulation, issued such Series of Bonds or any portion thereof.

"Insurance Trustee" means the person, if any, designated in the municipal bond insurance policy issued by a Credit Facility Issuer in connection with a Series of Outstanding Bonds with whom funds are to be deposited by such Credit Facility Issuer to make payment pursuant to such policy on account of the principal and Sinking Fund Installments of and interest on the Bonds of such Series.

"Investment Agreement" means an agreement for the investment of moneys with a Qualified Financial Institution.

"Liquidity Facility" means an irrevocable letter of credit, surety bond, loan agreement, standby purchase agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National

Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which money is to be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms of the Resolution and of the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds.

"Loan Agreement" means the Loan Agreement, executed by the Authority and any Applicable Institution, or other agreement, by and between the Authority and an Applicable Institution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by such Loan Agreement.

"Master Indenture" means the Master Trust Indenture by and among the members of the Obligated Group and the Master Trustee as may be amended and supplemented from time to time.

"Master Trustee" means The Bank of New York Mellon, New York, New York, and any successor under the Master Indenture.

"Maximum Interest Rate" means, with respect to any Applicable Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the maximum rate of interest Bonds of such Series may bear at any time.

"Member" means each organization that is a member of the Obligated Group.

"Minimum Interest Rate" means, with respect to any Applicable Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the minimum rate of interest Bonds of such Series may bear at any time.

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

"Mortgage" means collectively, the mortgages, under the Master Indenture and the Series 2019 Supplemental Indenture granted by certain Members of the Obligated Group to the Master Trustee to secure Obligations under the Master Indenture.

"Mortgaged Property" means the real property, fixtures, personal property and other property interests described in and pledged pursuant to a Mortgage.

"Obligation" as defined in the Resolution means an "Obligation" as defined in and as issued pursuant to the Master Indenture and a Supplemental Indenture to secure indebtedness of a Member of the Obligated Group.

"Obligated Group" as defined in the Resolution means Catholic Health System, Inc., Mercy Hospital of Buffalo, Sisters of Charity Hospital of Buffalo, New York and Kenmore Mercy Hospital, Mount St. Mary's Hospital of Niagara Falls, McAuley Seton Home Care Corporation and Niagara Homemakers Services, Inc. (or as otherwise set forth in the Master Indenture) and such other organizations as may from time to time be added as members of such Obligated Group, and excluding such organizations as may from time to time withdraw as members of such Obligated Group, all as provided in the Master Indenture, pursuant to which such Obligated Group was created.

"Obligated Group Representative" means the representative appointed under the Master Indenture.

"Option Bond" means any Bond which by its terms may be or is required to be tendered by the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate related to such Bonds.

"Outstanding" when used in reference to Bonds of any Applicable Series means, as of a particular date, all Bonds of such Series, including Bank Bonds, authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with the Resolution; (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the Purchase Price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds. Bank Bonds will be deemed to be Outstanding and pledged to the Applicable Credit Facility Issuer, and the purchase thereof with the proceeds of a drawing on the Credit Facility shall not result in an extinguishment of the debt replenished by such Bonds.

"Paying Agent" means, with respect to any Applicable Series of Bonds, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of an Applicable Series Resolution, an Applicable Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of such Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

"Permitted Collateral" means any of the following: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; (iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one Rating Service no lower than in the second highest rating category; (iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least $125,000,000 and is rated by Bests Insurance Guide or a Rating Service in the highest rating category; (v) bankers' acceptances issued by a bank rated in the highest short term rating category by at least one nationally recognized rating organization and having maturities of not longer than three hundred sixty-five (365) days from the date they are pledged; and (vi) taxable bonds, all or a portion of the interest on which is paid by or subsidized by the United States of America and to which the full faith and credit of the United States of America is pledged, including, but not limited to, Build America Bonds that are Qualified Bonds (as such terms are defined in Section 54AA of the Code).

"Permitted Investments" means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than

$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one Rating Service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; (vi) commercial paper issued by a domestic corporation rated in the highest short term rating category by at least one Rating Service and having maturities of not longer than two hundred seventy (270) days from the date of purchase; (vii) bankers' acceptances issued by a bank rated in the highest short term rating category by at least one Rating Service and having maturities of not longer than three hundred sixty-five (365) days from the date they are purchased; (viii) Investment Agreements that are fully collateralized by Permitted Collateral; (ix) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of $1.00 per share and that is rated in the highest short term rating category by at least one Rating Service; (x) taxable bonds, all or a portion of the interest on which is paid by or subsidized by the United States of America and to which the full faith and credit of the United States of America is pledged, including, but not limited to, Build America Bonds.

"Project" means, any eligible hospital project, nursing home project or other project qualified under the Act or otherwise eligible to be financed by the Authority through the issuance of obligations under the laws of the State of New York, as defined in the Applicable Loan Agreement.

"Provider" means, when used in connection with any particular Bonds, the Provider of a Credit Facility or Liquidity Facility for such Bonds delivered in accordance with the provisions of the Bond Series Certificate.

"Provider Payments" means any payments made by a Facility Provider pursuant to its Reserve Fund Facility on deposit in the Applicable Debt Service Reserve Fund.

"Purchase and Remarketing Funds" means each fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution.

"Purchase Price" means, except as otherwise set forth in an Applicable Bond Series Certificate, 100% of the principal amount of any Option Bond tendered or deemed tendered for purchase to the tender agent for such Bonds, plus accrued and unpaid interest thereon to the date of purchase; provided, however, that if the date of purchase is an Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

"Qualified Financial Institution" means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility, Liquidity Facility or financial guaranty agreement in connection with Outstanding Bonds of a Series;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility, Liquidity Facility or financial guaranty agreement in connection with Outstanding Bonds of a Series;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility, Liquidity Facility or financial guaranty agreement in connection with Outstanding Bonds of a Series;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any money held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

"Qualified Purchaser" means a person in whose name a Bank Bond may, as provided in the applicable Credit Facility or Liquidity Facility or the Reimbursement Agreement with the Provider thereof, be registered or to whom a Bank Bond may be transferred by or upon the order of such Provider without affecting the character of such Bond as a Bank Bond.

"Rating Service(s)" means S&P, Moody's, Fitch or any other nationally recognized statistical rating organization which shall have assigned a rating on any Bonds Outstanding as requested by or on behalf of the Authority, and which rating is then currently in effect.

"Record Date" means, unless the Applicable Series Resolution authorizing an Applicable Series of Bonds or an Applicable Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteenth (15th) day (whether or not a business day) of the month preceding each interest payment date.

"Redemption Price" when used with respect to a Bond of an Applicable Series, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the Applicable Series Resolution or Applicable Bond Series Certificate.

"Refunding Bonds" means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to the Resolution, and originally issued pursuant to the Resolution hereof, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

"Remarketing Agent" means the person or entity, appointed by or pursuant to the Applicable Series Resolution authorizing the issuance of a particular Series of Variable Interest Rate Bonds, to remarket such Variable Interest Rate Bonds tendered or deemed to have been tendered for purchase in accordance with such Applicable Series Resolution or the Applicable Bond Series Certificate relating to such Variable Interest Rate Bonds.

"Remarketing Agreement" means, with respect to a particular Series of Variable Interest Rate Bonds, an agreement between the Authority and the Remarketing Agent, between the Institution and the Remarketing Agent, or among the Authority, the Institution and the Remarketing Agent, relating to the remarketing of such Variable Interest Rate Bonds.

"Reserve Fund Facility" means a surety bond, insurance policy or letter of credit authorized by or pursuant to a Series Resolution establishing a Debt Service Reserve Fund which constitutes any part of the Debt Service Reserve Fund authorized to be delivered to the Trustee pursuant to the Resolution.

"Reset Date" means, with respect to a Bond in a Daily Rate Mode, a Commercial Paper Mode, a Weekly Rate Mode or a Term Rate Mode, the date on which the interest rate borne by such Bond is to be determined in accordance with the Bond Series Certificate.

"Resolution" means this Catholic Health System Obligated Group Revenue Bond Resolution, adopted March 6, 2019, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions of the Resolution.

"Revenues" means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement, and payments made under the Master Indenture or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation and all amounts realized upon liquidation of collateral securing the Applicable Obligation, which payments and amounts are to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Applicable Arbitrage Rebate Fund and Applicable Credit Facility Repayment Fund and except as otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate relating to a Series of Bonds).

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, and its successors and assigns.

"Securities" means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, at the time an investment therein is made or such security is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or " " or numerical notation, "Aa" or better by Moody's or "AA" or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) with the consent of the Credit Facility Issuers, if any, common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an

investment in its stock is made or its stock is deposited in any fund or account established hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or " " or numerical notation, "Aa" or better by Moody's or "AA" or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and the Credit Facility Issuers, if any.

"Serial Bonds" means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate.

"Series" means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and the Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

"Series Resolution" means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution.

"Sinking Fund Installment" means, (i) with respect to any Series of Bonds, as of any date of calculation and with respect to any Bonds of such Series other than Option Bonds or Variable Interest Rate Bonds, so long as any such Bonds thereof are Outstanding, the amount of money required by the Applicable Series Resolution pursuant to which such Bonds were issued or by the Applicable Bond Series Certificate, to be paid on a single future sinking fund payment date for the retirement of any Outstanding Bonds of said Series which mature after said future sinking fund payment date, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and said future sinking fund payment date is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment and (ii) when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto to be paid on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Interest Rate Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment.

"State" means the State of New York.

"Substitute Credit Facility" means any municipal bond insurance policy, a letter of credit or similar credit enhancement or guarantee facility constituting a Credit Facility within the meaning of the Resolution issued by a Credit Facility Issuer and delivered to the Trustee in connection with a particular Series of Bonds and effective upon the expiration or early termination of the then existing Credit Facility relating to such Series of Bonds in replacement of such existing Credit Facility, all in accordance with the provisions of the Applicable Series Resolution and the Applicable Bond Series Certificate.

"Supplemental Indenture" means any Supplemental Indenture under the Master Indenture authorizing the issuance of an Obligation to secure a Series of Bonds.

"Supplemental Resolution" means any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution.

"Tax Certificate" means the certificate of the Authority, including the appendices, schedules and exhibits thereto, executed in connection with the issuance of the Series 2019 Bonds which are Tax-Exempt Bonds in which the Authority makes representations and agreements as to arbitrage compliance with the provisions of Sections 141 through 150, inclusive, of the Code, or any similar certificate, agreement or other instrument made, executed and delivered in lieu of said certificate, in each case as the same may be amended or supplemented.

"Tax Exempt Bonds" means any Bonds authorized to be issued under the Resolution and under an Applicable Series Resolution, the interest on which Bonds is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Code.

"Tender Agent" means the Trustee, in its capacity as Tender Agent, appointed as Tender Agent and having the duties, responsibilities and rights provided in the Bond Series Certificate, and its successor or successors and any successor Trustee which may at any time be substituted in its place.

"Tender Notice" means the notice given by the Holders of a Bond upon its election to tender such Bond.

"Term Bonds" means with respect to Bonds of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments.

"Termination Date" means, when used in connection with a particular Credit Facility or Liquidity Facility, (i) the date on which such Credit Facility or Liquidity Facility will terminate prior to its stated Expiration Date, as set forth in a Default Notice or a Termination Notice delivered by the Provider thereof in accordance with such Credit Facility or Liquidity Facility or the applicable Reimbursement Agreement; or (ii) the date on which such Liquidity Facility or Credit Facility will terminate upon the election of the Institution, which date shall be not less than one Business Day after a Reset Date of the Bonds to which the Credit Facility or Liquidity Facility relates that bear interest in the Commercial Paper Mode or Term Rate Mode.

"Termination Notice" means a notice given by a Provider pursuant to a Credit Facility or Liquidity Facility provided by it or the applicable Reimbursement Agreement to the effect that such Credit Facility or Liquidity Facility will terminate on the date specified in such notice.

"Trustee" means The Bank of New York Mellon or any other bank or trust company appointed as Trustee for an Applicable Series of the Bonds pursuant to the Resolution hereof or any Applicable Series Resolution or any Applicable Bond Series Certificate delivered hereunder and having the duties, responsibilities and rights provided for herein and any Applicable Series Resolution and Bond Series Certificate with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution.

"Variable Interest Rate" means the rate or rates of interest to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds which is or may be varied from time to time in accordance with the method of computing such interest rate or rates specified in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds and which shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) which may be in effect from time to time or at a particular time or times, provided, however, that such variable interest rate may be subject to a maximum interest rate and a minimum interest rate and that there may be an initial rate specified, in each case, as provided in such Applicable Series Resolution or Applicable Bond Series Certificate, or (ii) a stated interest rate that may be changed from time to time as provided in such Applicable Series Resolution or Applicable

Bond Series Certificate provided, further, that such Applicable Series Resolution or Applicable Bond Series Certificate shall also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each variable interest rate shall remain in effect or (y) the time or times at which any change in such variable interest rate shall become effective or the manner of determining such time or times.

"Variable Interest Rate Bond" means any Bond which bears a Variable Interest Rate; provided, however, that a Bond, the interest rate on which shall have been fixed for the remainder of the term thereof, shall no longer be a Variable Interest Rate Bond.

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# APPENDIX D

# SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

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**APPENDIX D**

## SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Loan Agreement pertaining to the Series 2019 Bonds. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used in the Loan Agreement shall have the meanings ascribed to them in Appendix C to this Official Statement.

### Construction of Projects

(a) The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and the Loan Agreement, the Institution shall complete or cause the completion of the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of each Project in connection with which the Authority has issued Bonds for the benefit of the Institution, substantially in accordance with the Contract Documents relating thereto; or in the case of the refunding or defeasance of outstanding bonds or other undertaking of the Institution including but not limited to the Refunded Bonds, the Institution shall complete the refinancing or defeasance of such outstanding bonds or other indebtedness. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Applicable Construction Fund, cause the Institution to be reimbursed for, or pay, costs and expenses incurred by the Institution which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority and the Commissioner of Health for funds that are related to Public Health Law under Article 28-B.

(b) To the extent that moneys are available therefor, moneys in an Applicable Construction Fund shall be disbursed as the construction of the Project for which such fund was established progresses, but not more frequently than once each month, unless otherwise agreed to in writing by an Authorized Officer of the Authority, in amounts as shall be requested by the Institution pursuant to a request for disbursement as hereinafter provided, but not in excess of that amount reasonably determined by the Authority to be needed to reimburse the Institution for, or to pay, any costs and expenses constituting Costs of the Project previously paid or then due; provided, however, that the Authority may, in its sole discretion, withhold or delay making any advance in connection with a Project or part thereof at any time there is pending an action or proceeding, judicial or administrative, challenging the Institution's right to undertake such Project or such part thereof, or in which there is in issue (i) the validity of any governmental permit, consent or authorization, or the issuance thereof, necessary in connection with such Project or such part thereof, or (ii) the due authorization or validity of any Bonds issued in connection with such Project or such part thereof, unless the Institution has provided the Authority with security in such form and amount as may be reasonably required by an Authorized Officer of the Authority.

(c) Prior to making and delivering any certificate required pursuant to the Resolution to be delivered to the Trustee in connection with payments to be made pursuant to the Resolution, subject to paragraph (i) below, the Institution shall have submitted to the Authority and the Department of Health, and have received Authority and Department of Health approval with respect to, the form and substance of, a Project budget, and shall deliver to the Authority and the Department of Health in connection with the delivery of each certificate required pursuant to the Resolution, the request for disbursement of proceeds substantially in the forms set forth in the Loan Agreement.

(d) The Institution will receive the disbursements of moneys in each Applicable Construction Fund to be made under the Loan Agreement, and will hold the right to receive the same, as a trust fund for the purpose of paying the Costs of the Project for which each disbursement was made, and will apply or cause the same to be applied first to such payment before using any part thereof for any other purposes.

(e) The Institution shall permit the Authority, and subject to paragraph (i) below, the Department of Health, and their authorized representatives, at any time, upon notice and during normal business hours, to enter upon the property of the Institution or the Project to inspect the Project and all materials, fixtures and articles used or to be used in construction of the Projects, and to examine all Contract Documents. The Institution shall furnish to the Authority, the Department of Health, subject to paragraphs (i) and (j) below, and their authorized representatives, when requested, copies of such Contract Documents. The Institution agrees to retain all documentation of expenditures for items which constitute Costs of the Projects for at least seven (7) years after the date of completion of the Project to which such documentation relates.

(f) An Authorized Officer of the Authority, in such Authorized Officer's sole and absolute discretion, may waive, from time to time, any of the conditions set forth in this Section other than conditions relating to the rights and authority of the Department of Health, subject to paragraph (i) below. Any such waiver shall not be deemed a waiver by the Authority of its right to thereafter require compliance with any such condition. The Institution acknowledges and agrees that disbursements from an Applicable Construction Fund are to be made by the Trustee and shall be made in accordance with the Resolution only upon receipt by the Trustee of the documents required by the Resolution to be executed and delivered in connection with such disbursements.

(g) A Project shall be deemed to be complete upon delivery to the Authority and the Trustee with a copy to the Credit Facility Issuer of a certificate signed by an Authorized Officer of the Institution, which certificate shall be delivered as soon as practicable after the completion of such Project, or upon delivery to the Trustee and the Institution with a copy to the Credit Facility Issuer of a certificate signed by an Authorized Officer of the Authority and delivered at any time after completion of such Project. Any such certificate shall comply with the requirements of Section 5.04 of the Resolution. The Authority agrees that it will not execute and deliver any such certificate unless the Authority has notified the Institution in writing that, in the judgment of the Authority and the Department of Health (subject to paragraph (i) below), such Project has been completed substantially in accordance with the plans and specifications for such Project and the Institution has failed to execute and deliver the certificate provided for in the Loan Agreement within thirty (30) days after such notice is given. The moneys, if any, remaining in the Applicable Construction Fund established for such Project after such Project has been deemed to be complete, shall be paid as provided in Section 5.04 of the Resolution.

(h) Notwithstanding the foregoing, if, on the date a Series of Bonds is issued or multiple Series of Bonds are issued, a Project in connection with which all or a portion of such Series of Bonds or multiple Series of Bonds are issued shall have been deemed to be complete as provided in the Loan Agreement or otherwise, the provisions of the Loan Agreement relating to the construction of Projects shall be inapplicable to such Project, unless such Project is amended to increase the scope thereof pursuant to the Loan Agreement, in which case the provisions of the Loan Agreement relating to the construction of Projects shall apply to such Project.

(i) The provision of this Section calling for provision of materials to or otherwise granting approval or other rights to the Department of Health shall be applicable only for those portions of the Project subject to review by the Department of Health.

(j) Inspection rights of the Authority and the Department of Health are subject to all federal and State of New York laws regarding patient privacy.

*(Section 5)*

**Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments**

(a) Except to the extent that moneys are available therefor under the Resolution or under the Loan Agreement, including moneys in the Applicable Debt Service Fund, but excluding moneys from the Applicable Debt Service Reserve Fund, and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Fund, the Institution hereby unconditionally agrees to pay or cause to be paid, so long as the Applicable Series of Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it, including payments to be made under the Master Indenture:

(i) On or before the date of delivery of the Series 2019 Bonds, $200,000 as payment of the Authority Fee;

(ii) On or before the date of delivery of Bonds of a Series, such amount, if any, as is required in addition to the proceeds of such Bonds available therefor, to pay the Costs of Issuance of such Bonds, and other costs in connection with the issuance of such Bonds;

(iii) On the fifth Business Day preceding the date on which interest becomes due, the full amount of such interest coming due on all Bonds issued by the Authority for the benefit of the Institution;

(iv) On the fifth Business day preceding the date on which principal or a Sinking Fund Installment of Bonds becomes due, the full amount of such principal and Sinking Fund Installments coming due on the Bonds issued by the Authority for the benefit of the Institution;

(v) On or before the date on which the Redemption Price or purchase price in lieu of redemption of Bonds is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds. With respect to any Variable Interest Rate Bonds, on the Business Day on which any tendered Bonds which have not been remarketed pursuant to the Bond Series Certificate are to be purchased, an amount equal to the Purchase Price of such Bonds; provided, however, the Institution shall be deemed to have paid the Purchase Price of such Bonds if the Credit Facility Issuer has honored a draw on the Credit Facility to pay such Purchase Price;

(vi) On the dates set forth in the Loan Agreement, one-half (1/2) of the Annual Administrative Fee payable, during such Bond Year in connection with the Bonds issued by the Authority for the benefit of the Institution and as provided in the Loan Agreement, the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee payable shall become effective, with respect to the Series 2019 Bonds, on the date of issuance thereof, and with respect to any other Series of Bonds on the date agreed to by the Institution and the Authority at the time the Bonds of such Series are issued; and, provided, further, that the Annual Administrative Fee with respect to the Series 2019 Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Series of Bonds multiplied by a fraction, the numerator of which is the number of days remaining in such Bond Year and the denominator of which is 365;

(vii) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (A) for the Authority Fee then unpaid, (B) to reimburse the Authority for payments made pursuant to the Loan Agreement and any actual out-of-pocket expenses or liabilities incurred by the Authority under the Loan Agreement, (C) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement, the Resolution, the Master Indenture and the Obligation in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorney's fees in connection with performance of their duties under the Resolution, and (v) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of the Project or Projects for the benefit of the Institution;

(viii) On the date a Series of Bonds, other than the Series 2019 Bonds, is issued, an amount equal to the Authority Fee for such Series of Bonds;

(ix) Promptly upon demand by an Authorized Officer of the Authority (a copy of which shall be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to the Loan Agreement;

(x) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Applicable Arbitrage Rebate Fund available to be rebated in connection with the Bonds of a Series or otherwise available therefor under the Resolution and the amount required to be rebated or otherwise paid to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds of such Series;

(xi) On the Business Day immediately preceding an interest payment date, if the amount on deposit in the Applicable Debt Service Fund is less than the amounts required for the payment of principal or Sinking Fund Installments of, or interest on, Bonds due and payable on such interest payment date, the amount of such deficiency; and

(xii) Promptly after notice from the Trustee, the Authority or the Credit Facility Issuer, if the amount on deposit in the Credit Facility Repayment Fund is insufficient to reimburse the Credit Facility Issuer for an amount drawn upon the Credit Facility, the amount required to reimburse the Credit Facility Issuer;

Subject to the provisions of the Resolution and the Loan Agreement, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (iv) above on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through Sinking Fund Installments on the next succeeding July 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority hereby directs the Institution, and the Institution hereby agrees, to make the payments required by paragraphs (iii), (iv) and (v) above directly to the Trustee for deposit and application in accordance with Section 5.05 of the Resolution, the payments required by paragraph (ii) above directly to the Trustee for deposit in a Construction Fund or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraph (xii) directly to the Trustee for deposit into the Credit Facility Repayment Fund, the payments required by paragraphs (i), (vi), (vii) and (viii) above directly to the Authority, the payments required by paragraph (ix) above pursuant to Section 11.05 of the Resolution and the payments required by paragraph (x) above to or upon the order of the Authority. In the event that the payments required to be made directly to the

Trustee pursuant to the preceding sentence are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments shall be applied pro rata to each such Series of Bonds based upon the amount then due and payable on each Series of Bonds pursuant to paragraphs (iii), (iv), (v), (ix) and (xi) above bears to the total amount then due and payable for all Series of Bonds, pursuant to such paragraphs.

The Institution agrees that it shall also be obligated to make all payments when due on the Obligations to the applicable holders of the Obligations, and that the applicable holders shall be entitled to so receive all payments when due on the Obligations, it being the intention of the parties hereto that the Obligations and the Loan Agreement are separate (but not duplicative) obligations of the Institution (and, to the extent provided in the Obligations, of the Obligated Group), that payments by the Institution (or the Obligated Group) to the Trustee pursuant to the Obligation relating to the Applicable Series 2019 Bonds shall serve as a credit against amounts due from the Institution to the Authority pursuant to the Loan Agreement with regard to the Applicable Series of Bonds and that payments by the Institution to or upon the order of the Authority pursuant to the Loan Agreement shall serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the applicable Obligation.

The Institution further agrees that it shall be obligated to make payments from sources other than the Series 2019 Bonds as may be required with respect to completion of the Project as shall be set forth in Schedule B.

(b) Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in this subdivision), all moneys paid by the Institution to the Trustee pursuant hereto or otherwise held by the Trustee shall be applied in reduction of the Institution's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with Section 12.01 of the Resolution. Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in this subdivision), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (iii), (iv), (v), (ix), (xi) and (xii) of subsection (a) of this Section (other than moneys received by the Trustee pursuant to Section 8.06 of the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Institution's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in paragraph (a) (ix) of this Section) held by it in the Applicable Construction Fund to the Applicable Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of each Applicable Series of Bonds or Applicable Credit Facility Issuer, as the case may be, regardless of the actual due date or applicable payment date of any payment to the Holders of each Applicable Series of Bonds.

(c) The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement shall be complete and unconditional and the amount, manner and time of making

such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete a Project or the completion thereof with defects, failure of the Institution to occupy or use a Project, any declaration or finding that the Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part in the Loan Agreement contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project, beyond the extent of moneys available in the Applicable Construction Fund established for such Project.

The Loan Agreement and the obligations of the Institution to make payments under the Loan Agreement are general obligations of the Institution.

(d) An Authorized Officer of the Authority, for the convenience of the Institution, shall furnish to the Institution statements of the due date, purpose and amount of payments to be made pursuant hereto. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided in the Loan Agreement.

(e) The Authority shall have the right in its sole discretion to make on behalf of the Institution any payment required pursuant to this Section which has not been made by the Institution when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under Section 26 of the Loan Agreement arising out of the Institution's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

(f) The Institution, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of an Authorized Officer of the Authority in the Applicable Debt Service Fund or held by the Trustee for the payment of Bonds in accordance with Section 12.01 of the Resolution or for reimbursement of a Credit Facility Issuer. Upon any voluntary payment by the Institution or upon any deposit in a Applicable Debt Service Fund made pursuant to paragraph (b) of Section 9 of the Loan Agreement, the Authority agrees to direct the Trustee in writing to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with Section 5.06(4), 5.09 or 12.01 of the Resolution with respect to such Series of Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with Section 12.01 of the Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with Section 12.01 of the Resolution.

*(Section 9)*

**Consent to Pledge and Assignment by the Authority; Covenants, Representations, and Warranties**

(a) The Institution consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to paragraphs (iii), (iv), (v), (ix) and (xi) of Section 9(a) of the Loan Agreement and any or all security interests granted by the Institution under the Loan Agreement. The Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities paid or pledged pursuant to paragraph (a) of Section 9 of the Loan Agreement and all funds and accounts established by the Resolution and pledged thereby in each case to secure any payment or the performance of any obligation of the Institution under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Institution further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by this Section, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Institution's obligation to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan Agreement.

(b) The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its certificate of incorporation and by-laws or resolutions duly adopted pursuant thereto to enter into the Loan Agreement, to incur the indebtedness contemplated by the Loan Agreement and to pledge, grant a security interest in and assign to the Authority and the Trustee for the benefit of the Holders of the Bonds and the Credit Facility Issuer, the Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to paragraph (a) of Section 9 of the Loan Agreement in the manner and to the extent provided in the Loan Agreement and in the Resolution. The Institution further covenants, warrants and represents that except with respect to additional Bonds, and encumbrances as are permitted by the Master Indenture any and all pledges, security interests in and assignments made or to be made pursuant hereto are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant hereto, and that all corporate action on the part of the Institution to that end has been duly and validly taken. The Institution further covenants that the provisions of the Loan Agreement and thereof are and shall be valid and legally enforceable obligations of the Institution in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights. The Institution further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to paragraph (a) of Section 9 of the Loan Agreement and all of the rights of the Authority under the Loan Agreement and the Holders of Bonds under the Resolution against all claims and demands of all persons whomsoever. The Institution further covenants, warrants and represents that the execution and delivery of the Loan Agreement, and the consummation of the transaction in the Loan Agreement contemplated and compliance with the provisions of the Loan Agreement, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Federal Agency Obligations, Exempt Obligations and Securities delivered to the Trustee pursuant to paragraph (a) of Section 9 of the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the certificate of incorporation or by-laws of the Institution or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Institution is party or by which it or any of its properties are bound, or any existing law, rule,

regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institution or any of its properties.

*(Section 12)*

**Tax-Exempt Status**

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such listing continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act or enter into any agreement which could adversely affect the exclusion of interest on any of the Tax-Exempt Bonds from federal gross income pursuant to Section 103 of the Code.

*(Section 13)*

**Maintenance of Corporate Existence**

The Institution covenants that, except as permitted under the Master Indenture, it will maintain its corporate existence, will continue to operate as a not-for-profit organization, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Projects by the Institution, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written approval shall have been obtained from the Commissioner of Health, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization (or enter into a similar transaction); provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of Bond Counsel adversely affect the exemption from federal income tax of the interest paid or payable on the Tax-Exempt Bonds, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution under the Loan Agreement and furnishes to the Authority a certificate to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Loan Agreement and shall meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, shall provide the Authority with such other certificates and opinions as may reasonably be required by the Authority. In addition to the foregoing, any sale, transfer, consolidation, merger or acquisition or any change in the operator or in the control of the Institution shall be subject to and shall be accomplished in

compliance with applicable provisions of the New York State Public Health Law and regulations of the Department of Health.

*(Section 15)*

**Use of Project**

Subject to the rights, duties and remedies of the Authority under the Loan Agreement and the statutory and regulatory powers of the Department of Health, the Institution or any applicable Member shall have sole and exclusive control of, possession of and responsibility for (i) any Project financed under the Loan Agreement; (ii) the operation of such Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of such Projects.

*(Section 17)*

**Defaults and Remedies**

(a) As used in the Loan Agreement the term "Event of Default" shall mean:

(i) the Institution shall default in the timely payment of any amount payable pursuant to Section 9 of the Loan Agreement when due;

(ii) the Institution defaults in the due and punctual performance of any other covenant in the Loan Agreement contained and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given by the Authority or the Trustee, provided that, if, in the determination of the Authority, such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it shall not constitute an Event of Default if corrective action is instituted by the Institution within such period and is diligently pursued until the default is corrected;

(iii) as a result of any default in payment or performance required of the Institution or any Event of Default under the Loan Agreement, whether or not declared, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution and an "Event of Default" (as defined in the Resolution) shall have been declared under the Resolution so long as such default or Event of Default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(iv) the Obligated Group shall be in default under the Master Indenture and such default continues beyond any applicable grace period;

(v) the Institution shall (i) admit insolvency or bankruptcy or its inability to pay its debts in a timely manner as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(vi) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Institution, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall

be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institution, or any petition for any such relief shall be filed against the Institution and such petition shall not be dismissed within ninety (90) days;

(vii) the certificate of incorporation of the Institution shall be suspended or revoked;

(viii) a petition to dissolve the Institution shall be filed by the Institution with the Secretary of State of the State of New York, the Department of Health, the legislature of the State or any other governmental authority having jurisdiction over the Institution;

(ix) an order of dissolution of the Institution shall be made by the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Institution which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(x) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(xi) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order shall remain undismissed or unstayed for the earlier of (x) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order shall have been entered;

(xii) the receipt of written notification by the Trustee from the Credit Facility Issuer of the occurrence and continuance of an event of default under the reimbursement agreement or similar document, pursuant to which the Credit Facility was issued, and of the election of the Credit Facility Issuer to cause an acceleration of the debt and a mandatory tender of the Bonds secured by such Credit Facility.

(b) Upon the occurrence of an Event of Default, the Authority shall provide written notice of such Event of Default to the Department of Health upon receiving knowledge thereof, provided, however, that failure to give such notice shall in no manner impair or diminish the Authority's ability to take any action under the Loan Agreement. The Authority may take any one or more of the following actions upon the occurrence of an Event of Default:

(i) declare all sums payable by the Institution under the Loan Agreement or under the Obligations relating to the Applicable Bonds immediately due and payable;

(ii) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Construction Fund or otherwise to which the Institution may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(iii) withhold any or all further performance under the Loan Agreement;

(iv) maintain an action against the Institution under the Loan Agreement or under any Obligation or against any or all members of the Obligated Group under the Master Indenture or the Obligation to recover any sums payable by the Institution or to

require its compliance with the terms of the Loan Agreement or of the Master Indenture or the Obligations, as provided in the Master Indenture;

(v) permit, direct or request the Trustee to liquidate all or any portion of the assets of the Applicable Debt Service Reserve Fund, if any, by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installment, if any, or redemption price of and interest on the Bonds, or any other obligation or liability of the Institution or the Authority arising from the Loan Agreement or from the Resolution;

(vi) to the extent permitted by law, (i) enter upon any Project and complete the construction of any Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the Institution, consent to such entry being hereby given by the Institution, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action undertaken by the Institution and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (iii) assume any construction contract made by the Institution in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Institution, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of any Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution shall be liable to the Authority for all sums paid or incurred for construction of any Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (f) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Institution to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the Institution hereby irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Institution; and

(vii) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, or by law, including any other action or proceeding permitted by the terms of the Loan Agreement, or by law.

(c) All rights and remedies in the Loan Agreement given or granted to the Authority are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

(d) At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to paragraph (b) of this Section and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

(e) The Institution shall give the Authority and the Department of Health telephone and written notice within one business day of receiving information that the Master Trustee has appointed or intends to appoint a receiver in accordance with provisions of the Master Indenture.

*(Section 26)*

**Arbitrage**

(a) The Institution covenants that it shall not take any action or inaction, nor fail to take any action or permit any action to be taken, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series 2019 Bonds which are Tax-Exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Institution covenants that it will comply with the instructions and requirements of the Tax Certificate, which is incorporated in the Loan Agreement as if set forth fully in the Loan Agreement. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Bonds (except in the case of a purchase in lieu of redemption) in an amount related to the amount of any obligation to be acquired from the Institution by the Authority. The Institution will, on a timely basis, provide the Authority with all necessary information regarding funds not in the Authority's possession to enable the Authority to comply with the arbitrage and rebate requirements of the Code. The Institution shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirements.

(b) The Institution covenants that it will not take any action or fail to take any action which would cause any representation or warranty of the Institution contained in the Tax Certificate then to be untrue and shall comply with all covenants and agreements of the Institution contained in the Tax Certificate, in each case to the extent required by and otherwise in compliance with such Tax Certificate. The Institution shall maintain adequate policies and procedures to enable the Institution to comply with the reporting requirements of the Internal Revenue Service applicable to the Bonds, including but not limited to Schedule K (Form 990). The Institution shall certify annually to the Authority that it is in full compliance with the Loan Agreement and the Tax Certificate.

(c) The Authority agrees that any report of Excess Earnings (as defined in the Resolution) with respect to any Bonds prepared pursuant to Section 5.08 of the Resolution shall be provided to the Institution as soon as practicable after the completion of such report and that, prior to directing any payment pursuant to said section of Resolution of any amount in the Arbitrage Rebate Funds for any Bonds to the Department of Treasury of the United States of America, the Authority will provide to the Institution a copy of any form to be filed with the said department in connection with such payment and any related computation determining the amount of such payment.

(d) Notwithstanding any other provisions in the Loan Agreement or in the Resolution to the contrary, the Institution shall take full responsibility for performing all rebate calculations that may be required to be made from time to time with respect to the Bonds, and to coordinate with the Authority in order to permit the Authority to make timely payments of rebate liability to the Department of the Treasury of the United States of America (the "U.S. Treasury"). The Authority shall retain in its

possession, so long as required by the Code, copies of all documents, reports and computations made by or provided to it, in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof. The Institution agrees to maintain records adequately documenting calculations of rebate and payments, if any, or satisfaction of a spending exception to rebate in connection with the Bonds and the other bonds comprising the composite issue as described in the Tax Certificate. The Institution agrees to provide the Authority with copies of any documents, reports and computations in connection with such rebate calculations and payments of rebate to the U.S. Treasury in connection with said composite issue.

*(Section 31)*

**Termination**

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof; provided, however, that Section 31 of the Loan Agreement and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to Sections 25 and 26 of the Loan Agreement shall nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority shall deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of its duties under the Loan Agreement, including the release or surrender of any security interests granted by the Institution to the Authority pursuant hereto.

*(Section 38)*

**Effective Date**

The Authority and the Institution hereby agree that the Loan Agreement shall become effective immediately upon the issuance of the Series 2019 Bonds.

*(Section 43)*

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# APPENDIX E

# SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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**APPENDIX E**

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Resolution, as amended and supplemented. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used in the Resolution shall have the meanings ascribed to them in Appendix C to this Official Statement.

**Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts**

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its Bonds in one or more Series, each such Series to be authorized by a separate Applicable Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the Applicable Series Resolution authorizing such Series of Bonds. With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of such Applicable Series authorized to be issued under the Resolution and under the Applicable Series Resolution by those who shall hold or own the same from time to time, the Resolution and the Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of such Applicable Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such Series over any other Bonds of such Series except as expressly provided in or permitted by the Resolution or by the Applicable Series Resolution.

*(Section 1.03)*

**Refunding Bonds**

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered to refund all Outstanding Bonds of one or more Series of Bonds, one or more series of bonds or other obligations, a portion of a Series of Outstanding Bonds or a portion of a series of bonds or other obligations, a portion of a maturity of a Series of Outstanding Bonds or a portion of a maturity of bonds or other obligations. The Authority by resolution of its members may issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of this Section and of the Applicable Series Resolution authorizing such Series of Refunding Bonds or by the provisions of the resolution or resolutions authorizing the bonds or other obligations issued by the Authority, as the case may be.

(i) With respect to Refunding Bonds issued to refund all or any portion of any Series of Outstanding Bonds or to refund all or a portion of one or more series of Bonds, the Refunding Bonds of such Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by the Resolution) of:

(a) If the Bonds to be refunded are to be redeemed, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds, as the case may be, to be refunded on a redemption date specified in such instructions;

(b) Irrevocable instructions to the Trustee, satisfactory to it, to mail the notice provided for in the Resolution to the Holders of the Bonds being refunded;

(c) Either or both of (1) moneys in an amount sufficient to effect payment of the principal at the maturity date therefor or the Redemption Price on the applicable redemption date of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which money shall be held by the Trustee or any one or more of the Paying Agents or such other fiduciary appointed by the Authority in a separate account irrevocably in trust for and assigned to the respective Holders of the Applicable Bonds to be refunded and (2) Defeasance Securities in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the Resolution or the resolution authorizing such Bonds, as may be applicable, which Defeasance Securities and moneys shall be held in trust and used only as provided in the Resolution; and

(d) A certificate of the Authority containing such additional statements as may be reasonably necessary to show compliance with the requirements of this Section.

The proceeds, including accrued interest, of such Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or determined in accordance with the Applicable Series Resolution authorizing such Refunding Bonds.

(ii) With respect to the Refunding Bonds issued to refund all or any portion of any bonds or other obligations issued by the Authority, the proceeds, including accrued interest, shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided or as determined in accordance with the resolution or resolutions authorizing such bonds or other obligations.

*(Section 2.04)*

**Additional Obligations**

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien or right created hereby and pursuant to any Applicable Series Resolution, or with respect to the moneys pledged under the Resolution or pursuant to any Applicable Series Resolution.

*(Section 2.05)*

**Pledge of Revenues**

The proceeds from the sale of an Applicable Series of Bonds, the Revenues and all funds authorized by the Resolution and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund or an Applicable Credit Facility Repayment Fund, are hereby, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under an Applicable Series Resolution with respect to such Series, and together with the Applicable Credit Facility Repayment Fund, to each Applicable Credit Facility Issuer as security for the Institution's performance of its obligations under the Applicable Credit Facility and any reimbursement or related agreement associated therewith, all in accordance with the provisions of the Resolution and thereof. The pledge made under the Resolution, subject to the adoption of an Applicable

Series Resolution, shall relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds. The pledge made under the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Revenues and all funds and accounts established under the Resolution and pursuant to the Applicable Series Resolution which are pledged under the Resolution and pursuant to the Applicable Series Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds of each Applicable Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Revenues and the funds established under the Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

*(Section 5.01)*

**Establishment of Funds**

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;
Debt Service Fund;
Debt Service Reserve Fund;
Arbitrage Rebate Fund;
Credit Facility Repayment Fund; and
Purchase and Remarketing Fund.

Accounts and sub-accounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created under the Resolution, other than the Applicable Arbitrage Rebate Fund and the Applicable Credit Facility Repayment Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely in connection with an Applicable Series of Bonds for the uses and purposes provided in the Resolution; *provided however*, that (i) any Debt Service Reserve Fund established by or pursuant to a Series Resolution, the amounts held therein and amounts derived from any Reserve Fund Facility related thereto, shall not be held in trust for the benefit of the Holders of Bonds other than the Bonds of the Series secured thereby as provided in such Series Resolution and are pledged solely thereto and no Holder of the Bonds of any other Series shall have any right or interest therein, and (ii) the proceeds derived from the remarketing of Option Bonds tendered or deemed to have been tendered for purchase or redemption in accordance with the Series Resolution authorizing the issuance of such Bonds or the Bond Series Certificate relating to such Bonds or derived from a Liquidity Facility relating to such Bonds, and any fund or account established by or pursuant to such Series Resolution for the payment of the purchase price or Redemption Price of Option Bonds so tendered or deemed to have been tendered, shall not be held in trust for the benefit of the Holders of Bonds other than such Option Bonds and are pledged hereby for the payment of the purchase price or Redemption Price of such Option Bonds.

Within the Debt Service Fund there is created and established a Credit Facility Account and an Available Moneys Account under the Supplemental Resolution.

All moneys at any time deposited in any fund, account or sub-account created and pledged hereby, other than the Arbitrage Rebate Fund and the Credit Facility Repayment Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Supplemental Resolution; provided, however, that the proceeds derived from the remarketing of the Applicable Series of Bonds which are optionally tendered, mandatorily tendered or deemed to have been tendered for purchase in accordance with the Resolution, the Supplemental Resolution and the Applicable Bond Series Certificate shall be deposited in the Purchase and Remarketing Fund established and created under the Supplemental Resolution for the payment of the Purchase Price of Option Bonds so tendered or deemed to have been tendered, shall be held in trust solely for the benefit of the person or entity which has delivered such moneys until the Applicable Series of Bonds purchased with such moneys have been delivered to such person or entity and thereafter solely for the person tendering such Applicable Series of Bonds.

*(Section 5.02 of the Resolution and Section 4.01 of the Supplemental Resolution)*

**Application of Bond Proceeds and Allocation Thereof**

Upon the receipt of proceeds from the sale of an Applicable Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in an Applicable Series Resolution authorizing such Series or in the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of an Applicable Series of Bonds shall be deposited in the appropriate account in the Applicable Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

*(Section 5.03)*

**Application of Moneys in the Construction Fund**

1. For purposes of internal accounting, an account in an Applicable Construction Fund may contain one or more subaccounts, as the Authority or the Trustee may deem necessary or desirable. As soon as practicable after the delivery of an Applicable Series of Bonds, the Trustee shall deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the appropriate account in the Applicable Construction Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from the Applicable Project.

2. Except as otherwise provided in Article V of the Resolution and in the Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Fund shall be used only to pay the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project(s) in connection with which such Series of Bonds was issued.

3. Payments for Costs of an Applicable Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Such certificate or certificates shall be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Applicable Institution, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on the Applicable Series

of Bonds shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Applicable Construction Fund to the Applicable Debt Service Fund.

4. Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or an Applicable Institution with respect to an Applicable Project financed with Tax Exempt Bonds shall be deposited in the appropriate account in the Applicable Construction Fund and, if necessary, such fund may be reestablished for such purpose and if not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Fund for the redemption of the Applicable Series of Bonds in accordance with the Applicable Loan Agreement.

5. An Applicable Project shall be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Institution which certificate shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Applicable Institution and the Trustee of a certificate of the Authority which certificate may be delivered at any time after completion of such Project upon satisfaction of terms set forth in the Applicable Loan Agreement. Each such certificate shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Applicable Institution, shall specify the date of completion, or if any portion of the Project has been abandoned and will not be completed, shall so state.

Upon receipt by the Trustee of the certificate required pursuant to this subsection, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the written direction of the Authority for the payment of any Costs of Issuance of such Applicable Series of Bonds and Costs of the Applicable Project then unpaid, shall be paid by the Trustee as follows and in the following order of priority:

First: Upon the written direction of the Authority, to the Applicable Arbitrage Rebate Fund, the amount set forth in such direction;

Second: To the Applicable Debt Service Reserve Fund, such amount as shall be necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Third: To the Applicable Debt Service Fund for the redemption or purchase of the Applicable Series of Bonds in accordance with the Resolution and the Applicable Series Resolution, any balance remaining.

*(Section 5.04)*

**Enforcement of Obligations, Deposit of Revenues and Allocation Thereof**

1. To the extent an Applicable Institution fails to make any timely payment with respect to a Series of Bonds under the Applicable Loan Agreement, which payment would constitute a credit for payment of the Applicable Obligation in accordance with the terms thereof, the Trustee shall promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

2. The Revenues, including all payments received under the Applicable Loan Agreement, the Master Indenture, the Applicable Supplemental Indenture and the Applicable Obligations, shall be deposited upon receipt by the Trustee to the appropriate account of the Applicable Debt Service Fund in the amounts, at the times and for the purposes specified in the Applicable Series Resolution or Applicable

Loan Agreement. Except as provided in the Applicable Series Resolution or Applicable Bond Series Certificate, to the extent not required to pay the interest, principal, Sinking Fund Installments and moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund shall be paid by the Trustee on or before the business day preceding each interest payment date as follows and in the following order of priority:

First: To reimburse, pro rata, each Applicable Credit Facility Issuer for any unreimbursed amounts under each Applicable Credit Facility and any reimbursement or related agreement associated therewith, in proportion to the respective amounts then unpaid to each Applicable Credit Facility Issuer.

Second: To reimburse, pro rata, the Applicable Facility Provider, if any, for Provider Payments which have not been repaid and to replenish each Debt Service Reserve Fund to its respective Debt Service Reserve Fund Requirement, pro rata, in proportion to the amount the respective Provider Payments then unpaid to each Facility Provider and the amount of the deficiency in each Debt Service Reserve Fund bears to the aggregate amount of Provider Payments then unpaid and deficiencies in the respective Debt Service Reserve Funds;

Third: Upon the written direction of an Authorized Officer of the Authority, to the Applicable Arbitrage Rebate Fund in the amount set forth in such direction;

Fourth: To the Applicable Debt Service Reserve Fund, such amount, if any, other than as set forth in paragraph "Second" above, necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Fifth: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required under the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Applicable Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Fifth.

3. After making the payments required by paragraph 2 of this Section, the balance, if any, of the Revenues then remaining shall, upon the written direction of an Authorized Officer of the Authority, be paid by the Trustee to the Applicable Construction Fund or the Applicable Debt Service Fund, or paid to the Applicable Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created under the Resolution. The Trustee shall notify the Authority and the Institution promptly after making the payments required by paragraph 1 of this Section, of any balance of Revenues then remaining.

4. In the event that any payments received by the Trustee under the Resolution are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments shall be applied pro rata to each such Series of Bonds based upon the amounts then due and payable.

*(Section 5.05)*

**Debt Service Fund**

1. The Trustee shall on or before the business day preceding each interest payment date with respect to a Series of Bonds, as required by, and in accordance with, the Applicable Series Resolution or Applicable Bond Series Certificate, pay, from the Applicable Debt Service Fund, or the applicable account thereof to itself and any other Paying Agent:

(a) the interest due on all Outstanding Bonds of the Applicable Series on such interest payment date;

(b) the principal amount due on all Outstanding Bonds of the Applicable Series on such interest payment date;

(c) the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series on such interest payment date; and

(d) moneys required for the redemption of Bonds of the Applicable Series in accordance with the Resolution.

The amounts paid out pursuant to this Section shall be irrevocably pledged to and applied to such payments.

2. In the event that on the fourth business day preceding any interest payment date for a Series of Bonds the amount in the Applicable Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or for the payment of the Purchase Price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall withdraw from the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments. The Trustee shall notify the Authority, the Applicable Facility Provider, if any, Credit Facility Issuer, if any, Master Trustee, Obligated Group Representative of a withdrawal from the Applicable Debt Service Reserve Fund.

3. Notwithstanding the provisions of paragraph 1 of this Section, the Authority may, at any time subsequent to the first principal payment date of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Applicable Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by a Member of the Obligated Group and delivered to the Trustee in accordance with the Applicable Loan Agreement shall be canceled upon receipt thereof by such Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

4. Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Outstanding Bonds of an Applicable Series of Bonds payable on or prior to the next succeeding principal payment date, the interest on such Outstanding Bonds payable on the next succeeding interest payment date, assuming that a Variable Interest Rate Bond will bear interest, from and after the next date on which the rate at which such Variable Interest Rate Bond bears

interest is to be adjusted, at a rate per annum equal to the rate per annum at which such Bonds that bear interest, plus one point (1%) per annum and the Purchase Price or Redemption Price of Applicable Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be applied by the Trustee in accordance with the written direction of an Authorized Officer of the Authority to the purchase of Applicable Outstanding Bonds of any Series at Purchase Prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Applicable Debt Service Fund, such moneys may be applied by the Trustee: (i) in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Bonds as provided in Article IV of the Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Applicable Bond Series Certificate or (ii) as may otherwise be directed by the Authority.

The provisions of subdivision 3 and 4 above shall be applied without reference or recourse to moneys derived from a Credit Facility.

*(Section 5.06)*

**Arbitrage Rebate Fund**

The Trustee for a Series of Tax-Exempt Bonds shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Applicable Institution for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Applicable Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Applicable Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which the Authority determines to be in excess of the amount required to be so rebated shall be deposited to any Applicable Fund in accordance with the directions of the Authority.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Applicable Series of Bonds and direct the Trustee to (i) transfer from any other of the Applicable funds held by the Trustee under the Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of Bonds and (ii) pay out of the Applicable Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

*(Section 5.08)*

**Application of Moneys in Certain Funds for Retirement of Bonds**

Notwithstanding any other provisions of the Resolution, if at any time (i) the amounts held in the Applicable Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of a Series and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, (ii) the amounts held in the Applicable Debt Service

Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Series secured thereby and the interest accrued and unpaid and to accrue on such Bonds to the next date on which such Bonds may be redeemed or (iii) in either case, to make provision pursuant to the Resolution for the payment of such Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall so notify the Authority and the Applicable Institution(s). Upon receipt of such notice, the Authority may (i) direct the Trustee in writing to redeem all such Outstanding Bonds of the Applicable Series, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds under the Resolution and by the Applicable Series Resolution as provided in the Resolution, or (ii) give the Trustee irrevocable instructions in accordance with the Resolution and make provision for the payment of such Outstanding Bonds at the maturity or redemption dates thereof in accordance with such instruction.

*(Section 5.09)*

**Security for Deposits**

All moneys held under the Resolution by the Trustee of a Series of Bonds shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Applicable Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee of a Series of Bonds or any Paying Agent of a Series of Bonds to give security for the deposit of any moneys with them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Applicable Series of Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

*(Section 6.01)*

**Investment of Funds Held by the Trustee**

1. Money held under the Resolution by the Trustee, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given in writing (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations or Exempt Obligations; provided, however, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution.

2. In lieu of the investments of money in obligations authorized in the Resolution the Trustee shall, to the extent permitted by law, upon direction of the Authority given in writing, signed by an Authorized Officer of the Authority, invest money in the Construction Fund or Debt Service Reserve Fund in any Permitted Investment; provided, however, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution, provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

3. Permitted Investments purchased or other investments made as an investment of moneys in any fund held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund and the income or interest earned, profits realized or losses suffered by a fund due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund unless otherwise provided in the Applicable Series Resolution.

4. In computing the amount in any fund held by the Trustee under the provisions of the Resolution, each Permitted Investment purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Applicable Debt Service Reserve Fund shall be valued at the market value thereof, plus accrued interest and except that Investment Agreements shall be valued at original cost, plus accrued interest.

5. The Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, or present for redemption or exchange any investment held by the Trustee pursuant hereto and the proceeds thereof may be reinvested as provided in this Section. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant hereto whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee shall advise the Authority and the Institution in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of paragraphs 1, 2 and 3 of this Section. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund in the previous month.

6. No part of the proceeds of any Applicable Series of Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond which is a Tax-Exempt Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

7. In the event the Applicable Series of Bonds are supported by a Credit Facility, amounts drawn under a Credit Facility and Available Moneys and amounts being held to become Available Moneys and the earnings thereon shall not be invested in any obligation of the Authority or the Institution.

*(Section 6.02)*

**Amendment of Loan Agreements**

The Authority may not amend, change, modify, alter or terminate a Loan Agreement so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding or in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any such specified Series remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section; provided, further, that no such amendment, change, modification, alteration or termination will reduce the

percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by an Applicable Institution under its Applicable Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof or reduce the amount of any payment required to be made under the Obligations held by the Authority. A Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Applicable Projects or which may be added to or adjacent to the Applicable Projects or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in an Applicable Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement. Notwithstanding anything in this Section to the contrary, if an Applicable Loan Agreement expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement, such consent shall be required to be obtained as provided in such Loan Agreement. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of this Section, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of an Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of the Applicable Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any Applicable Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on an Applicable Institution, the Members of the Obligated Group, the Authority and all Holders of Bonds.

For all purposes of this Section, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

*(Section 7.09)*

**Tax Exemption: Rebates**

Except as otherwise provided in an Applicable Series Resolution, in order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Tax-Exempt Bonds of each Applicable Series, the Authority shall comply with the provisions of the Code applicable to the Bonds of each Applicable Series of Tax-Exempt Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each Applicable Series of Bonds, reporting of earnings on the Gross Proceeds of each Applicable Series of Bonds and rebates of Excess Earnings to the Department of the Treasury of the United States of America. Except as otherwise provided in the Resolution, the Authority shall comply with the letter of instructions as to compliance with the Code with respect to each such Series of Bonds, to be delivered by Bond Counsel at the time the Bonds of an Applicable Series are issued, as such letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority shall not take any action or fail to take any action, which would cause the Bonds of an Applicable Series to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

Notwithstanding any other provision of the Resolution to the contrary, the Authority's failure to comply with the provisions of the Code applicable to the Bonds of an Applicable Series shall not entitle the Holder of Bonds of any other Applicable Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority's failure to comply with the provisions of this Section or of the Code.

*(Section 7.11)*

**Modification and Amendment Without Consent**

Notwithstanding any other provisions of Article IX or Article X of the Resolution, the Authority may adopt at any time or from time to time, Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, the Master Indenture, or any Applicable Series Resolution, the Revenues, or any pledge of any other moneys, Securities or funds;

(e) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution shall cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution shall contain a specific reference to the modifications contained in such subsequent resolutions;

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent herewith as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders of Bonds of an Applicable Series or Applicable Credit Facility Issuer in any material respect;

(g) Upon any mandatory tender and remarketing of Variable Rate Bonds, to modify or amend any provision of the Resolution or an Applicable Series Resolution which modification or amendment shall be effective only with respect to the Series of Variable Interest Rate Bonds subject to such mandatory tender and remarketing, provided that the substance of such modification or amendment

was disclosed to prospective Holder in the offering document prepared in connection with such mandatory tender and remarketing.

*(Section 9.02)*

**Applicable Supplemental Resolutions Effective With Consent of Bondholders**

The provisions of the Resolution and an Applicable Series Resolution may also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders and Applicable Credit Facility Issuer in accordance with and subject to the provisions of Article X of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by the Authority.

*(Section 9.03)*

**Events of Default**

An event of default shall exist under the Resolution and under an Applicable Series Resolution (in the Resolution called "event of default") if:

(a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments, Purchase Price or Redemption Price of any such Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same shall become due and payable; or

(c) With respect to the Applicable Series of Tax-Exempt Bonds, the Authority shall default in the due and punctual performance of the covenants contained in the Resolution and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee (unless such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof), which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series with the prior written consent of the Applicable Credit Facility Issuer; or

(e) The Authority shall have notified the Trustee that an "Event of Default", as defined in the Applicable Loan Agreement, arising out of or resulting from the failure of the Applicable Institution to comply with the requirements of the Applicable Loan Agreement shall have occurred and be continuing and all sums payable by the Institution under the Applicable Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

An event of default under the Resolution in respect of an Applicable Series of Bonds shall not in and of itself be or constitute an event of default in respect of any other Applicable Series of Bonds.

*(Section 11.02)*

**Acceleration of Maturity**

Upon the happening and continuance of any event of default specified in the Resolution, other than an event of default specified in paragraph (c) of the subheading "Events of Default", then and in every such case the Trustee may with the consent of the Applicable Credit Facility Issuer, if any, and, upon the written request of (i) the Applicable Credit Facility Issuers, if any, or the Holders of not less than fifty percent (50%) in principal amount of an Applicable Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers, if any, have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Applicable Outstanding Bonds due upon the acceleration thereof, upon the request of an Applicable Credit Facility Issuer, if any, or Applicable Credit Facility Issuers, if any, making such deposit, shall: (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of the Applicable Series to be due and payable immediately and (B) request that the Master Trustee declare all applicable Outstanding Obligations (as defined in the Master Indenture) to be immediately due and payable. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in any Applicable Series Resolution or in the Bonds to the contrary notwithstanding. In the event that an Applicable Credit Facility Issuer shall make any payments of principal of or interest on any Bonds of the Applicable Series pursuant to an Applicable Credit Facility and the Bonds of the Applicable Series are accelerated, such Applicable Credit Facility Issuer may at any time and at its sole option, pay to the Bondholders all or such portion of amounts due under such Bonds of the Applicable Series prior to the stated maturity dates thereof. At any time after the principal of the Bonds of the Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee shall, with the prior written consent of Applicable Credit Facility Issuers, if any, which have issued Applicable Credit Facilities for not less than fifty percent (50%) in principal amount of the Applicable Bonds not then due by their terms and then Outstanding, or the Holders of not less than fifty percent (50%) in principal amount of the Applicable Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this Section) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in the Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under the Resolution) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

*(Section 11.03)*

**Enforcement of Remedies**

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee of a Series of Bonds may proceed, and upon the written request of the Applicable Credit Facility Issuers, if any, which have issued Applicable Credit Facilities for not less than fifty percent (50%) in principal amount of the Applicable Outstanding Bonds, or of the Holders of not less than fifty percent (50%) in principal amount of the Applicable Outstanding Bonds with the consent of the Applicable Credit Facility Issuers, if any, or, in the case of a happening and continuance of an event of default in paragraph (c) of the subheading "Events of Default", upon the written request of the Applicable Holders of not less than fifty percent (50%) in principal amount of the Applicable Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Applicable Credit Facility Issuer, if any, under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under the Applicable Series Resolution or in aid or execution of any power in the Resolution or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Applicable Series Resolution or of the Applicable Series of Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Applicable Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in any Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

*(Section 11.04)*

**Bondholders' Direction of Proceedings**

Anything in the Resolution to the contrary notwithstanding, the Applicable Credit Facility Issuers, if any, or the Holders of not less than fifty percent (50%) in principal amount of the Outstanding Bonds of an Applicable Series with the prior written consent of the Applicable Credit Facility Issuers, if any, or, in the case of an event of default specified in paragraph (c) of the subheading "Events of Default", the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series with the prior written consent of the Applicable Credit Facility Issuers, if any, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under the Applicable Series Resolution, provided, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of the Applicable Series Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*(Section 11.07)*

**Limitation of Rights of Individual Bondholders**

Neither any Holder nor any Applicable Credit Facility Issuer with respect to any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder or Applicable Credit Facility Issuer previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also such Credit Facility Issuer or the Holders of not less than fifty percent (50%) in principal amount of the Outstanding Bonds of an Applicable Series with the prior written consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) of the subheading "Events of Default", the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series, with the prior written consent of the Applicable Credit Facility Issuer, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts hereof or for any other remedy hereunder and thereunder. It is understood and intended that no one (1) or more of the Applicable Credit Facility Issuers of an Applicable Series secured by the Resolution and by an Applicable Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of an Applicable Series shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

*(Section 11.08)*

**Defeasance**

1. If the Authority shall pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds shall be discharged and satisfied, and the right, title and interest of the Trustee in the Applicable Loan Agreement, and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Trustee, on demand of the Authority, shall release the lien of the Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and securities provided for the payment of such Bonds, and shall execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and shall turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Trustee may reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection

therewith; provided that, if any of such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice shall have been given to the Trustee.

2. Bonds of an Applicable Series for which moneys shall have been set aside, shall be held in trust by the Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 of this Section. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in Article IV of the Resolution, notice of redemption on said date of such Bonds, (b) except as otherwise set forth in the Series Resolution or Bond Series Certificate with respect to an Applicable Series of Bonds, there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with this Section. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with this Section in the manner provided in Section 4.04 of the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amount required in the Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; third, as directed by the Authority and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement; and then, to the extent any moneys are remaining, to the Authority or at the Authority's discretion, to the Institution.

3. For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of money, or Defeasance Securities and money, if any, in accordance with clause (b) of the second sentence of paragraph 2 above, the interest to come due on such Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of money and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy clause (b) of the second sentence of paragraph 2 above, the Trustee shall, if requested by the Authority, pay the amount of such excess as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to each Applicable Credit Facility Issuer any unreimbursed amounts under such Credit Facility Issuer's Credit Facility and any reimbursement or related agreement associated therewith, pro rata, in proportion to the respective amounts then unpaid to each Applicable Credit Facility Issuer; third, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based on the respective Provider Payments then not repaid to each Facility Provider; fourth, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Applicable Institution, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

4. Option Bonds shall be deemed to have been paid in accordance with the Resolution only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee money in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the Resolution, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph 4. If any portion of the money deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee shall, if requested by the Authority, pay the amount of such excess as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Applicable Credit Facility Issuer any unreimbursed amounts under such Credit Facility Issuer's Credit Facility and any reimbursement or related agreement associated therewith, pro rata, in proportion to the respective amounts then unpaid to each Applicable Credit Facility Issuer; third, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then not repaid to each Facility Provider; fourth, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Applicable Institution, and any such money so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Applicable Loan Agreement.

5. Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of an Applicable Series which remain unclaimed for three (3) years after the date when such moneys become due and payable upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, shall at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect

thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority. In lieu of publishing such notice in an Authorized Newspaper, the Authority may post, or cause the Institution to post the matters set forth in the Resolution on the Electronic Municipal Market Access portal of the Municipal Securities Rulemaking Board to all applicable CUSIP numbers.

6. No principal or Sinking Fund Installment of or installment of interest on a Bond shall be considered to have been paid, and the obligation of the Authority for the payment thereof shall continue, notwithstanding that an Applicable Credit Facility Issuer, if any, pursuant to the Applicable Credit Facility issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

*(Section 12.01)*

## SUMMARY OF CERTAIN PROVISIONS OF THE BOND SERIES CERTIFICATE

**Determination of Rates**

(a) **Daily Rate.** Each Bond in a Daily Rate Mode (other than a Bank Bond) will bear interest at the Daily Rate. The Remarketing Agent for each Bond in a Daily Rate Mode shall determine a Daily Rate for each Daily Rate Period by 10:00 A.M., New York City time, on each Business Day. The Daily Rate for any day during the Daily Rate Period which is not a Business Day shall be the Daily Rate established on the immediately preceding Business Day. The Daily Rate for a Bond shall be determined by the Remarketing Agent to be the rate of interest that, if borne by such Bond for such Daily Rate Period, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as such Bond and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Bond, would be the lowest interest rate that would enable such Bond to be sold on the day of the applicable Daily Rate Period at a price of par, plus accrued interest, if any.

The Remarketing Agent shall make the Daily Rate available to any Holder, the Trustee, the Tender Agent, the Authority, the Institution, and each affected Provider, requesting such rate, and on the last Business Day of each calendar month, shall give notice to the Trustee, the Tender Agent, the Institution, and the Authority, of the Daily Rates that were in effect for each day of such calendar month via facsimile, telephonic, or electronic means or other similar means of communication, acceptable to the Authority.

If for any reason (i) the Daily Rate for a Daily Period is not established as aforesaid, (ii) no Remarketing Agent shall be serving hereunder, (iii) the Rate so established is held to be invalid or unenforceable with respect to a Daily Rate Period or (iv) pursuant to the Remarketing Agreement the Remarketing Agent is not then required to establish a Daily Rate, then the Daily Rate for such Daily Rate Period shall be the SIFMA Municipal Index on the date such Daily Rate was to have been determined by the Remarketing Agent.

(b) **Commercial Paper Rate.** The Commercial Paper Rate Period for and Commercial Paper Rate on each Bond in a Commercial Paper Mode (other than a Bank Bond) shall be determined by the Remarketing Agent for such Bond on or before 12:30 P.M., New York City time, on the first day of

each Commercial Paper Rate Period; ***provided, however,*** that if the Remarketing Agent fails to specify the next succeeding Commercial Paper Rate Period for a Bond, such Commercial Paper Rate Period for such Bond shall be the shorter of (i) seven (7) days or (ii) the period remaining to and including the final maturity date of the Bond. The interest rate for each Bond in a Commercial Paper Mode to take effect on such day shall be determined by the Remarketing Agent to be the rate of interest that, if borne by such Bond for its Commercial Paper Rate Period, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as such Bond and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Bond, would be the lowest interest rate that would enable such Bond to be sold on the first day of the applicable Commercial Paper Rate Period at a price of par, plus accrued interest, if any.

Each Bond in a Commercial Paper Mode (other than a Bank Bond) shall bear interest during a particular Commercial Paper Rate Period at a rate per annum equal to the interest rate determined above corresponding to the Commercial Paper Rate Period. A Bond can have a Commercial Paper Rate Period, and bear interest at a Commercial Paper Rate, different from other Bonds in the Commercial Paper Mode. The Remarketing Agent shall notify the Trustee, the Tender Agent, the Authority, the Institution, and each affected Provider by telephonic or electronic means (confirmed in writing) of the term or terms of and the interest rate or rates borne by the Bonds in the Commercial Paper Mode on the first day of each Commercial Paper Rate Period.

If for any reason (i) the Commercial Paper Rate for a Commercial Paper Rate Period is not established as aforesaid, (ii) no Remarketing Agent shall be serving hereunder, (iii) the Rate so established is held to be invalid or unenforceable with respect to a Commercial Paper Rate Period or (iv) pursuant to the Remarketing Agreement, the Remarketing Agent is not then required to establish a Commercial Paper Rate, then the Commercial Paper Rate for such Commercial Paper Rate Period shall be the SIFMA Municipal Index on the date such Commercial Paper Rate was to have been determined by the Remarketing Agent.

(c) **Weekly Rate.** Each Bond in a Weekly Rate Mode (other than a Bank Bond) will bear interest at the Weekly Rate. During the initial Weekly Rate Period, the Bonds shall bear interest at the rate set forth in connection with the issuance thereof, and during each subsequent Weekly Rate Period, the Weekly Rate shall be determined by the Remarketing Agent for such Bond to be the rate of interest that, if borne by such Bond for such Weekly Rate Period, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as such Bond and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Bond, would be the lowest interest rate that would enable such Bond to be sold on the first day of the applicable Weekly Rate Period at a price of par, plus accrued interest, if any.

On the last Business Day of each calendar month, the Remarketing Agent shall notify the Trustee, the Tender Agent, the Authority, the Institution, and each affected Provider, via facsimile, telephonic, electronic means or other similar means of communication, acceptable to the Authority and subsequently confirmed in writing, of the interest rate borne by the Bonds on each day of that calendar month.

The Remarketing Agent shall determine a Weekly Rate for each Weekly Rate Period by 5:00 P.M., New York City time, on the last day of each Weekly Rate Period, or if such day is not a Business Day, the next succeeding Business Day. If for any reason (i) the Weekly Rate for a Weekly Rate Period is not established as aforesaid, (ii) no Remarketing Agent shall be serving hereunder, (iii) the Rate so established is held to be invalid or unenforceable with respect to a Weekly Rate Period or (iv) pursuant to the Remarketing Agreement, the Remarketing Agent is not then required to establish a Weekly Rate, then

the Weekly Rate for such Weekly Rate Period shall be the SIFMA Municipal Index on the date such Weekly Rate was to have been determined by the Remarketing Agent.

(d) **Term Rate.** During each Term Rate Period, each Bond in a Term Rate Mode (other than a Bank Bond) will bear interest at the Term Rate. During any Term Rate Period during which the Direct Purchaser is the registered owner of the Bonds, the Bonds shall bear interest at the Term Rate set forth in the Certificate of Determination executed in connection with such Term Rate Period. Unless an Election to Retain has been made, the Authority shall, not less than twenty (20) Business Days prior to the end of such Term Rate Period, deliver to the Trustee and the Remarketing Agent for such Bond written notice of the Authority's determination of the next succeeding Term Rate Period, which Term Rate Period shall end on a Business Day or the maturity date of such Bond; ***provided, however,*** that if the Authority fails to specify the next succeeding Term Rate Period, such Term Rate Period shall be the shorter of (i) a period ending on July 1 that as nearly as practicable result in a Term Rate Period that is the same as the immediately preceding Term Rate Period, or (ii) the period remaining to and including the final maturity date of such Bond.

Except with respect to any Rate Period during which the Direct Purchaser is the registered owner of the Bonds, the Term Rate shall be the interest rate determined by the Remarketing Agent not later than a date two (2) Business Days prior to the Conversion Date or the next Reset Date. The Remarketing Agent shall promptly notify the Trustee of the Term Rate so established and of each adjustment thereof made in accordance with this paragraph. The Term Rate so established by the Remarketing Agent shall be the lowest rate which, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities of the same general nature as such Bond and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Bond, would be the lowest interest rate that would enable such Bond to be sold on the Conversion Date or the Reset Date at a price of par, plus accrued interest, if any. If the Remarketing Agent is unable to remarket all of the Bonds in the Term Rate Mode at the interest rate determined by the Remarketing Agent pursuant to the preceding sentence, the Remarketing Agent may, at any time prior to the Conversion Date or Reset Date increase the interest rate to that rate of interest which is the lowest rate which, in the judgment of the Remarketing Agent having due regard for the prevailing financial market conditions for bonds or other securities of the same general nature as the Bonds and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of the Bonds, would be the lowest interest rate that would enable the Bonds to be sold on the Conversion Date or the Reset Date at a price of par, plus accrued interest, if any. No more than five (5) Business Days prior to the Conversion Date or Reset Date, the Trustee shall notify by mail the Authority, the Institution, each affected Provider, and each Holder of the Bonds of any such adjustment in the interest rate. The Remarketing Agent shall not increase the interest rate later than two (2) Business Days prior to the Conversion Date or Reset Date and written notice of the increased interest rate shall be given by the Remarketing Agent concurrently to the Trustee, the Provider, the Institution, and the Authority.

The Term Rate shall not be reset unless at least five (5) Business Days prior to the Reset Date and again on such Reset Date, the Trustee, the Authority, the Institution, each affected Provider, and the Remarketing Agent, receive an Opinion of Bond Counsel; ***provided, however,*** that such Opinion of Bond Counsel shall not be required if (i) the Term Rate is for a Term Rate Period during which the Direct Purchaser is the registered owner of the Bonds, and (ii) the duration of the new Term Rate Period is the same as the immediately preceding Term Rate Period.

If for any reason the Term Rate for Bonds in the Term Rate Mode is not determined by the Remarketing Agent on or prior to the first day of a Term Rate Period, then, such Bonds shall be deemed to have been converted to Weekly Rate Mode on the Reset Date and will bear interest at a Weekly Rate and shall continue to bear interest at a Weekly Rate until such time as such Bonds shall have been converted to another Rate Mode.

(e) **Fixed Rate.** Each Bond in the Fixed Rate Mode (other than a Bank Bond) will bear interest at a Fixed Rate. The Fixed Rate for each such Bond shall be determined by the Remarketing Agent or other investment banking firm or firms with which the Authority has entered into an agreement for the purchase, as underwriters, of the Bond to be converted to the Fixed Rate Mode on the Conversion Date as agreed to by the Authority. The Fixed Rate shall be either (i) the lowest rate which, in the judgment of the Remarketing Agent or such other investment banking firm or firms, having due regard for prevailing financial market conditions for bonds or other securities of the same general nature as such Bond and which are comparable as to credit and maturity with the credit and maturity of such Bond, would be the lowest interest rate that would enable such Bond to be sold on the Conversion Date at a price of par, plus accrued interest, if any, or (ii) if the Authority, the Trustee, the Institution, and the Remarketing Agent or underwriter shall have received an Opinion of Bond Counsel, such other rate of interest as the Authority shall determine. If for any reason the Fixed Rate is not determined as aforesaid, then the Rate Mode shall on the Conversion Date convert to a Weekly Rate Mode unless (i) the Authority elects another Rate Mode for such Bonds, exercised by filing a certificate to such effect with the Trustee and each affected Provider, and (ii) on or prior to the Conversion Date an Opinion of Bond Counsel is delivered to the Trustee, and each affected Provider, whereupon the Rate to be borne by such Bonds shall be a Rate for such other Rate Mode determined as provided in the Bond Series Certificate.

(f) **Bank Bond Rate.** Bank Bonds will bear interest at the Bank Bond Rate payable at the time and in the manner provided in the applicable Credit Facility or Liquidity Facility for such Bank Bonds or the related Reimbursement Agreement.

(g) **Limitations on Rates.** No Bond shall bear interest at a rate which exceeds the Maximum Rate.

(h) **Limitation on Rate Periods.** No Rate Period shall extend beyond the scheduled stated expiration of the Credit Facility or Liquidity Facility then in effect, if any (or if such stated expiration is not a Business Day, the immediately preceding Business Day).

(i) **No Liability.** In determining the Rate, neither the Authority nor the Remarketing Agent shall have any liability to any Holder, the Trustee, the Tender Agent, the Provider or any Bondholder, except for its respective willful misconduct or gross negligence.

(j) **Deferred Interest on Bank Bonds.** If, on any date the Bank Bond Rate would, but for this sentence, exceed the Maximum Rate, then each Bank Bond shall bear interest at the Maximum Rate applicable thereto, and if thereafter the Bank Bond Rate would, but for this sentence, be less than such Maximum Rate, each Bank Bond shall, to the extent permitted by law, continue to bear interest at the Maximum Rate until such time as the total interest paid and accrued in respect to said Bank Bond is equal to the total interest that the Holder thereof would have received (together with, to the extent permitted by law, interest, at the rate therefor set forth in the applicable Credit Facility or Liquidity Facility or in the related Reimbursement Agreement, on any amounts the payment of which was deferred by reason of the limitation contained in the first clause of this sentence) if such Bank Bonds had borne interest without regard to the limitation contained in the first sentence of this paragraph.

*(Section 3.02)*

**Conversion of Rate Modes**

(a) In order to designate a new Rate Mode for any Bond, the Authority shall deliver a Conversion Notice. No Conversion of a Rate Mode shall occur unless:

(i) on the Conversion Date, no Event of Default under the Resolution has occurred and is continuing;

(ii) on or prior to 11:00 a.m., New York City time, on the day that the Authority delivers a Conversion Notice, the Authority shall have received a letter from Bond Counsel stating that, based on the then current law, such Bond Counsel knows of no reason why the Opinion of Bond Counsel required by clause (iii) below could not be rendered on the Conversion Date;

(iii) on or prior to 11:00 a.m., New York City time, on the Conversion Date, an Opinion of Bond Counsel with respect to such proposed Conversion shall have been delivered to the Authority, the Trustee, the Tender Agent, the Institution, each affected Provider, and the Remarketing Agent;

(iv) the Conversion Date of any Bond in the Fixed Rate Mode or the Term Rate Mode is an Interest Payment Date or Reset Date on which such Bond could be redeemed at the option of the Authority; and

(v) if the Conversion is (A) from the Fixed Rate Mode, or (B) from the Term Rate Period of five years or more, to the Daily Rate Mode, the Commercial Paper Mode, the Weekly Rate Mode or the Term Rate Mode with a Term Rate Period of less than five years, on or prior to the Conversion Date, a Remarketing Agent shall have been appointed for the Bonds to be converted.

Notwithstanding the foregoing provisions of this Section, the Bonds shall not be subject to Conversion during any Rate Period during which the Direct Purchaser is the registered owner of the Bonds unless the Institution, the Authority and the Trustee shall have received the prior written consent of the Direct Purchaser.

(b) In the event that:

(i) the requirements of paragraph (a) above have not been met on a scheduled Conversion Date;

(ii) on the Business Day preceding a scheduled Conversion Date, the Remarketing Agent notifies the Trustee, the Authority, the Institution, and each affected Provider that the Bonds to be converted cannot be remarketed; or

(iii) on or prior to the Business Day preceding a Conversion Date, the Authority, at the direction of the Institution, notifies the Trustee, each affected Remarketing Agent, and Provider of its election not to convert such Bonds to the new Rate Mode;

then, in each such case, the Bonds shall (x) except as otherwise provided in the section below, remain in the then existing Rate Mode or (y) be converted to such other Rate Mode as the Authority shall have specified in the notice given pursuant to clause (iii) above upon satisfaction of the applicable requirements of the Bond Series Certificate, whereupon, in each case, the Rate to be borne by such Bonds shall be a Rate for such Rate Mode determined as provided in the Bond Series Certificate.

*(Section 4.01)*

**Additional Provisions Regarding Conversion to the Fixed Rate Mode or Term Rate Mode**

(a) No Bond shall be converted to the Fixed Rate Mode or to the Term Rate Mode unless:

(i) required notice is given to the Holders of the Bonds to be converted; and

(ii) at least three (3) days prior to the proposed Conversion Date, the Trustee has received a certificate of an Authorized Officer of the Authority stating that a written agreement meeting the requirements of this Section has been entered into by the Authority and a firm or firms of investment bankers providing for the purchase as underwriter and resale to the public of the Bonds to be converted on the Conversion Date at a price equal to the principal amount thereof (or such other price as the Authority may determine if the sale of such Bonds at such other price would not prevent the required Opinion of Bond Counsel from being delivered upon such sale), which written agreement (A) may be subject to reasonable terms and conditions which, in the judgment of the Authority, reflect current market standards and (B) must include a provision requiring payment of the Purchase Price for the Bonds to be converted to be made in immediately available funds.

(b) If on the Conversion Date a remarketing has been arranged for less than all the Bonds to have been converted to the Term Rate Mode or the Fixed Rate Mode, only the Bonds for which a remarketing has been arranged shall be converted to the Term Rate Mode or the Fixed Rate Mode. The Bonds to have been converted for which no remarketing has been arranged shall continue in the Rate Mode in effect prior to the Conversion Date.

(c) The Authority may, by notice given to the Trustee at the same time and in the same manner as a Conversion Notice of the Conversion to the Fixed Rate Mode or the Term Rate Mode is given (which notice may be contained in such Conversion Notice), make an election after the Conversion Date to modify provisions of the Bonds related to serialization and other matters.

*(Section 4.02)*

**Tender of Bonds for Purchase**

(a) **Optional Tender of Book Entry Bonds.** For so long as a Bond bears interest in a Daily Rate Mode or a Weekly Rate Mode during which such Bond is a Book Entry Bond and DTC is the Depository therefor, a DTC Participant, acting on behalf of a Beneficial Owner, shall have the right to tender all or any portion, in an Authorized Denomination, of the principal amount of such Beneficial Owner's interest in such Bond for purchase on any Optional Tender Date, by the giving or delivering to the Remarketing Agent and the Tender Agent at their respective principal offices a Tender Notice which states (i) the aggregate principal amount in an Authorized Denomination of each Bond or portion thereof to be purchased and (ii) that such principal amount of the Bond (in an Authorized Denomination) shall be purchased on such Optional Tender Date pursuant to the Bond Series Certificate.

Such Tender Notice shall be delivered, in the case of Bonds bearing interest at a Daily Rate, not later than 11:00 A.M., New York City time, on the Optional Tender Date and, in the case of Bonds bearing interest at a Weekly Rate, not later than 5:00 P.M., New York City time, on the seventh calendar day prior to the Optional Tender Date.

Any Tender Notice given or delivered in accordance with this paragraph (a) shall be irrevocable and shall be binding on the DTC Participant, the Beneficial Owner on whose behalf such notice was given and any transferee of such Beneficial Owner and the principal amount of the Bonds for which a Tender

Notice has been given or delivered shall be deemed tendered on the Optional Tender Date without presentation or surrender of the Bonds to the Tender Agent. If there shall be on deposit with the Tender Agent on the Optional Tender Date an amount sufficient to pay the Purchase Price of the aggregate principal amount of Bonds to be tendered on such Optional Tender Date pursuant to a Tender Notice given pursuant to this paragraph (a), the Trustee shall request that ownership of such aggregate principal amount of Bonds shall be recorded in the records of DTC as transferred to the Remarketing Agent.

(b) **Optional Tender of Other Bonds.** For so long as a Bond bears interest in a Daily Rate Mode or a Weekly Rate Mode during which the Bond is not a Book Entry Bond or DTC is not the Depository therefor, the Holders of the Bonds shall have the right to tender any Bond (or portion thereof in an Authorized Denomination) to the Tender Agent for purchase on any Optional Tender Date, but only upon:

(i) giving or delivering to the Remarketing Agent and the Tender Agent at their respective principal offices, not later than 11:00 A.M. on the Optional Tender Date in the case of Bonds in a Daily Rate Mode and not later than 5:00 P.M., New York City time, on the seventh calendar day prior to the Optional Tender Date in the case of Bonds in a Weekly Rate Mode, an irrevocable telephonic Tender Notice subsequently confirmed in writing the same day which Tender Notice states (A) the aggregate principal amount in an Authorized Denomination of each Bond to be purchased and (B) that such Bond (or portion thereof in an Authorized Denomination) shall be purchased on such Optional Tender Date pursuant to the Bond Series Certificate; and

(ii) delivery of such Bond (with an appropriate instrument of transfer duly executed in blank) to the Tender Agent at its principal office at or prior to 1:00 P.M., New York City time, on such Optional Tender Date; ***provided, however,*** that no Bond (or portion thereof in an Authorized Denomination) shall be purchased unless the Bond so delivered to the Tender Agent shall conform in all respects to the description thereof in the aforesaid notice.

Any Tender Notice given or delivered in accordance with this paragraph (b) shall be irrevocable and shall be binding on the Bondholder giving or delivering such Tender Notice and on any transferee of such Bondholder.

(c) **Additional Notices.** The Remarketing Agent shall give the Tender Agent and the Tender Agent shall give the Institution and the Provider prompt notice by telephonic or electronic means of the receipt of any Tender Notice given pursuant to paragraph (a) or (b) above.

*(Section 5.01)*

**Mandatory Tender**

(a) The Bonds are subject to mandatory tender and purchase at the Purchase Price on the following dates as specified below:

(i) The Bonds to be converted to a different Rate Mode shall be tendered for purchase on the Conversion Date for such Bonds;

(ii) Except as otherwise provided in Section (b) below, the Bonds in the Commercial Paper Mode or the Term Rate Mode shall be tendered for purchase on each Reset Date for such Bonds;

(iii) The Bonds in connection with which a Credit Facility or Liquidity Facility is then in effect shall be tendered for purchase on a Business Day that is not less than three (3) Business Days prior to the Expiration Date of such Credit Facility or Liquidity Facility unless the Expiration Date has been extended at least thirty (30) days prior to such Expiration Date, and the Purchase Price of such tendered Bonds, if not paid with money in the Remarketing Proceeds Account, shall be paid with money drawn under such Credit Facility or Liquidity Facility;

(iv) The Bonds in connection with which a substitute Credit Facility or Liquidity Facility is delivered shall be tendered for purchase on the effective date thereof (or if such day is not a Business Day, on the immediately preceding Business Day); ***provided, however,*** the Purchase Price of such tendered Bonds in connection with which a substitute Credit Facility or Liquidity Facility is being delivered, if not paid with money in the Remarketing Proceeds Account, shall be paid with money drawn under the then existing Credit Facility or Liquidity Facility; and

(v) The Bonds in connection with which a Credit Facility or Liquidity Facility is then in effect shall be tendered for purchase on a Business Day that is not less than one Business Day prior to the Termination Date of such Credit Facility or Liquidity Facility specified in the Default Notice delivered to the Tender Agent by the Provider or its agent in accordance with the provisions of the Credit Facility or Liquidity Facility or the applicable Reimbursement Agreement, and the Purchase Price of such tendered Bonds, if not paid with money in the Remarketing Proceeds Account, shall be paid with money drawn under such Credit Facility or Liquidity Facility; and

(vi) The Bonds in the Daily Rate Mode or Weekly Rate Mode shall be tendered for purchase on any Reset Date at the option of the Authority.

(b) Notwithstanding the foregoing, the Bonds shall not be subject to mandatory tender on the Reset Date of any Rate Period during which the Direct Purchaser is the registered owner without satisfaction of additional provisions of the Bond Series Certificate

*(Section 5.02)*

**Credit and Liquidity Facilities**

(a) While the Bonds bear interest at a Weekly Rate or a Daily Rate and the Debt Service Reserve Fund Requirement is not funded, the Institution shall provide a Credit Facility or Liquidity Facility for all of the Bonds. Such Credit Facility or Liquidity Facility must meet the requirements of the Resolution, the Series 2019B Resolution and the Bond Series Certificate.

(b) The minimum amount of money available to be obtained under a Credit Facility or Liquidity Facility on any date shall be the sum of (i) the principal amount of Bonds to which the Credit Facility or Liquidity Facility relates that are Outstanding on such date (other than Bank Bonds or Bonds held by or for the account of the Institution or the Authority), plus (ii) an amount with respect to interest on such Bonds equal to interest accruing for such period and at such rate of interest as in the determination of an Authorized Officer of the Authority is necessary in order to maintain ratings on such Bonds from each Rating Service then rating the Bonds. The Authority shall at or prior to the effective date of any Credit Facility or Liquidity Facility deliver to the Trustee a Certificate of Determination setting forth (i) the amount of the Credit Facility or Liquidity Facility and the calculation of the components thereof with respect to the payment of the principal of and interest on the Bonds to which such Credit Facility or Liquidity Facility relates and (ii) the interest rate and the number of days of

interest accruing at such rate used to calculate the interest component of the Credit Facility or Liquidity Facility.

(c) With respect to a Credit Facility, the Trustee shall draw on the Credit Facility in strict accordance with the terms thereof and shall deposit all amounts drawn under the Credit Facility into the Credit Facility Account of the Debt Service Fund. Only amounts drawn under the Credit Facility and money transferred from the Remarketing Proceeds Account and any investment earnings thereon shall be deposited in the Credit Facility Account. All other moneys deposited in the Debt Service Fund shall be held separate and apart from the Credit Facility Account. Amounts drawn under the Credit Facility shall not be deemed the property of the Authority or the Institution. The Trustee shall draw on the Credit Facility in strict accordance with the terms thereof so that proceeds of the Credit Facility are available not later than the following times and in the following amounts:

(i) on the first Business Day of each month an amount equal to the interest which accrued on the Bonds in the immediately preceding month;

(ii) on the due date of each Sinking Fund Installment, the principal due on such date;

(iii) on the Business Day on which Bonds have been called for optional redemption;

(iv) on each Tender Date an amount equal to 100% of the Purchase Price of the Bonds, unless with respect to a Substitute Credit Facility, the Remarketing Agent provides requisite notice;

(v) at such times as are necessary in order to allow the Trustee to make the payments required under the Resolution on the date such payments are due; and

(vi) at such times as are necessary to allow the Trustee to make the payments required under the Resolution in the event of an acceleration.

The Trustee shall make the payments required to be made pursuant to Section 5.06(1) of the Resolution with amounts on deposit in the Credit Facility Account. If the amounts on deposit in the Credit Facility Account are insufficient to make such payments, then the Trustee shall use other Available Moneys on deposit in the Debt Service Fund. If the amount on deposit in the Credit Facility Account and the Available Moneys Account in the Debt Service Fund is insufficient to make the payments required to be made pursuant to Section 5.06(1) of the Resolution, then the Trustee shall use any other moneys on deposit in the Debt Service Fund other than moneys on deposit in the Credit Facility Account. No moneys in the Redemption Account shall be used to make payments attributable to interest payments due under Section 5.06(1)(a) of the Resolution.

Amounts drawn on the Credit Facility and the earnings thereon shall not be paid to the Authority or the Institution pursuant to any provision of the Resolution or the Loan Agreement, notwithstanding anything in the Resolution, the Series 2019B Resolution, the Bond Series Certificate or the Loan Agreement to the contrary.

(d) The Credit Facility Repayment Fund shall be held for the exclusive benefit of the Provider.

(e) The Trustee and the Tender Agent shall take such actions as may be required by a Credit Facility or Liquidity Facility in accordance with its terms to obtain money at the times and in the amounts

sufficient to pay the Purchase Price of Tendered Bonds in the Rate Mode to which the Credit Facility or Liquidity Facility relates, less the amount available therefor in the Remarketing Proceeds Account, as the same is due and payable. In addition, the Trustee shall take such actions as may be required by a Credit Facility in accordance with its terms to obtain money at the time and in the amounts sufficient to pay the principal and Redemption Price of and interest on the Bonds to which such Credit Facility relates. In no event shall the Trustee or Tender Agent seek to obtain any money under a Credit Facility or Liquidity Facility for payment of any Bonds other than the Bonds in the Rate Mode to which such Liquidity Facility relates.

(f) Notwithstanding anything in the Bond Series Certificate to the contrary, money obtained under a Credit Facility or Liquidity Facility shall not be deemed the property of the Authority or the Institution and shall be applied solely in accordance with the terms of the Bond Series Certificate. Such money shall be held uninvested. In no event will money obtained under a Credit Facility or Liquidity Facility be applied to the payment of the principal, Redemption Price or Purchase Price of or interest on any Bonds other than the Bonds in the Rate Mode to which the Credit Facility or Liquidity Facility relates.

Tendered Bonds (or portions thereof in Authorized Denominations), any portion of the Purchase Price of which shall have been paid with money obtained under a Credit Facility or Liquidity Facility, shall remain Outstanding and be Bank Bonds and shall be registered for transfer to the applicable Provider or a Qualified Purchaser or a designee of either, at the direction of the Provider, and upon such registration, the Bonds issued in respect thereof shall be (a) delivered to and held by the Trustee on behalf of the Provider or (b) if requested by the Provider, delivered to and held by the Provider, a Qualified Purchaser or a designee thereof, as owner.

Notwithstanding any other provision of the Resolution or the Bond Series Certificate to the contrary, neither of the Trustee, the Tender Agent or the Paying Agent, if any, shall have any lien on the money obtained under a Credit Facility or Liquidity Facility or the proceeds of the remarketing of tendered Bonds in respect of its compensation or other amounts owing to it. Neither the Tender Agent nor the Trustee shall seek indemnification prior to obtaining money under a Credit Facility or Liquidity Facility, making payments to Bondholders or effecting a mandatory tender of the Bonds.

The Tender Agent shall furnish to each Provider such notices as may be required under the terms of the Credit Facility or Liquidity Facility, including, without limitation, all notices for obtaining money, transfers, cancellations and increases or decreases in the amount available thereunder.

(g) The Credit Facility Issuer shall provide to the Trustee and the Authority an opinion of counsel to the effect that (i) the Credit Facility constitutes a legal, valid, binding obligation of the Credit Facility Issuer and (ii) the exemption of the Credit Facility is exempt from the registration requirements under the Securities Act of 1933, as amended.

*(Section 8.01)*

**Substitute Credit or Liquidity Facility**

(a) **Substitution or Replacement.** Upon satisfaction of the requirements of this Section and in the Credit Facility or Liquidity Facility, the Authority may, with the prior written consent of the Obligated Group Representative, replace a Credit Facility or Liquidity Facility with a substitute Credit Facility or Liquidity Facility and the related Reimbursement Agreement; ***provided, however,*** that in no event shall an existing Credit Facility or Liquidity Facility be surrendered to the Provider thereof upon delivery of a substitute Credit Facility or Liquidity Facility until a drawing to pay the Purchase Price of the Bonds tendered for purchase and not remarketed has been honored by such Provider.

(b) **Documents to be Delivered.** Prior to the substitution of any Credit Facility or Liquidity Facility, there shall have been delivered to the Tender Agent:

(i) an opinion of counsel to the new Provider acceptable in substance to the Authority to the effect that such substitute Credit Facility or Liquidity Facility constitutes a legal, valid and binding obligation of such Provider enforceable in accordance with its terms and that such substitute Credit Facility or Liquidity Facility is exempt from the registration requirements of the Securities Act of 1933, as amended; and

(ii) an Opinion of Bond Counsel with respect to the substitution of the alternate Credit Facility or Liquidity Facility.

In addition to the foregoing, not less than fifteen (15) days prior to the effective date of the substitute Credit Facility or Liquidity Facility, the Authority shall notify the Remarketing Agent of such substitution.

*(Section 8.02)*

**Requirements of Credit and Liquidity Facilities**

(a) **Requirements.** Any Credit Facility or Liquidity Facility delivered after the Issue Date in connection with Bonds or the applicable Reimbursement Agreement must:

(i) be in the form of an irrevocable letter of credit, a line of credit or a standby purchase agreement;

(ii) provide money at the times and in the amounts specified in the Bond Series Certificate for the payment of the Purchase Price of such Bonds, and, in the case of a Credit Facility, the principal and Sinking Fund Installments of and interest on such Bonds;

(iii) Not expire by its terms less than three hundred sixty–five (365) days after its effective date.

(b) **Amendments and Extensions.** No Credit Facility or Liquidity Facility shall be amended without the receipt by the Authority and the Trustee of an Opinion of Bond Counsel. No Credit Facility or Liquidity Facility shall be amended in any manner that, in the reasonable judgment of the Trustee or the Authority, adversely affect the rights of any of the Holders of the Bonds to which such Credit Facility or Liquidity Facility relates to receive payment thereunder from the Provider of such Credit Facility or Liquidity Facility, unless such amendment shall not become effective until after the date on which there is a mandatory tender of such Bonds. For the purposes of this Section, an "amendment" of a Credit Facility or Liquidity Facility shall not include an extension thereof. The Authority shall give notice of the termination, extension or substitution of any Credit Facility or Liquidity Facility to each Rating Service then rating the Bonds and each affected Remarketing Agent. The Authority, Trustee and Tender Agent shall be entitled conclusively to rely upon an opinion of counsel, which counsel shall be satisfactory to the Authority, Trustee and Tender Agent, with respect to whether any amendment adversely affects in any material respect the rights of the Holders of the Bonds to which such Credit Facility or Liquidity Facility relates to receive payment thereunder from the Provider of such Credit Facility or Liquidity Facility. No Credit Facility or Liquidity Facility may be extended or renewed on terms that are materially different from the terms of the Credit Facility or Liquidity Facility then in effect unless the Authority and the Trustee shall have received an Opinion of Bond Counsel.

*(Section 8.03)*

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# APPENDIX F

# FORM OF MASTER INDENTURE

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**APPENDIX F**

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# AMENDED AND RESTATED MASTER TRUST INDENTURE

**by and among**

**CATHOLIC HEALTH SYSTEM, INC.,**
**MERCY HOSPITAL OF BUFFALO,**
**SISTERS OF CHARITY HOSPITAL OF BUFFALO, NEW YORK,**
**KENMORE MERCY HOSPITAL,**
**MOUNT ST. MARY'S HOSPITAL OF NIAGARA FALLS,**
**McAULEY-SETON HOME CARE CORPORATION,**
**NIAGARA HOMEMAKER SERVICES, INC.**

**AND**

**THE BANK OF NEW YORK MELLON, AS MASTER TRUSTEE**

**Dated as of April __, 2019**

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**THIS AMENDED AND RESTATED MASTER TRUST INDENTURE**, dated for convenience of reference as of the __ day of April, 2019 (this "Indenture") by and among Catholic Health System, Inc. ("CHS"), Mercy Hospital of Buffalo ("Mercy"), Sisters of Charity Hospital of Buffalo, New York ("Sisters"), Kenmore Mercy Hospital ("Kenmore"), Mount St. Mary's Hospital of Niagara Falls ("MSM"), McAuley-Seton Home Care Corporation ("McAuley") and Niagara Homemaker Services, Inc. ("Niagara") and, each, a New York not-for-profit corporation (each a "Member of the Obligated Group" and collectively, the "Obligated Group"), and The Bank of New York Mellon, a banking organization duly organized under the laws of the State of New York, and being duly qualified to accept and administer the trusts created hereby (the "Master Trustee"),

PRELIMINARY STATEMENTS

CHS, Mercy, Sisters, Kenmore and St. Joseph Hospital of Cheektowaga, New York ("SJH") entered into a Master Trust Indenture dated as of November 29, 2006 with The Bank of New York, as master trustee ("Original Master Trustee"), as supplemented and amended by sixteen (16) supplemental indentures (the "Original Master Indenture") and issued sixteen (16) Obligations thereunder.

On March 9, 2009, SJH merged into Sisters and Sisters became obligated for all of SJH's obligations under the Original Master Indenture.

On the date hereof, MSM, McAuley and Niagara joined the Obligated Group pursuant to the Original Master Indenture.

The Master Trustee is successor by merger to the Original Master Trustee.

As of the date of this Indenture, the Obligations listed on Schedule A (collectively, the "Existing Obligations") issued under the applicable supplemental indenture to the Original Master Indenture are outstanding.

CHS, Mercy, Sisters, Kenmore, MSM, McAuley and Niagara have determined to continue to pool their credit as Members of the Obligated Group under the Original Master Indenture (as to be amended and restated as described below), as authorized by law and by their respective governing bodies and applicable organizational documents and as with the approval of their respective members and sponsors, by the issuance from time to time of Obligations in connection with their lawful and proper corporate purposes.

Subject to the specific limitations set forth therein, Section 6.02 of the Original Master Indenture permits the Obligated Group and the Master Trustee to enter into Supplemental Indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Original Master Indenture with the consent from Holders of not less than a majority in aggregate principal amount of Obligations now Outstanding. The Obligated Group and the Master Trustee have entered into a seventeenth (17th) supplemental indenture which, inter alia, authorizes this Indenture.

The Members of the Obligated Group wish to amend and restate the Original Master Indenture (including the supplemental indentures issued to date) in its entirety as set forth in this Indenture and in accordance with the requirements of Section 6.02 of the Original Master Indenture, including the requisite consent and approval of that amendment and restatement from Holders of not less than 51% in aggregate principal amount of Obligations now Outstanding.

The Members and the Master Trustee seek to amend and restate the Original Master Indenture pursuant to this Indenture and have obtained the consent of not less than 51% in aggregate principal amount of Obligations currently Outstanding and thus, the Original Master Indenture shall be amended and restated by this Indenture in its entirety and this Indenture shall be applicable to all Obligations outstanding under the Original Master Indenture and all Obligations to be issued under this Indenture. All acts and things necessary to constitute this Indenture a valid indenture and agreement according to its terms have been done and performed. At the time Obligations are issued in accordance with the provisions of this Indenture, there will have been done and performed all acts and things necessary to authorize such Obligations and to constitute such Obligations as the valid, binding and legal obligations of CHS, Mercy, Sisters, Kenmore, MSM, McAuley and Niagara and any other Person that may become a Member of the Obligated Group.

GRANTING CLAUSE

In order to declare the terms and conditions upon which Obligations have been and are to be issued, authenticated and delivered, and in consideration of the premises, and the acceptance by the Master Trustee of the trusts created, CHS, Mercy, Sisters, Kenmore, [MSM, McAuley and Niagara] covenant and agree with the Master Trustee, and with each other, and as a condition to becoming a Member of the Obligated Group each other Member shall covenant and agree with the Master Trustee, for the equal and proportionate benefit of the respective Holders from time to time of Obligations Outstanding under this Indenture to perform and observe all covenants and agreements of the Obligated Group and each Member, as follows:

## ARTICLE I

## DEFINITIONS AND OTHER PROVISIONS CONCERNING INTERPRETATION

**Section 1.01 Definitions**. For the purposes hereof unless the context otherwise indicates, the following words and phrases shall have the following meanings:

"**Additional Indebtedness**" means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the Existing Obligations under this Indenture or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

"**Affiliate**" means a corporation, partnership, limited liability company, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by a Member or the Obligated Group Representative or their respective successors or assigns or by any Person which

directly or indirectly controls a Member or the Obligated Group Representative. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"**Audited Financial Statements**" means, a financial report of Catholic Health Systems, Inc. and its Subsidiaries for any Fiscal Year performed and certified by a firm of qualified public accountants selected by the Obligated Group Representative prepared on a combined or consolidated, or combining or consolidating, basis in accordance with generally accepted accounting principles, covering the operations of Catholic Health Systems, Inc. and its Subsidiaries as of and for such Fiscal Year then ended and containing an audited consolidated balance sheet, consolidated statements of operations and changes in net assets, consolidated statements of cashflows and notes to the consolidated financial statements and a supplemental consolidating balance sheet and consolidating statements of operations for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year; provided, if at any time the Obligated Group comprises less than 75% of the assets and revenues of CHS for the most recent Fiscal Year of CHS, the financial report referred to herein shall mean a financial report of the Obligated Group and its subsidiaries.

"**Authorized Representative**" means, with respect to the Obligated Group Representative, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer, and, with respect to each Member of the Obligated Group, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer or its treasurer or any other person or persons designated as an Authorized Representative of such Member by an Officer's Certificate of the Obligated Group Representative or such Member of the Obligated Group, respectively, signed by the Chairperson of its Governing Body or its president or its chief executive officer or chief financial officer and filed with the Master Trustee.

"**Balloon Long-Term Indebtedness**" means Long-Term Indebtedness 25% or more of the principal amount of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date. Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness solely by reason of such "put" or "tender" provision.

"**Book Value**" when used in connection with Property, Plant and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

**"Business Day"** means any day other than (i) a Saturday or Sunday, (ii) a day on which banks in the State of New York, or the cities in which the corporate trust officer of the Master Trustee or the office at which demands for payment under any Credit Facility are to be presented to any Credit Facility Issuer, if applicable, are authorized or required by law to close, or (iii) a day on which the New York Stock Exchange is closed.

**"Bond Index"** means, at the option of the Obligated Group Representative (as set forth in an Officer's Certificate) (a) the 30-year Revenue Bond Index published most recently by The Bond Buyer, or a comparable index if such Revenue Bond Index is not so published, (b) the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or any successor index thereto, (c) the weighted average coupon of all then-Outstanding Long-Term Indebtedness secured by Obligations, as such average is certified by the Obligated Group Representative in the Officer's Certificate, or (d) such other interest rate or interest index as may be certified by the Obligated Group Representative in writing to the Master Trustee as appropriate to the situation. The Obligated Group Representative may designate a different Bond Index for each series or type of Long-Term Indebtedness.

**"Capitalization"** means the principal amount of all Long-Term Indebtedness outstanding plus the total Unrestricted Net Assets of the Combined Group; provided, however, the foregoing calculation may take into account the provisions of Section 1.02 hereof.

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

**"Combined Group"** means, collectively, the Members of the Obligated Group and the Restricted Affiliates.

"**Commercial Paper Indebtedness"** means Indebtedness in the form of commercial paper, notes or similar instruments with a maturity from 1 to 270 days from the date of issue.

**"Completion Indebtedness"** means any Long Term Indebtedness incurred by any member of the Combined Group for the purpose of financing the completion of facilities for the acquisition, construction or equipping of which Long Term Indebtedness has theretofore been incurred in accordance with the provisions of this Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time that such Long Term Indebtedness was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformity with the documents pursuant to which such Long Term Indebtedness theretofore incurred was originally incurred. Completion Indebtedness is authorized to be incurred, assumed or undertaken without limitation in accordance with and subject to Subsection 3.06(a)(E)(4).

"**Consultant**" means a firm or firms, selected by the Obligated Group Representative, which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant or other financial institution of national or regional repute for having the skill and experience necessary to render the particular report

required by the provision hereof in which such requirement appears and which is not unacceptable to the Master Trustee.

"**Corporate Charter**" means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

"**Corporate Trust Office**" means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located in New York, New York.

"**Credit Facility**" means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness to provide credit or liquidity support for such Indebtedness.

"**Credit Facility Default**" means, with respect to a Credit Facility Issuer, any of the following: (a) there shall occur a default in the payment of principal of or any interest on any bond supported by such Credit Facility or purchase price thereof by the Credit Facility Issuer when required to be made under the terms of the applicable Credit Facility, (b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction, or (c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

"**Credit Facility Issuer**" means the firm, association, corporation or other Person, if any, which has issued a Credit Facility that provides credit or liquidity support with respect to Indebtedness or Related Bonds.

**"Cross-over Date"** means, with respect to Cross-over Refunding Indebtedness, the last date on which the principal portion of the related Cross-over Refunding Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"**Cross-over Refunded Indebtedness**" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"**Cross-over Refunding Indebtedness**" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or dates or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on such refunding Indebtedness or refunded Indebtedness until the Cross-over Date.

"**Debt Service Requirement**" means for any specified period, (a) the amounts payable as lease rentals in respect of any or all Long-Term Indebtedness in the form of capitalized leases, subject to the treatment of leases in the definition of Indebtedness and Section 1.04(a), (b) the amounts payable to the Holders of Obligations (or to the trustee for such Holders) in respect of the principal of any or all Obligations issued as Long-Term Indebtedness under this Indenture (including scheduled mandatory redemptions of principal) and the interest on such Obligations, and (c) the amounts payable to any or all holders of Long-Term Indebtedness other than capitalized leases and Obligations under this Indenture (or to any trustee or paying agent for such holders) in respect of the principal of such Long-Term Indebtedness (including mandatory redemptions or prepayments of principal) and the interest on such Long-Term Indebtedness. Notwithstanding the foregoing, the amounts deemed payable in respect of any Long-Term Indebtedness shall not include interest which is funded from the proceeds thereof or any amounts payable from funds available (without reinvestment) in a Qualified Escrow (other than amounts so payable solely by reason of a Member's failure to make payments from other sources). Non-scheduled termination or similar payments under Derivative Agreements, payments due on optional redemptions, payments due on tenders of Indebtedness for purchase or retirement (other than scheduled mandatory sinking fund payments), payments due as a result of acceleration following default and similar, non-scheduled payments which come due or may become due on any Indebtedness shall not be treated as Debt Service Requirements. In addition, calculations of Debt Service Requirements shall be subject to adjustment as and to the extent permitted or required by Section 3.16, *provided, however*, that in connection with the calculation of "Debt Service Requirement", in no event shall any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once.

**"Defeasance Obligations"** means, unless modified by the terms of a particular Supplemental Indenture, (a) noncallable, nonprepayable Government Obligations, (b) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (c) Defeased Municipal Obligations, (d) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, and (e) stripped securities where the principal-only and interest-only strips of noncallable obligations are issued by the U.S. Treasury.

**"Defeased Municipal Obligations"** means obligations of state or local government municipal bond issuers rated in the highest rating category by S&P and Moody's, provision for the payment of the principal of and interest on which shall have been made or provided for by irrevocable deposit with a trustee or escrow agent of (a) noncallable, nonprepayable Government Obligations, (b) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, or (c) stripped securities where the principal-only and interest-only strips of noncallable obligations are issued by the U.S. Treasury, the maturing

principal of and interest on which when due and payable, without any reinvestment thereof, will provide sufficient money to pay the principal of and interest and any premium on such obligations of state or local government municipal bond issuers, and for which Defeased Municipal Obligations a specific call date has been established or for which the issuer has waived the ability to call such Defeased Municipal Obligations prior to a date certain.

"**Defeased Obligations**" means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to the terms of this Indenture and such Supplement.

**"Demand Indebtedness"** means (a) any Long-Term Indebtedness subject to purchase upon the occurrence of specified events or upon demand or tender by the holder thereof, and (b) commercial paper and other similar instruments issued under a program that has an expected term in excess of 365 days and that provides for the periodic issuance of debt obligations to repurchase, redeem or otherwise retire debt obligations previously issued under the program.

"**Derivative Agreement**" means, without limitation,

(a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;

(b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;

(c) any contract to exchange cash flows or payments or series of payments;

(d) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and

(e) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, or minimize investment risk or to protect against any type of financial risk or uncertainty.

"**Event of Default**" means any one or more of those events set forth in Section 4.01 of this Indenture.

"**Excluded Property**" means (a) any real Property that is not Health Care Facilities of the Obligated Group, (b) the real, tangible and/or intangible Property identified in ***Exhibit B***, (c) any

Property designated as Excluded Property or that becomes Excluded Property under the provisions of Section 3.20, (d) any Property of a Person becoming a Member that at the time is identified as Excluded Property as provided in Section 3.10(e), (e) any additions to the real Property identified in ***Exhibit B*** and all improvements, fixtures, tangible personal Property and equipment located thereon, and (f) any assets of "employee pension benefits plans" as defined in the Employee Retirement Income Security Act of 1974, as amended, maintained by or for the benefit of the Combined Group.

**"Existing Obligations"** means "Existing Obligations" as defined in the preliminary statement to this Indenture.

"**Fiscal Year**" means a period of twelve consecutive months commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

"**Fitch**" means Fitch Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"**Governing Body**" means, when used with respect to any member of the Combined Group, including the Obligated Group Representative, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such member of the Combined Group or the Obligated Group Representative are exercised.

"**Government Obligation**" means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America is pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export-Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Company; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, (j) United States Agency for International Development, (k) Farm Credit System Insurance Corporation, (l) Student loan Marketing Association (commonly referred to as "Sallie Mae"), (m) Resolution Funding Corporation (interest only), (n) United States Maritime Administration, (o) Department of Housing and Urban Development, and (p) General Services Administration.

"**Governmental Restrictions**" means federal, state or other applicable governmental laws or regulations, affecting any member of the Combined Group and its health care facilities including but not limited to (a) Articles 28 and 28-B of the Public Health Law, and (b) those placing restrictions and limitations on the (i) fees and charges to be fixed, charged and collected

by any member of the Combined Group or (ii) the amount or timing of the receipt of such fees or charges.

"**Gross Receipts**" means all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, health-care-insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided however, the foregoing may take into account the provisions of Section 1.02 hereof. Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (A) paying debt service on an Obligation or (B) meeting any commitment of a Member of the Obligated Group under any Indebtedness evidenced by an Obligation issued hereunder; (ii) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, any of which is derived from the Excluded Property which constitutes real property; and (iii) insurance proceeds relating to assets financed by a third party through a capital lease permitted under the Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee.

"**Guaranty**" means any obligation of any member of the Combined Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a member of the Combined Group which obligation of such other Person would, if such obligation were the obligation of a member of the Combined Group, constitute Indebtedness hereunder.

"**Health Care Facilities**" means the Property now or hereafter used by any member of the Combined Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. Any facility whose primary function or functions is other than providing health care services and which has incidental health care services provided on its premises, shall not be deemed to be Health Care Facilities.

"**Holder**" means an owner of any Obligation issued in other than bearer form.

"**Income Available for Debt Service**" means, on the basis of the Combined Group or any member thereof, for any period of time for which calculated, the excess of revenues over expenses before (or adding back) depreciation, amortization, taxes, and interest expense, as determined in accordance with generally accepted accounting principles and as shown in the Audited Financial Statements, expressly including any Delivery System Reform Incentive

Payments (DSRIP) income and grants or other funds from federal or state agencies; provided that no determination thereof shall take into account:

(a) unrealized gains or loss on investments or Derivative Agreements,

(b) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness or Related Bonds,

(c) gains or losses resulting from the early extinguishment of debt, termination of Derivative Agreements, the sale, exchange or other disposition of Property not in the ordinary course of business, or the reappraisal, reevaluation or write-up (write-down) of assets, pension adjustments, or any other significant unusual and infrequently occurring gains or losses; provided, however, that, at the Obligated Group Representative's election, gain from a sale-leaseback under generally accepted accounting principles may be included,

(d) gifts, grants, bequests or donations specifically restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Indebtedness of a member of the Combined Group,

(e) net proceeds of insurance (other than business interruption and cyber) and condemnation proceeds,

(f) proceeds of borrowing, or

(g) other non-cash income or loss;

provided, however, at the option of the Obligated Group Representative, net realized gains and losses from the sale of investments may be included in the computation of Income Available for Debt Service on the basis of the average annual amount of those gains and losses for the three (3) Fiscal Years immediately preceding the computation date (rather than including the actual amount of net realized gains and losses from the sale of investments for the period for which the computation is being performed).

Any calculation made will exclude any gains or losses attributable to transactions between any member of the Combined Group and any other member of the Combined Group and may take into account the provisions of Section 1.02 hereof.

In the event that the fiscal year of any member of the Combined Group ends on a date other than the last day of a Fiscal Year, the Income Available for Debt Service of such member during its fiscal year ending within the Fiscal Year under consideration shall be deemed to be its Income Available for Debt Service for such Fiscal Year.

"**Indebtedness**" means to the extent incurred, assumed or undertaken by a member of the Combined Group (other than to another member of the Combined Group):

(a) all indebtedness for borrowed money;

(b) all leases that are required to be capitalized under generally accepted accounting principles subject to Section 1.04(a);

(c) installment or conditional sale contracts; and

(d) any Guaranty with respect to an obligation that would constitute Indebtedness under clause (a), (b) or (c) if incurred or assumed by a member of the Combined Group.

Indebtedness does not include, among other things, (i) current obligations payable out of current revenues, (ii) current and long-term obligations for the funding of pension, post-retirement, workers compensation and other similar benefit plans and self-insurance programs (including professional liability); (iii) trade payables and obligations under contracts for supplies, services and pensions, allocable to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid; (iv) rentals under leases which are not capitalizable under generally accepted accounting principles; additionally, any lease that was not capitalized under generally accepted accounting principles as of the date of execution thereof, but at a later date is required to be capitalized under generally accepted accounting principles then in effect may, at the sole discretion of the Obligated Group Representative, be excluded from Indebtedness; (v) obligations under Derivative Agreements except to the extent provided in Section 3.16(d); (vi) physician income guarantees, and (vii) any other obligations that do not constitute indebtedness under generally accepted accounting principles. Those examples of items excluded from Indebtedness are not to create any implication that any other liability is included within Indebtedness if it is not within the plain meaning of (a) through (d).

**"Indenture"** means this Amended and Restated Master Trust Indenture, as it may be amended and supplemented from time to time.

"**Lien**" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any member of the Combined Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

"**Long-Term Debt Service Coverage Ratio**" means, for the Combined Group, on a consolidated basis, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service; provided, however, the foregoing calculation may take into account the provisions of Section 1.02 hereof.

"**Long-Term Indebtedness**" means all Indebtedness (other than Indebtedness for which the timely payment of the principal of and interest on which has been provided for from the deposit of Defeasance Obligations in a Qualified Escrow) having an original term, or renewable at the option of the borrower or lessee for a period from the date originally incurred, longer than one year.

"**Master Trustee**" means The Bank of New York Mellon and its successors in the trusts created under this Indenture.

"**Maximum Annual Debt Service Requirement**" means the highest Debt Service Requirement for the current or any succeeding Fiscal Year; provided that Maximum Annual Debt Service Requirements may be computed by the Obligated Group Representative in accordance with Section 3.16(f).

"**Member of the Obligated Group**" or "**Member**" means Catholic Health System, Inc., Mercy Hospital of Buffalo, Sisters of Charity Hospital of Buffalo, New York, Kenmore Mercy Hospital, Mount St. Mary's Hospital of Niagara Falls, McAuley-Seton Home Care Corporation and Niagara Homemaker Services, Inc., and any other Person becoming a Member of the Obligated Group pursuant to Section 3.10 hereof.

"**Moody's**" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"**Mortgage**" means a Mortgage delivered by and between a Member of the Obligated Group to the Master Trustee to secure the Obligations of the Obligated Group to the Master Trustee with respect to the Existing Obligations and all such other Obligations as may be issued from time to time.

"**Mortgaged Property**" means any and all Property, whether real, personal or mixed, and all rights and interests in and to the Property, which is subject to the liens and security interests created under a Mortgage.

"**Non-Recourse Indebtedness**" means any Indebtedness (a) that is incurred pursuant to and secured solely as permitted under Section 3.06(d), and (b) the holder of which has no claim for any payments in respect thereof against the general credit of any member of the Combined Group or against any properties or revenues other than the properties or revenues subject to the liens or security interests permitted by Section 3.06(d).

"**Obligated Group**" means, collectively, the Members of the Obligated Group as comprised at the time of reference.

"**Obligated Group Representative**" means Catholic Health System, Inc. or its successor, acting on behalf of the Obligated Group under this Indenture.

"**Obligation**" means the evidence of particular Indebtedness issued under this Indenture as a joint and several obligation of each Member of the Obligated Group. "Obligation" may also include the evidence of a particular obligation of each Member of the Obligated Group under a Derivative Agreement.

"**Officer's Certificate**" means a certificate signed by the Authorized Representative of such Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer's Certificate presented pursuant to this Indenture shall state that it is

being delivered pursuant to (and shall identify the section or subsection of), and shall incorporate by reference and use in all appropriate instances all terms defined in, this Indenture. Each Officer's Certificate shall state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer's Certificate is delivered or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

"**Operating Assets**" means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by a member of the Combined Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities and other Property held for investment purposes; provided, however, the foregoing may take into account the provisions of Section 1.02 hereof.

"**Opinion of Bond Counsel**" means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds and who is acceptable to the Master Trustee and any applicable Related Bond Issuer.

"**Opinion of Counsel**" means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Obligated Group Representative or any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

**"Original Master Indenture"** means the Master Trust Indenture, dated as of November 29, 2006, including any amendments or supplements thereto.

"**Outstanding**" means, as of any date of determination, (i) when used with reference to Obligations, all Obligations theretofore issued or incurred and not paid and discharged, other than (A) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (B) Defeased Obligations and (C) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, and (ii) when used with reference to Indebtedness other than Indebtedness evidenced by an Obligation, all Indebtedness theretofore issued or incurred and not paid and discharged, other than Indebtedness deemed paid and no longer outstanding under the documents pursuant to which such Indebtedness was incurred; *provided, however*, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under this Indenture, Obligations or Related Bonds that are owned by the Obligated Group Representative or any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member or the Obligated Group Representative shall be deemed not to be Outstanding, *provided further, however*, that for the

purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent, or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be deemed to be not Outstanding.

"**Permitted Liens**" shall have the meaning given in Section 3.05 hereof.

"**Person**" means an individual, association, unincorporated organization, limited liability company, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"**Property**" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"**Property, Plant and Equipment**" means all Property of the members of the Combined Group which is property, plant and equipment under generally accepted accounting principles.

**"Purchase Money Indebtedness"** means Indebtedness incurred by a member of the Combined Group pursuant to a purchase money contract, conditional sale agreement, installment purchase contract, capitalized lease or other similar debt or title retention agreement in connection with the acquisition of real or personal property and secured by a purchase money mortgage, security interest or lien with respect to the property acquired by such member of the Combined Group, where the lien of the seller or lender under such agreement is limited to such property.

**"Qualified Escrow"** means a segregated escrow fund or other similar fund or account which (a) is irrevocably established as security for Long-Term Indebtedness previously incurred and then outstanding (herein referred to as "Prior Indebtedness") or for Long-Term Indebtedness, if any, then to be incurred to refund outstanding Prior Indebtedness (herein referred to as "Refunding Indebtedness"), is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder, (b) is held in cash or invested in Defeasance Obligations, and (c) is required by the documents establishing such fund or account to be applied toward a Member's payment obligations in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

**"Rating Agencies**" means Fitch, Moody's and S&P.

"**Related Bond Indenture**" means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"**Related Bond Issuer**" means the issuer of any issue of Related Bonds.

"**Related Bond Trustee**" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"**Related Bonds**" means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (i.e. a "Related Bond Issuer") ("governmental issuer"), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Obligated Group Representative or a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer.

"**Related Credit Facility Issuer**" means the Credit Facility Issuer with respect to any issue of Related Bonds.

**"Related Financing Documents"** means:

(a) in the case of any Obligation, (i) all documents providing for the disposition of the proceeds of the Obligation (or of any debt evidenced or secured thereby), or evidencing or securing the payment obligations under the Obligation, and (ii) all documents creating any additional payment or other obligations on the part of an Obligated Group that are executed in favor of the Holder in consideration of the proceeds of the Obligation (or of any debt evidenced or secured thereby) being loaned or otherwise made available to the Obligated Group or to any other Person at the direction of the Obligated Group, including without limitation, any Related Bonds and Related Bond Indenture or, if a Credit Facility has been issued in support of the Obligated Group's obligations under the Obligation (or of any debt evidenced or secured thereby), all documents executed in favor of the issuer of the Credit Facility in consideration of such issuance;

(b) in the case of any Indebtedness other than Obligations, all documents relating thereto which are of the same nature and for the same purpose as the documents described in clause (a).

"**Related Loan Agreement**" means, for any Obligation, any loan agreement, lease agreement or any similar instrument relating to the proceeds of Indebtedness of a Member of the Obligated Group which the Obligation was issued to evidence.

**"Restatement Date"** means April 25, 2019.

**"Restricted Affiliate"** means any Affiliate of a member of the Obligated Group that:

(a) is either (i) a governmental body, including, but not limited to, a special district, or (ii) a non-stock membership corporation of which one or more members of the Obligated Group are the sole members, or (iii) a non-stock, non-membership corporation or a trust of which the sole beneficiaries or controlling Persons are one or more Members of the Obligated Group, or (iv) a stock or membership corporation, all of the outstanding shares of stock of which are owned by one or more Members of the Obligated Group; and

(b) (i) if such Affiliate is a non-stock corporation or a trust, the articles of incorporation or code of regulations or comparable organizational documents, in the case of a non-stock corporation, and the applicable organizational documents, in the case of a trust, provide that the net assets of such Affiliate shall be transferred to the Member (members) of the Obligated Group that is (are) its sole member(s), beneficiary(ies) or controlling person(s) upon liquidation or dissolution of such Affiliate, provided that if such Affiliate is a Tax-Exempt Organization, then for so long as the applicable Member of the Obligated Group is a Tax-Exempt Organization, the organizational documents of such Affiliate and applicable law may (A) provide for the naming of another Member of the Obligated Group as a substitute beneficiary if the then current beneficiary ceases to be a Tax-Exempt Organization, and (B) prohibit transfers to organizations that are not Tax-Exempt Organizations, and

(ii) (A) the power to alter, amend or repeal the articles of incorporation or code of regulations or other applicable organizational documents of such Affiliate, or to adopt a new code of regulations for such entity, is reserved to the Member(s) of the Obligated Group that is (are) its sole member(s), beneficiary(ies) or controlling person(s) and (B) the Member(s) of the Obligated Group that is (are) its sole member(s), beneficiary(ies) or controlling Person(s) has (have) the sole right to appoint and dismiss, with or without cause, the members of the Board of such Affiliate; and

(iii) has (A) the legal power, with approval of a majority of its Board but without the consent of any other Person, to transfer to one or more Members of the Obligated Group money required for the payment of Indebtedness of the Obligated Group, and (B) the ability under applicable law and its organizational documents, with approval of a majority of the members of its Board, to transfer all assets of such Affiliate remaining after payment of its debts to one or more Members of the Obligated Group, provided that if such Affiliate is a Tax-Exempt Organization, then for so long as the applicable Member of the Obligated Group is a Tax-Exempt Organization, the organizational documents of such Affiliate and applicable law may (x) provide for the naming of another Member of the Obligated Group as a substitute beneficiary if the then current beneficiary ceases to be a Tax-Exempt Organization, and (y) prohibit transfers to organizations that are not Tax-Exempt Organizations; and

(c) has satisfied (or a predecessor has satisfied) the requirements set forth in this Indenture for becoming a Restricted Affiliate and has not thereafter (i) ceased to satisfy the requirements of clauses (a) and (b) or (ii) satisfied the requirements set forth in this Indenture for ceasing to be a Restricted Affiliate.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"**Short-Term Indebtedness**" means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, excluding trade debt incurred in the ordinary course of business, but, including:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(iii) installment purchase or conditional sale contracts having an original term of one year or less.

The term Short-Term Indebtedness shall not be deemed to include any Non Recourse Indebtedness or any Demand Indebtedness.

"**Subordinated Debt**" means Indebtedness the payment of which is evidenced by instruments, or issued under an indenture or other document, containing specific provisions subordinating such Indebtedness to the Obligations, including following any event of insolvency by the debtor or following acceleration of such Indebtedness.

"**Supplement**" or **"Supplemental Indenture"** means an indenture supplemental to, and authorized and executed pursuant to the terms of, this Indenture.

"**Tax-Exempt Organization**" means a Person organized under the laws of the United States of America or any state or territory thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code, and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

**"Tax Exempt Related Bonds"** means Related Bonds on which the interest is not includable in gross income for purposes of federal income taxation pursuant to Section 103 of the Code.

"**Total Revenues**" means, for the Combined Group for any period of time for which calculated, the total of all unrestricted revenue and other support (including net patient revenue), other operating revenue, and net assets released from restrictions, as shown in the Audited Financial Statements for the most recent Fiscal Year; provided, however, the foregoing may take into account the provisions of Section 1.02 hereof.

"**Transfer**" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein or to relieve such Person from any liability other than by payment thereof by such Person, including specifically, but without limitation, the forgiveness of any debt.

**"Unrestricted Cash and Investments"** means the amount of unrestricted and unencumbered cash, cash equivalents, and marketable liquid investments of the Combined Group, including board designated funds; provided, however, the foregoing may take into account the provisions of Section 1.02 hereof.

**"Unrestricted Net Assets"** means the unrestricted net assets, capital and surplus, or other equivalent accounting classification representing the net worth of Combined Group; provided, however, the foregoing may take into account the provisions of Section 1.02 hereof.

"**Variable Rate Indebtedness**" means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

**Section 1.02 Interpretation**. Any reference herein to any officer or member of the Governing Body of a Member of the Obligated Group or the Obligated Group Representative shall include those succeeding to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions.

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

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

(c) Provisions calling for the redemption of Obligations or the calling of Obligations for redemption do not mean or include the payment of Obligations at their stated maturity or maturities.

(d) Provisions calling for or referring to the delivery by each Member of the Obligated Group of financial statements for any given period shall be deemed satisfied if the combined or consolidated financial statements for such period, prepared in accordance with generally accepted accounting principles, of such entities are so delivered.

(e) Provisions calling for or referring to a calculation, with respect to the Obligated Group or Combined Group, as the case may be, in accordance with generally accepted accounting principles, shall be deemed not to require the consolidation of accounts of entities that are not Members of the Obligated Group or Combined Group, as the case may be, even if generally accepted accounting principles would require such consolidation.

(f) Provisions calling for a forecast shall be deemed satisfied by a forecast which shall be compiled or examined based upon the most likely outcome of a stated set of assumptions that, in the opinion of the Obligated Group Representative, are reasonable.

(g) References by number in this Indenture to any Article or Section shall be construed as referring to the Articles and Sections contained in this Indenture, unless otherwise stated. The words "hereby," "herein," "hereof," "hereto," and "hereunder" and any compounds thereof shall be construed as referring to this Indenture generally and not merely to the particular Article, Section or subdivision in which they occur, unless otherwise required by the context.

(h) Notwithstanding anything else in this Indenture to the contrary, in computing or calculating Capitalization, Gross Receipts, Income Available for Debt Service, Long-Term Debt Service Coverage Ratio, Operating Assets, Total Revenues, Unrestricted Cash and Investments, Unrestricted Net Assets, and other quantitative financial tests or provisions, the Obligated Group, at the option of the Obligated Group Representative, may utilize financial and other information either (i) with respect to the Combined Group in the aggregate or (ii) so long as the Obligated Group constitutes or is responsible for at least seventy-five percent (75%) of the assets and revenues of CHS for the most recent Fiscal Year of CHS, with respect to CHS, in the aggregate, such percentage to be calculated in a manner that excludes intercompany eliminations from the numerator of such calculation.

**Section 1.03 Severability Clause**. If any provision of this Indenture shall be held or be deemed to be, or shall in fact be, inoperative, invalid or unenforceable as applied to any particular matter or under any particular circumstance in any jurisdiction or jurisdictions, or in all jurisdictions or in all matters and circumstances, because any provision conflicts with any constitution or statute or rule of public policy or for any other reason, that particular inoperability, invalidity or unenforceability shall not have the effect of rendering the provision inoperative, invalid or unenforceable in any other jurisdiction or in any other matter or under any other circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable.

**Section 1.04 Accounting Principles and Procedures; Interpretation; References to Financial Statements**.

(a) If the character or amount of any asset or liability or item of income or expense is required to be determined, or any consolidation, combination or other accounting computation is required to be made for the purposes of this Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Indenture, that determination or computation shall be made in accordance with generally accepted accounting principles in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of this Indenture, or (ii) the date of signing and delivery of this Indenture, if in the case of clause (ii) the Obligated Group Representative delivers an Officer's Certificate to the Master Trustee describing why the then-current generally accepted accounting principles are inconsistent with the intent of the parties on the date of signing and delivery of this Indenture; provided that the requirements set forth herein shall prevail if inconsistent with generally accepted accounting principles. For the purpose of preparing consolidated or combined financial information for two or more entities, transactions between those entities shall be eliminated and the specific provisions of this Indenture shall prevail over any inconsistent generally accepted accounting principles. Unless otherwise

expressly provided herein, for the purpose of determining the amount of assets, liabilities, equity or capital, or revenues, expenses, income, losses or gains of a Member or the Obligated Group or any Restricted Affiliate or the Combined Group, the amount of the respective item shall be determined on a consolidated basis, in accordance with generally accepted accounting principles, consistently applied. For the purpose of determining any consolidated financial information with respect to a Member, the Obligated Group, any Restricted Affiliate or the Combined Group, reference shall be made, unless that information is otherwise available as audited on a combined or consolidated basis, to audited combining or consolidating financial information set forth as other financial information within an audit report in which Audited Financial Statements are set forth on a consolidated or combined basis that reflects financial information of one or more entities that are not to be taken into account hereunder in the determination of financial information with respect to a Member, the Obligated Group, a Restricted Affiliate or the Combined Group for the same Fiscal Year. For the avoidance of doubt, it is the intent of the parties that any operating lease, as defined by the Financial Accounting Standards Board upon the date of its original execution and delivery, and any renewal of such operating lease, shall be governed in accordance with generally accepted accounting principles in effect on the date of its original execution and delivery and shall not be treated as the incurrence of Indebtedness or the disposition of Property, unless otherwise elected by the Obligated Group Representative.

(b) Any reference in this Indenture to financial statements, unless otherwise expressly indicated by the context, shall mean the financial statements for the most recent Fiscal Year for which those statements have been audited by an independent public accountant. For the purpose of combinations or consolidations of accounting information on a Fiscal-Year basis, if any Member or Restricted Affiliate has a Fiscal Year that is different from CHS's Fiscal Year, the actual Fiscal Year of such Member or Restricted Affiliate which ended within the relevant Fiscal Year of CHS shall be used.

(c) For purposes of this Indenture, including financial covenants and financial statements, the following rules apply:

(i) Assets of any Member do not include the interest of that Member in Affiliates of that Member or interests in assets of those Affiliates. Without limiting the foregoing, the assets of any Member do not include any asset that constitutes a beneficial interest of that Member in assets held by another entity that is not a Member of the Obligated Group.

(ii) Notwithstanding clause (c)(i), above, the assets of a Member of the Obligated Group include the book value of such Member's initial investment in its Affiliates.

**Section 1.05 Ratings**. References to ratings or categories of ratings issued by rating services shall be made without regard to the refinement of any letter rating symbol by the assignment of a numeric qualifier or a plus or minus sign.

## ARTICLE II

## INDEBTEDNESS, AUTHORIZATION, ISSUANCE AND TERMS OF OBLIGATIONS

**Section 2.01 Amount of Indebtedness**. Subject to the terms, limitations and conditions established in this Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations hereunder or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created hereunder are not limited, except by the provisions hereof, including Section 3.06, or of any Supplement.

**Section 2.02 Designation of Obligations**. Obligations shall be issued in such forms as may from time to time be created by Supplements permitted hereunder. Each Obligation or series of Obligations shall be created by a different Supplement and shall be designated in such a manner as will differentiate such Obligation from any other Obligation.

**Section 2.03 Appointment of Obligated Group Representative**. Each Member of the Obligated Group, by becoming a Member of the Obligated Group, irrevocably appoints the Obligated Group Representative as its agent and true and lawful attorney in fact and grants to the Obligated Group Representative (a) full and exclusive power to execute Supplements authorizing the issuance of Obligations, (b) full power to execute Obligations for and on behalf of the Obligated Group and each Member of the Obligated Group, (c) full power to execute Supplements on behalf of the Obligated Group pursuant to Section 6.01 and 6.02 hereof and (d) full power to prepare, or authorize the preparation of, any and all documents, certificates or disclosure materials reasonably and ordinarily prepared in connection with the issuance of Obligations hereunder, or Related Bonds associated therewith, and to execute and deliver such items to the appropriate parties in connection therewith.

**Section 2.04 Execution and Authentication of Obligations**. All Obligations shall be executed for and on behalf of all of the Members of the Obligated Group by an Authorized Representative of the Obligated Group Representative. The signature of any such Authorized Representative may be electronically, mechanically or photographically reproduced on the Obligation. If any Authorized Representative whose signature appears on any Obligation ceases to be such Authorized Representative before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such Authorized Representative had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication no Obligation shall be entitled to the benefits hereof.

The Master Trustee's authentication certificate shall be substantially in the following form:

MASTER TRUSTEE'S AUTHENTICATION CERTIFICATE

The undersigned Master Trustee hereby certifies that this Obligation No. _____ is one of the Obligations described in the within-mentioned Indenture.

_____
Master Trustee

By:_____
Authorized Officer

**Section 2.05 Supplement Creating Obligations**. The Obligated Group may from time to time enter into a Supplement in order to create an Obligation hereunder by execution of such Supplement by the Obligated Group Representative and authentication thereof by the Master Trustee. Such Supplement shall, with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of and premium, if any, and interest on such Obligation shall be payable, the provisions regarding discharge thereof, the form of such Obligation and such other terms and provisions as shall conform with the provisions hereof. Any such Obligation shall be secured *pari passu* by the security interest in and pledge of Gross Receipts granted under this Indenture and may be further secured by the Mortgages and such other Properties and revenues of the Members of the Obligated Group as may be permitted under this Indenture as a Permitted Lien or under the provisions of a Supplement.

**Section 2.06 Conditions to Issuance of Obligations Hereunder**. With respect to Indebtedness created hereunder, simultaneously with or prior to the execution, authentication and delivery of Obligations evidencing such Indebtedness pursuant to this Indenture:

(a) All requirements and conditions to the issuance of such Obligations, if any, set forth in the Supplement or in this Indenture shall have been complied with and satisfied, as provided in an Officer's Certificate of the Obligated Group Representative, a certified copy of which shall be delivered to the Master Trustee; and

(b) The Obligated Group Representative shall have delivered or caused to be delivered to the Master Trustee an Opinion of Counsel to the effect that (1) registration of such Obligations under the Securities Act of 1933, as amended, and qualification of this Indenture or the Supplement under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said acts have been complied with, and (2) the Indenture and the Obligations are valid, binding and enforceable obligations of the Members of the Obligated Group in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent

conveyance, other laws affecting creditors' rights generally, usual equity principles, such other limitations as shall be reasonably agreed upon by the Master Trustee, and other customary exceptions.

**Section 2.07 Issuance of Obligations in Forms Other than Notes**. Obligations may be issued hereunder in a form other than a promissory note to evidence any type of Indebtedness or Derivative Agreement that itself is in a form other than a promissory note, including without limitation, deeming such Indebtedness or Derivative Agreement or certain payments due thereunder to be an Obligation. Consequently, the Supplemental Indenture pursuant to which any Obligation is issued may provide for such supplements or amendments to the provisions hereof as are necessary or appropriate to permit the issuance of such Obligation hereunder and as are not inconsistent with the intent hereof that all Obligations issued hereunder be equally and ratably secured by the lien on the trust estate created hereunder except to the extent that an Obligation provides for subordination of some or all of the payment obligations thereunder and/or subordination of security therefor. Any Derivative Agreement (or any particular payments thereunder) which is or are authenticated as an Obligation under this Indenture shall be equally and ratably secured by any lien created under this Indenture with all other Obligations except as otherwise provided in this Indenture; *provided, however*, that any such Obligation shall be deemed outstanding under this Indenture solely for the purpose of receiving payment under this Indenture and shall not be entitled to exercise any rights under this Indenture, including without limitation the right to vote or control remedies, and any Obligation issued to secure any Derivative Agreement shall not be deemed to be Outstanding for any purpose under Article IV, other than the right to receive payment of amounts due thereunder equally and ratably with all other Obligations.

**Section 2.08 Reserved.**

**Section 2.09 Mortgages**.

(a) The Master Trustee may accept a mortgage of real Property from any Member upon such terms and conditions as the Master Trustee, subject to this Section 2.09, may in its discretion approve.

(b) Any mortgage delivered pursuant to Section 2.09(a) may, in addition to the mortgage of real estate, provide for the pledge or assignment of, or grant of a security interest in, such other Property as the Master Trustee may in its discretion deem appropriate.

(c) The Master Trustee shall and hereby is authorized to enter into, or consent to any amendment, change or modification of any mortgage delivered pursuant to Section 2.09(a) without the consent of or notice to any Holders (i) for the purpose of curing any ambiguity, formal defect or omission therein, (ii) in order to correct or supplement any provision therein which may be inconsistent with any other provision therein or in this Indenture, (iii) that is not, in the judgment of the Master Trustee, prejudicial to the Holders of any Obligations outstanding, or (iv) to permit the release of Property from the lien of the Mortgage to the extent such Property is or may become Excluded Property under this Indenture. Except as permitted by

the preceding sentence, the Master Trustee shall not enter into or consent to any amendment, change or modification of any such mortgage without the consent of the Holders of not less than a majority in the aggregate principal amount of Obligations then Outstanding that are secured by mortgages.

(d) Any Obligation may be secured, but shall not be required to be, secured, by any mortgage delivered pursuant to Section 2.09(a). If an Obligation is to be secured by any mortgage, the applicable Supplemental Indenture shall state that the Obligation shall be so secured. Notwithstanding anything in this Indenture to the contrary, any mortgage delivered pursuant to Section 2.09(a) shall be for the equal and ratable benefit of the Holders of Obligations for which such a designation has been made. In the event of an exercise of remedies pursuant to such a mortgage, any amounts collected shall be applied in the order set forth in Section 4.04; provided that such application shall only be made with respect to those Obligations that have been designated as being secured by the mortgage pursuant to which such remedies are exercised.

(e) For the avoidance of doubt, any member of the Combined Group may mortgage or grant a security interest in any Excluded Property to any party without limitation.

## ARTICLE III

## PARTICULAR COVENANTS OF THE OBLIGATED GROUP

**Section 3.01 Security; Restrictions on Encumbering Property; Payment of Principal and Interest**.

(a) Any Obligation issued pursuant to this Indenture shall be a general obligation of each Member of the Obligated Group and the Members shall be jointly and severally liable therefor. Upon receipt, all such security granted by Members of the Obligated Group to secure the Obligations shall be held in trust for the Holders from time to time of all Obligations issued and Outstanding hereunder, without preference or priority of any one Obligation over any other Obligation.

(b) To secure the prompt payment of each Obligation and the observance and performance by each Member of its covenants, agreements and obligations under this Indenture, each Member assigns and grants to the Master Trustee, and covenants, agrees and acknowledges that the Master Trustee does and shall have and continue to have, an assignment of and security interest in all present and future Gross Receipts of each Member from whatever source derived. Each Member shall cause to be delivered to each banking institution in which it deposits Gross Receipts a notice of the assignment made and the security interest granted under this Indenture and shall sign and deliver any instruments or documents which may be necessary or requested reasonably by the Master Trustee to perfect or maintain, to the extent permitted by law, that assignment and security interest or to give public notice of it.

The provisions of the preceding paragraph are to constitute an absolute and unconditional present assignment of the Gross Receipts, subject however to the conditional

permission given to each Member to collect and use Gross Receipts during a period while no Event of Default under this Indenture shall have occurred and be continuing, upon which Event of Default and written notice thereof by the Master Trustee to the Obligated Group Representative that permission shall terminate, and the Gross Receipts shall be deposited immediately with the Master Trustee; provided that the existence or exercise of any privilege of any Member granted pursuant to this permission shall not operate to subordinate the assignment made or the security interest granted in accordance with this Indenture, in whole or in part, to any subsequent assignment made or security interest granted by the Member.

Each Member represents and warrants that (i) it has full power and authority and has the lawful right to assign and grant a security interest in its Gross Receipts as provided in this Indenture, and (ii) its Gross Receipts are free and clear of all encumbrances, except any Permitted Liens. Each Member warrants fully the title to its Gross Receipts and to every part thereof, and covenants and agrees to defend that title against the claims of all Persons and to maintain, except to the extent provided otherwise in this Indenture, the priority of the assignment of and the security interest in the Gross Receipts.

Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to this Indenture as may be necessary or appropriate to include as security hereunder the Gross Receipts. In addition, each Member of the Obligated Group covenants that it will take such other action and execute such documents, including control agreements or amendments thereto which shall, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to Section 3.10 of this Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to Section 3.12 of this Indenture.

(c) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens as set forth in Section 3.05 hereof) any of its Property.

(d) Each Obligation shall be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to this Indenture at the place, on the dates and in the manner provided in this Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(e) Each Member of the Obligated Group covenants that it shall cause its Restricted Affiliates to pay such amounts as are necessary to pay the principal, premium, if any, or interest or any other amount due in payment of any Obligation or Related Bonds when due, provided that any liability of a Restricted Affiliate with respect to any Obligation in excess of its liability in proportion to the portion of the proceeds thereof received by or otherwise applied for the benefit of such Restricted Affiliate shall be limited to the maximum amount that would not (i) cause such liability to be avoidable as a fraudulent transfer or fraudulent conveyance under

applicable bankruptcy, insolvency or similar laws, or (ii) cause such Restricted Affiliate, in making any payment with respect to such liability, to be in violation of any law (including, without limitation, the applicable corporation or not-for-profit laws of the state of its incorporation and any state in which such Restricted Affiliate is registered as a foreign corporation) restricting the purpose for which its assets may be used.

**Section 3.02 Covenants as to Corporate Existence, Maintenance of Properties, Etc**. Each Member of the Obligated Group hereby covenants:

(a) Except as otherwise expressly provided herein, to (and cause each Restricted Affiliate to) preserve its corporate or other legal existence and all its material rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; *provided, however*, that nothing herein contained shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in its judgment, useful in the conduct of its business.

(b) At all times to cause (and require each Restricted Affiliate to cause) its Property in all material respects to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; *provided, however*, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same, in accordance with the provisions hereof and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in its judgment, useful in the conduct of its business.

(c) To do (and cause each Restricted Affiliate to do) all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof (including, but not limited to, the Public Health Law of the State of New York) and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing herein contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof shall be contested in good faith.

(d) To pay (and require each Restricted Affiliate to pay) promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; *provided, however*, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay (and require each Restricted Affiliate to pay) promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding hereunder) whose validity, amount or collectibility is being contested in good faith.

(f) At all times to comply (and require each Restricted Affiliate to comply) in all material respects with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness, other than any Liens (exclusive of the Obligations created and outstanding hereunder) whose validity, amount or collectibility is being contested in good faith.

(g) To procure and maintain (and cause each Restricted Affiliate to procure and maintain) all necessary licenses and permits and maintain accreditation of its health care facilities (if any, and other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; *provided, however*, that it need not comply with this Section 3.02(g) if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) If such Member of the Obligated Group (or Restricted Affiliate) is a Tax-Exempt Organization, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, not to take any action or suffer any action to be taken by others, which would result in the alteration or loss of its status as a Tax-Exempt Organization, or take any action which, in the Opinion of Bond Counsel, would result in the interest on any Tax Exempt Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes.

**Section 3.03 Insurance**. Each Member shall (and will cause each Restricted Affiliate to) maintain or cause to be maintained at its sole cost and expense, with financially sound and reputable insurers, such public liability insurance, third party property damage insurance and casualty insurance with respect to liabilities, losses or damage in respect of the assets, properties and businesses of the Obligated Group as may customarily be carried or maintained under similar circumstances by healthcare service providers of established reputation engaged in similar businesses, in each case in such amounts (giving effect to self-insurance), with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for corporations similarly situated in the industry.

**Section 3.04 Insurance and Condemnation Proceeds**.

(a) Unless otherwise provided in the Mortgages or in a Supplement, amounts that do not exceed 20% of the Book Value of the Property, Plant and Equipment of the Combined Group received by any member of the Combined Group as insurance proceeds with respect to any casualty loss relating to the Mortgaged Property or as condemnation awards

relating to the Mortgaged Property may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Unless otherwise provided in the Mortgages or in a Supplement, amounts that exceed 20% of the Book Value of the Property, Plant and Equipment of the Combined Group received by any member of the Combined Group as insurance proceeds with respect to any casualty loss relating to the Mortgaged Property or as condemnation awards relating to the Mortgaged Property shall be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; *provided, however*, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio to be not less than 1.10, for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, as shown by pro forma financial statements, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Book Value of the Property, Plant and Equipment of the Combined Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long Term Debt Service Coverage Ratio, for each of the periods described in paragraph (i) of this section to be not less than 1.10, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each member of the Combined Group agrees that it will use such proceeds or awards, to the extent permitted by law, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section.

**Section 3.05 Limitations on Creation of Liens**. Each Member of the Obligated Group agrees that it will not (nor shall it permit any Restricted Affiliate to) create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(a) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by any member of the Combined Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any member of the Combined Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any member of the Combined Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment Lien against any member of the Combined Group so long as the finality of such judgment is being contested in good faith and execution thereon is stayed, or in the absence of such a contest and stay, no material Property of any Member or Restricted Affiliate will be impaired or subject to loss or forfeiture as a result of such Lien, in the reasonable judgment of the Obligated Group Representative;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 180 days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof.

(v) Any Lien which is existing on the date of authentication and delivery of the Existing Obligations issued under this Indenture, which is set forth on Schedule B attached hereto, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any member of the Combined Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date

hereof, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien hereunder;

(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to Section 3.10(f) hereof;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by Section 3.06(d) hereof;

(viii) Any Lien on Property acquired by a member of the Combined Group if the Indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions of Section 3.06 hereof, and if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than the member of the Combined Group, and (B) the Lien was not created for the purpose of enabling the member of the Combined Group to avoid the limitations hereof on creation of Liens on Property of the Combined Group;

(ix) Reserved;

(x) Any Lien on Equipment used at a Health Care Facility provided the Indebtedness secured by such Lien was incurred in accordance with Section 3.06 hereof;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings; banker's Liens or rights of setoff; or Liens securing letters of credit or other liquidity or credit enhancement that provides liquidity or credit enhancement for Indebtedness otherwise permitted hereunder;

(xii) Any Liens on the proceeds of insurance insuring assets that are subject to a lease from a third party owner or lessor of such assets;

(xiii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiv) Any Lien securing all Obligations on a parity basis, including the Lien created by this Indenture on Gross Receipts and where applicable by the Mortgages;

(xv) Liens on moneys deposited by patients or others with any member of the Combined Group as security for or as prepayment for the cost of patient care;

(xvi) Liens on Property received by any member of the Combined Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvii) Liens on Property due to rights of third party payors for recoupment of amounts paid to any member of the Combined Group;

(xviii) The Mortgages;

(xix) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq and similar rights under other federal and state statutes or by reason of any loan or grant made available to a member of the Combined Group, and similar rights of the State of New York or local municipalities under similar state or local statutes;

(xx) Any Lien on funds established pursuant to the terms of any Related Bond Indenture or related document in favor of the Master Trustee, a Related Bond Trustee or the registered owner of any Indebtedness issued pursuant to such Related Loan Agreement, Related Bond Indenture or related document;

(xxi) Any Lien in favor of the issuer of a Credit Facility securing Long-Term Indebtedness permitted pursuant to Section 3.06(b);

(xxii) Any Lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts of capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the Property subject to such Lien or encumbrance;

(xxiii) Any Lien arising by reason of deposits to enable any member of the Combined Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans, or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(xxiv) Any Liens on pledges of grants or gifts which secure payment of Short-Term Indebtedness permitted by Sections 3.06(c) hereto;

(xxv) Liens to which the Property is subject at the time (the "Effective Date") either (i) its owner becomes (or is merged into or consolidated with) a member of the Combined Group or (ii) all or substantially all of the assets of the owner of the Property are sold or otherwise conveyed to a member of the Combined Group, provided that:

(A) no Lien so described may be extended or renewed, nor may it be modified to apply to any Property or any member of the Combined Group not subject to such Lien on the Effective Date, unless the Lien as so extended, renewed or modified, or the replacement Lien, otherwise qualifies as a Permitted Lien;

(B) no additional indebtedness may be thereafter incurred that is secured by such Lien; and

(C) no Lien so described was created in order to avoid the limitations contained herein on the impositions of Liens on the Property of such members.

(xxvi) Any Lien with respect to assets acquired after the date of the issuance of the Existing Obligations, which Lien either secures the purchase price of such Property or is a Lien to which such Property is subject at the time of its acquisition;

(xxvii) Operating leases or ground leases of five years or fewer whereunder any member of the Combined Group is the lessor; or any license or other use agreement made with respect to Property where revenues generated inure to the benefit of any member of the Combined Group;

(xxviii) Any Lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by a member of the Combined Group to secure payment of Indebtedness (including any commitment indebtedness, whether or not then drawn upon);

(xxix) Such minor defects and irregularities of title as normally exist with respect to Property similar in character to the Property involved, and which do not materially adversely affect the value of or materially impair the Property affected thereby;

(xxx) Any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and Liens on or in Property given, bequested or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (i) such Liens attach solely to the Property which is the subject of such gift, bequest or devise, and (ii) the Indebtedness secured by such Liens is not assumed;

(xxxi) Any Lien securing Indebtedness on a parity basis, to the extent permitted by Section 3.06 hereof;

(xxxii) any Lien on Excluded Property;

(xxxiii) Any lease which, in the judgment of the Member or Restricted Affiliate whose Property is subject thereto, is reasonably necessary or appropriate for or incidental to the proper and economical operation of such Property, taking into account the nature and terms of the lease and the nature and purposes of the Property subject thereto;

(xxxiv) Any leasehold interest granted by an member of the Combined Group to a state, a political subdivision of a state, the District of Columbia or any department, agency, authority or instrumentality of any of the foregoing in connection

with a financing or refinancing transaction pursuant to which the lessee has issued its bonds, notes or other similar obligations or has obtained any government grants and has made the net proceeds thereof available to the such member under the lease, provided that (i) the term of the lease has a stated expiration date not later than 30 days after the stated maturity date of any bonds, notes or other obligations issued as aforesaid or the date by which the member is required to repay to the lessee the full amount of any grant so obtained and any interest thereon charged by the lessee, and such term is subject to sooner termination upon payment (or provision for payment) by such member of all sums payable by the lessee in respect of its bonds, notes or other obligations so issued or to the lessee in respect of any grant so obtained and all fees payable to and expenses incurred by the lessee in connection with the transaction, (ii) concurrently with the execution of any such lease, the lessee subleases the leased premises to the member pursuant to a sublease which provides for the payment by such member of sublease rentals in the amounts and at the times required for the payment of the amounts described in clause (i) above, and which further provides that the member shall be entitled to exclusive possession of the leased premises for so long as it is not in default of its rental payment and other obligations under the sublease and that any right of the lessee to dispossess such member and to relet the leased premises to another party shall be limited to the remaining term of the lessee's leasehold, and (iii) the member's rental payment and other obligations under any sublease described in clause (ii) above are secured, if at all, by Liens on any Property and revenues of the member only to the extent permitted under Section 3.06;

(xxxv) Any Lien on accounts receivable and the proceeds thereof if such lien is given or made in connection with a sale, pledge, assignment or transfer permitted by the provisions of Section 3.06;

(xxxvi) Any Lien on the unrestricted funds of a member of the Combined Group if such lien is given or made in connection with the investment of such unrestricted funds by such Member of the Obligated Group;

(xxxvii) Any Liens created on amounts deposited with members of the Combined Group to secure capitated insurance contracts and risk-sharing arrangements with insurers, health maintenance organizations, preferred provider organizations, physician groups and other parties;

(xxxviii) Any purchase money mortgages, security interests, and Liens securing Purchase Money Indebtedness placed upon Property in order to obtain the use of such Property or to secure a portion of the purchase price thereof;

(xxxix) Any Lien on securities or cash to the extent required under a Derivative Agreement to secure the obligations of one or more members of the Combined Group under that Derivative Agreement; and

(xl) In additional to those Liens permitted as above in this definition of Permitted Liens, any Lien on Property if the total book value of the Property

subject to such Lien does not exceed 15% of the book value of the total assets of the Combined Group.

**Section 3.06 Limitations on Indebtedness**. Each Member of the Obligated Group covenants and agrees that it will not (nor shall it permit any Restricted Affiliate to) incur any Additional Indebtedness if, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (l) inclusive, of this Section 3.06.

(a) Except for the Existing Obligations, no Member or Restricted Affiliate shall be permitted to incur additional Long-Term Indebtedness (whether through the creation of new Indebtedness, the assumption of existing Indebtedness or the guaranteeing of any new or existing Indebtedness), unless (i) the Combined Group has complied with the applicable provisions of this Indenture in effect as of the date of incurrence, and (ii) as of the date of such incurrence, the Master Trustee has received the following, each in form and substance satisfactory to the Master Trustee:

(A) A certified resolution approving the incurrence of the Long-Term Indebtedness and the purpose thereof, as adopted by the Governing Body of such member that proposes to incur the Indebtedness or the Governing Body of any Affiliate thereof that has authority to authorize the incurrence of the Indebtedness by that member;

(B) An Officer's Certificate stating that no Event of Default has occurred and is continuing, and that the applicable requirements for the incurrence of the Long-Term Indebtedness under this Indenture and under all Related Financing Documents then in effect have been satisfied;

(C) An Opinion of Counsel, which may rely upon an Officer's Certificate as to matters of fact pertaining to the Combined Group, or any member thereof, to the effect that (A) the incurrence of the Long-Term Indebtedness has been duly authorized by each entity whose approval is required, and (B) all applicable legal requirements for the incurrence of the Long-Term Indebtedness under the terms of this Indenture and any Related Financing Documents then in effect have been satisfied;

(D) Except as otherwise provided in subsection (E) below, the certificate described under either subparagraph (1), (2) or (3) below:

(1) a certificate of the Obligated Group Representative demonstrating and concluding that, for the most recent Fiscal Year preceding the incurrence of the Long-Term Indebtedness for which Audited Financial Statements are available, the Long-Term Debt Service Coverage Ratio was at least equal to 1.20 (adjusted to reflect any Long-Term Indebtedness incurred or retired after the end of that most recent Fiscal Year, and giving effect to the proposed Long-Term Indebtedness and excluding any Long-Term Indebtedness to be refunded thereby as if such proposed Long-Term

Indebtedness had been incurred at the beginning of that prior Fiscal Year); or

(2) an Officer's Certificate demonstrating and concluding that, for the most recent Fiscal Year preceding the incurrence of the Long-Term Indebtedness for which Audited Financial Statements are available, the sum of the proposed additional Long-Term Indebtedness and the total Long-Term Indebtedness of the Combined Group outstanding on the last day of that Fiscal Year (adjusted to reflect any Long-Term Indebtedness incurred or retired after the end of that most recent Fiscal Year, giving effect to the proposed Long-Term Indebtedness and excluding any Long-Term Indebtedness to be refunded thereby as if the additional Long-Term Indebtedness had been incurred at the beginning of that prior Fiscal Year)), would not exceed 66 2/3% of Capitalization; or

(3) (I) an Officer's Certificate demonstrating and concluding that, for the most recent Fiscal Year preceding the incurrence of the Long-Term Indebtedness for which Audited Financial Statements are available, the Long-Term Debt Service Coverage Ratio was not less than 1.10, and (II) either a certificate of the Obligated Group Representative or a written report of a Consultant, demonstrating and concluding that the forecasted average Long-Term Debt Service Coverage Ratio for the two Fiscal Years commencing after the incurrence of the proposed Long-Term Indebtedness would be not less than 1.25 if addressed by an Officer's Certificate of the Obligated Group Representative or 1.10 if addressed by the written report of a Consultant.

(E) If the Long-Term Indebtedness is of a type and in an amount within any limitation described in subparagraphs (1), (2), (3) or (4) of this subsection (E), that Long-Term Indebtedness may be incurred without receipt by the Master Trustee of any certificate or report described under subsection (D) above, but only if and to the extent that:

(1) the Master Trustee receives an Officer's Certificate demonstrating and concluding that the sum of the principal amount of the Long-Term Indebtedness to be incurred and the outstanding principal amount of any Long-Term Indebtedness incurred by any Member pursuant to this clause (E)(1) since the last "report date" will not exceed 10% of the Total Revenues for the Fiscal Year immediately preceding the incurrence in question. For the purposes of the foregoing, the term "report date" shall mean the date on which an Officer's Certificate is delivered in connection with the incurrence of Long-Term Indebtedness pursuant to subsection (D) above, a merger, consolidation, sale or conveyance pursuant to Section 3.08, the inclusion of a new Member pursuant to Section 3.10, or the designation of a new Restricted Affiliate pursuant to Section 3.13,

provided that if no such Officer's Certificate or other certificate has been delivered, the term "report date" shall be deemed to mean the Restatement Date and, provided further, that any certificate or report, or combination thereof, described under subsection (D) above, may be delivered to the Master Trustee from time to time for the purpose and with the effect of establishing a "report date" as of the date of that delivery; or

(2) the Long Term Indebtedness is to be incurred for the purpose of refunding any Outstanding Long Term Indebtedness, in which event, prior to the incurrence of that Long Term Indebtedness, the Master Trustee shall receive (I) an Officer's Certificate demonstrating that Maximum Annual Debt Service Requirement will not increase by more than 15% after the incurrence of such proposed refunding Long Term Indebtedness and after giving effect to the disposition of the proceeds thereof, and (II) an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or

(3) the Long-Term Indebtedness to be incurred is Cross-over Refunding Indebtedness, in which event, prior to the incurrence of that Long-Term Indebtedness, the Master Trustee shall receive an Officer's Certificate stating that the total Maximum Annual Debt Service Requirements on the proposed Cross-over Refunding Indebtedness and the related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service Requirement on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15% taking into account the creation and affect of any Qualified Escrows created from the proceeds of the Cross-over Refunding Indebtedness; or

(4) the Long-Term Indebtedness is Completion Indebtedness, in which case, prior to its incurrence, the Master Trustee shall receive (I) a certificate of an architect estimating the costs of completing the facilities for which the Completion Indebtedness is to be incurred; and (II) an Officer's Certificate, certifying that the amount of Completion Indebtedness to be incurred will be sufficient, together with any other funds, to complete construction of the facilities in respect of which the Completion Indebtedness is to be incurred.

(b) If Long-Term Indebtedness supported by a Credit Facility is issued as permitted by this Section 3.06, the Member may grant a Lien in favor of the issuer of the Credit Facility that is equal in rank and priority with the Lien granted to secure the Long-Term Indebtedness.

(c) Short-Term Indebtedness may be incurred subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed 25% of Total Revenues as reflected in the Audited Financial Statements for the most recent period of twelve consecutive months for which Audited Financial Statements are available.

Short-Term Indebtedness may be secured by liens on accounts receivable; provided that the amount of Short-Term Indebtedness so secured shall not exceed 75% of the aggregate amount of the accounts receivable upon which Liens are placed to provide that security.

(d) Subordinated Debt and Non-Recourse Indebtedness may be incurred without limitation as to principal amount and shall not be required to comply with the requirements of Section 3.06(a) or 3.06(b) in connection with such incurrence. Any Subordinated Debt may be secured by Liens, provided that a Lien of superior rank and priority shall be granted in favor of all Long-Term Indebtedness (except for other Subordinated Debt) then or thereafter to be outstanding. Non-Recourse Indebtedness may be secured by Liens on: (i) any Property acquired or improved with the proceeds of the Non-Recourse Indebtedness and any improvements to such Property; (ii) revenues derived from the ownership or operation of the Property described in clause (i); and (iii) restricted gifts, grants and other similar contributions, pledges of the foregoing and income derived from the investment thereof.

(e) Guaranties may be provided, if the conditions for the incurrence of Indebtedness set forth in this Section are satisfied where it is assumed that the obligation guaranteed by such Member or Restricted Affiliate is Indebtedness of such Member, and any calculation required by the applicable subsection of this Section is made in accordance with the requirements and assumptions contained in Section 3.16(e) or 3.16(f).

(f) Indebtedness may be incurred or assumed in connection with a gift, bequest or devise of Property, if (i) the principal amount of such Indebtedness does not exceed the then current value of such entity's interest in such Property, and (ii) such Indebtedness is only secured by such gift, bequest or devise of Property.

(g) Subject to the limitations set forth in subsection (c) above, Indebtedness in connection with a pledge of accounts receivable may be incurred, with or without recourse, or a sale of accounts receivable consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, if the principal amount of such Indebtedness does not (i) with respect to a pledge of accounts receivable, exceed the book value of such accounts receivable, or (ii) with respect to a sale of accounts receivable, exceed the aggregate sale price of such accounts receivable received by such member of the Combined Group.

(h) Commercial Paper Indebtedness may be incurred if, immediately after the issuance of such Commercial Paper Indebtedness, the total principal amount of Outstanding Commercial Paper Indebtedness of the Combined Group under this subsection and any Short-Term Indebtedness incurred under subsection (c) above, will not exceed 25% of Total Revenues for the most recent Fiscal Year for which Audited Financial Statements are available.

(i) Indebtedness may be classified and incurred under any of the above referenced subsections with respect to which the tests set forth in such subsections are met. Indebtedness that was classified and issued pursuant to one subsection may be reclassified as having been incurred under another subsection, by demonstrating compliance with such other subsection on the assumption that such Indebtedness is being reissued on the date of delivery of the materials required to be delivered under such other subsection. From and after such demonstration, such Indebtedness shall be deemed to have been incurred under the subsection with respect to which such compliance has been demonstrated until any subsequent reclassification of such Indebtedness.

(j) The Obligated Group Representative shall, prior to the incurrence of any Indebtedness by a member of the Combined Group, deliver to the Master Trustee an Officer's Certificate which identifies the Indebtedness to be incurred, identifies the subsection pursuant to which such Indebtedness was incurred and demonstrates compliance with such subsection.

(k) The foregoing shall not be deemed to prohibit the establishment of Qualified Escrows, sinking funds for Balloon Indebtedness as described in Section 3.16(a)(iii), or other funds to be held as security for any Indebtedness or the exercise of any rights and remedies with respect thereto; provided that, if any moneys of a member of the Combined Group are to be deposited into any such fund, the following limitations shall be applicable to such funds and to deposits of the moneys therein:

(i) In the case of a sinking fund, deposits of moneys of a Member shall be limited to the amounts specified in Section 3.16(a)(iii).

(ii) Other permitted funds consisting in whole or in part of moneys of a Member may include (A) construction funds or other similar funds established to pay the costs of projects being financed by the Indebtedness secured thereby, (B) debt service funds or other similar funds established to accumulate funds to pay the principal or redemption price of and interest on the Indebtedness secured thereby, (C) depreciation reserve funds or other similar funds established to provide a proper matching between Income Available for Debt Service and Debt Service Requirement, and (D) other reasonably required reserve funds. All such funds and the required deposits of moneys of any a member of the Combined Group therein shall be consistent with prevailing market conditions at the time such funds are established.

(iii) Notwithstanding any other provision of this Indenture, the member establishing any fund pursuant to the provisions summarized above may grant a first Lien security interest in any such fund in favor of the Holder of the Indebtedness secured thereby; provided that the obligation of such member to make deposits into any such fund may be secured only if and to the extent permitted pursuant to this Section 3.06.

(l) Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to this Section 3.06.

**Section 3.07 Existing Obligations**. The Existing Obligations constitute Obligations Outstanding under this Indenture on the Restatement Date.

**Section 3.08 Merger, Consolidation, Sale or Conveyance**.

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with any other Person that is not a Member of the Obligated Group or sell or convey all or substantially all of its assets to any Person that is not a Member of the Obligated Group unless:

(i) After giving effect to the merger, consolidation, sale or conveyance,

(A) the successor or surviving corporation (hereinafter, the "Surviving Corporation") is a Member of the Obligated Group,

or

(B) the Surviving Corporation shall

(1) be a corporation organized and existing under the laws of the United States of America or any State thereof

and

(2) become a Member of the Obligated Group pursuant to Section 3.10, and pursuant to a Supplemental Indenture shall expressly assume in writing the due and punctual payment of all Outstanding Obligations of the disappearing Member of the Obligated Group hereunder;

(ii) The Master Trustee receives an Officer's Certificate to the effect that no Member of the Obligated Group, immediately after the date of the proposed merger, consolidation, sale or conveyance, would be in default in the performance or observance of any covenant or condition of this Indenture, or Supplement or any Obligation issued hereunder;

(iii) The Master Trustee receives the documentation that would be required pursuant to Section 3.06(a)(D), (1), (2) or (3) if, immediately after the

proposed merger, consolidation, transfer or conveyance, one dollar of Long-Term Indebtedness were to be incurred;

(iv) So long as any Tax Exempt Related Bonds are Outstanding, the Master Trustee receives an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such merger, consolidation, sale or conveyance, in and of itself, would not result in the inclusion of interest on such Tax Exempt Related Bonds in gross income for purposes of federal income taxation; and

(v) The Master Trustee receives an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that (A) all conditions in this Section 3.08 relating to such merger, consolidation, sale or conveyance have been complied with and it is proper for the Master Trustee to join in the execution of any instrument required to be executed and delivered; (B) the Surviving Corporation meets the conditions set forth in this Section 3.08 and is liable on all Outstanding Obligations; and (C) such merger, consolidation, sale or conveyance will not cause the Indenture or any Outstanding Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(vi) The Surviving Corporation shall be substituted for its predecessor in trust in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Corporation shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Corporation shall be treated as though it were a Member of the Obligated Group as of the date of the execution of this Indenture and shall thereafter have the right to participate in transactions hereunder relating to Outstanding Obligations to the same extent as the other Members of the Obligated Group. All Outstanding Obligations issued hereunder on behalf of a Surviving Corporation shall have the same legal rank and benefit under this Indenture as Obligations issued on behalf of any other Obligated Group Member.

Except as may be expressly provided in any Supplement, the ability of any Member of the Obligated Group to merge or consolidate with any Person that is a Member of the Obligated Group after such merger or consolidation or to sell or convey all or substantially all of its assets to any Person that is a Member of the Obligated Group after such sale or conveyance is not limited by the provisions of this Indenture.

(b) Any corporation which succeeds to and assumes the obligations of any Member pursuant to subsection (a) above shall be required to execute and deliver to the Master Trustee such documents and instruments as are, in the Opinion of Counsel, necessary or appropriate for the purpose of effectuating such succession and assumption. Thereafter, the successor corporation shall be deemed a Member for all purposes under this Indenture.

(c) The Members of the Obligated Group may, from time to time, enter into one or more real estate transactions (each, a "Permitted Partial Release Sale") pursuant to which there is a sale of fee interests in real estate (the "Partial Release Parcel"), which may include a portion(s) of the Mortgaged Property, to a third party (a "Partial Release Sale Counterparty"); provided the following conditions are satisfied: (i) the sale of the Partial Release Parcel does not materially detract from the utility of the Health Care Facilities subject to the applicable Mortgage; (ii) the Partial Release Parcel is sold for fair market value as evidenced by a written appraisal prepared by an independent appraiser with experience in valuing similar assets; and (iii) the net proceeds received by the Members of the Obligated Group from the Permitted Partial Release Sale will be applied to the prepayment of the Obligations then outstanding, pro rata based on the Outstanding principal amount thereof or as otherwise required pursuant to the Opinion of Counsel referred to in subsection (c) below.

Prior to entering into a Permitted Partial Release Sale, the Obligated Group Representative will deliver to the Master Trustee an Officer's Certificate (the "Partial Release Sale Certificate") that describes the Permitted Partial Release Sale in reasonable detail and certifies that the conditions set forth in clauses (i) through (iii) above will be satisfied.

The Master Trustee will execute and deliver all instruments (such as releases, partial releases, subordinations, access agreements, and consents) that are reasonably required to effectuate a Permitted Partial Release Sale (the "Partial Release Sale Master Trustee Documents"), provided that the Master Trustee has previously received a Partial Release Sale Certificate and a written, reasonably detailed request for execution and delivery of the Partial Release Sale Master Trustee Documents from the Obligated Group Representative.

(d) No Member of the Obligated Group shall enter into a Permitted Sale Leaseback or a Permitted Partial Release Sale pursuant to this Section 3.08(c) without first delivering to the Master Trustee an Opinion of Counsel, in form and substance satisfactory to the Master Trustee and the Related Bond Issuer, to the effect that the proposed transaction would not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Related Bond would otherwise be entitled.

**Section 3.09 Reserved.**

**Section 3.10 Parties Becoming Members of the Obligated Group**. Persons which are not Members of the Obligated Group and entities which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by Section 3.08 hereof, may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under this Indenture and any

Supplements and thereby become subject to compliance with all provisions of this Indenture and any Supplements, and the performance and observance of all covenants and obligations of a Member of the Obligated Group hereunder, and (ii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding hereunder will be paid in accordance with the terms thereof and of this Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles, laws dealing with fraudulent conveyances, limitations on the ability of one charity to make guarantees in favor of other entities, and subject to other customary exceptions acceptable to the Master Trustee and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there shall be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) The Master Trustee receives an Officer's Certificate (i) demonstrating that after giving effect to the admission of such Person as a Member of the Obligated Group, no Member of the Obligated Group will be in default in the performance of any covenant contained in this Indenture or any Supplement, and (ii) presenting the documentation that would be required pursuant to Section 3.06(a)(D)(1), (2) or (3) if, immediately after the addition of such Person as a Member, one dollar of Long-Term Indebtedness were to be incurred.

(e) Exhibit B of this Indenture is supplemented to add a description of any Property of such Person becoming a Member which is to be considered Excluded Property (provided that such Property may be treated as Excluded Property only if the primary operations of such Person are not conducted upon such Property or the requirements of Section 3.20 are otherwise satisfied).

(f) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any Lien securing such Indebtedness shall

be permitted to remain in effect, if such Indebtedness could have been incurred pursuant to the provisions of Sections 3.06 hereof immediately after such Person became a Member of the Obligated Group.

**Section 3.11 Effects of Becoming an Obligated Group Member**. Upon any Person becoming a Member pursuant to Section 3.10:

(a) such Member may execute and deliver Obligations thereafter issued and any Supplemental Indenture thereafter entered into;

(b) the computations required by any provision of this Indenture shall include the new Member and shall be made on a consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material intercompany balances and transactions;

(c) any covenant contained herein obligating any Member to perform any matter with respect to its Property or its operations shall be deemed to obligate such Member to perform such matter with respect to Property owned by it or its operations; and

(d) each new Member pursuant to Section 3.10 shall be bound by the provisions of and be jointly and severally liable for all Obligations issued under this Indenture and each Supplemental Indenture executed or to be executed pursuant to the terms hereof for so long as this Indenture and each such Supplemental Indenture remains in effect; provided, however, that any Member may withdraw from the Obligated Group pursuant to Section 3.12.

**Section 3.12 Withdrawal from the Obligated Group**.

(a) Subject to the terms of any applicable Supplement, no Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any Tax Exempt Related Bonds have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) The Obligated Group shall have provided one of the following:

(A) The documentation that would be required pursuant to Section 3.06(a)(D)(1), (2) or (3) if, immediately after the withdraw, one dollar of Long-Term Indebtedness were to be incurred; or

(B) A Credit Enhancement, including evidence satisfactory to the Master Trustee from each Rating Agency then rating any Related Bond and Obligation that, on the date the proposed withdrawal is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than "A" (or the corresponding rating) by any Rating Agency.

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of this Indenture and any agreements or other documents relating to this Indenture, the applicable Obligations or the applicable Related Bonds.

(iv) an Officer's Certificate certifying that upon such withdrawal the remaining Members of the Obligated Group will not be in default in the performance of any covenant contained in this Indenture or any Supplement.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Obligation Holders, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under this Indenture shall cease.

For purposes of this Section, "Credit Enhancement" means credit enhancement consisting of a surety bond, insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains outstanding, or which allows for the tender of the Related Bonds or Obligation, prior to the stated expiration of the Credit Enhancement and provides for payment in full of principal and interest on such Related Bond or Obligation when due) or the Obligated Group has delivered, respectively, to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each Holder of an outstanding Obligation which is not pledged to secure Related Bonds and with respect to which there is no trustee, credit enhancement of the types described above in this subpart.

**Section 3.13 Conditions for Designation of Restricted Affiliates**. Any Affiliate of a Member of the Obligated Group that has satisfied the definition of "Restricted Affiliate" shall become a Restricted Affiliate upon delivery to the Master Trustee of the following documents

(a) An Officer's Certificate from the Obligated Group Representative to the effect that the Obligated Group Representative consents to such Person becoming a Restricted Affiliate;

(b) A written undertaking for the benefit of the Master Trustee duly authorized and executed by such Affiliate evidencing the agreement of such Affiliate to observe

and perform the obligations that the Obligated Group has covenanted to cause Restricted Affiliates to observe and perform hereunder;

(c) Evidence of appropriate action of the Governing Body of such Affiliate authorizing such undertaking;

(d) An Opinion of Counsel to the effect that the conditions contained in this Indenture relating to designation of a Restricted Affiliate have been satisfied and an Opinion of Counsel to the effect that (i) the instrument described in subparagraph (b) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, and (ii) the transfer of funds or assets by Restricted Affiliates to the Members of the Obligated Group, in the form of loans, advances, grants, gifts or other transfers as contemplated by Section 3.01(e) is permissible under any instruments by which the proposed Restricted Affiliate is controlled and under the applicable laws of the State, subject to limitation on transfers when a corporation is insolvent or would be rendered insolvent by the transfer and to limitations on transfer of funds or assets that are subject to donor restrictions or to a direct or express charitable trust or the transfer were determined not to be consistent with the continuing fulfillment of any charitable purposes theretofore served by the corporation under State law and, subject further to the customary exceptions regarding applicable bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights generally, and other customary legal exceptions;

(e) An Officer's Certificate of the Obligated Group Representative to the effect that no Event of Default then exists hereunder, nor to such officer's knowledge does there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default hereunder, and (ii) the documentation that would be required pursuant to Section 3.06(a)(D)(1), (2) or (3) if, immediately after the Affiliate would become a Restricted Affiliate, one dollar of Long-Term Indebtedness were to be incurred.

**Section 3.14 Conditions for Release of Restricted Affiliates**. Any Person shall be released from its obligations and status as a Restricted Affiliate only upon compliance of the following conditions:

(a) The Master Trustee shall have received an (i) Officer's Certificate from the Obligated Group Representative consenting to the release of such Person from its status as a Restricted Affiliate and (ii) the documentation that would be required pursuant to Section 3.06(a)(D)(1), (2) or (3) if, immediately after the proposed release of the Restricted Affiliate, one dollar of additional Long-Term Indebtedness were to be incurred.

(b) The Master Trustee receives an Officer's Certificate of the Person requesting such release stating that all conditions precedent provided for under this Indenture relating to the release of such Person as a Restricted Affiliate have been complied with and that, were such Person released as a Restricted Affiliate on the date of such Officer's Certificate, no Event of Default would then exist hereunder, nor to such officer's knowledge, would there then

exist any event which with the passage of time or giving of notice, or both, would or might become an Event of Default.

Upon compliance with the conditions contained in subsections (a) and (b), the Master Trustee shall execute any documents reasonably requested by the released Person to evidence the termination of such Person's status as a Restricted Affiliate hereunder.

**Section 3.15 Sale, Lease or Other Disposition of Assets**. Each member of the Combined Group shall be permitted to transfer assets to other members of the Combined Group without limitation, but may not transfer assets to any other Person, unless any of the following applies:

(a) the transfer is permitted under Section 3.05 or 3.08;

(b) the transfer involves only Property that secures Non-Recourse Indebtedness;

(c) the transfer involves only Property that is retired, replaced or otherwise disposed of in the ordinary course of business;

(d) the transfer involves only Property that is Excluded Property;

(e) the transfer involves only cash and investments received as restricted gifts, grants, bequests or other similar sums or the income therefrom;

(f) the Master Trustee receives an Officer's Certificate to the effect that the transfer involves cash, investments, accounts receivable, contract rights or other Property (including real Property, fixtures and tangible personal Property) from the ownership or operation of which no operating revenues are or have been received during the immediately preceding twelve months and is made for consideration at least equal to the fair market value of the asset to be transferred;

(g) the Book Value of such Property disposed of in any one Fiscal Year is not in excess of fifteen percent (15%) of the Book Value of the Property of the Combined Group as of the end of the most recent Fiscal Year for which Audited Financial Statements are available;

(h) the Master Trustee receives the Officer's Certificate that would be required pursuant to Section 3.06(a)(D)(1), (2) or (3) if, immediately after the proposed transfer, one dollar of Long-Term Indebtedness were to be incurred, in which event the Combined Group may transfer any assets;

(i) investments and securities sold in arms-length transactions;

(j) the disposition of Property in the case of any proposed or potential condemnation or taking for public or quasi-public use of the Property or any portion thereof;

(k) the disposition of Property is to an affiliate physician group practice (including, without limitation, Trinity Medical WNY, P.C. and Niagara Medicine, P.C.) and is used to support commercially reasonable salary and benefits of physician employees of such group practice and other core healthcare strategies of the Obligated Group;

(l) the disposition of Property to any Person if such Property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(m) Any sale, pledge, assignment or other disposition of a Member's accounts receivable,

(i) with or without recourse, if such Member shall receive as consideration for such sale, pledge, assignment, or other disposition of cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member and if such sale, pledge, assignment or other disposition meets the limitations contained in the paragraphs (c) and (g) in Section 3.06 hereof regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable; and,

in each case, if such member of the Combined Group shall receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, such fair market value to be determined by management of the entity making such transfer. Each member of the Combined Group covenants to maintain records adequate to enable the Master Trustee to ascertain that there has been compliance with the provisions of this subsection (m) and to make such records available to the Master Trustee upon written request.

(n) *In addition to other transfers permitted above, any member of the Combined Group may transfer Property to:*

(i) another Member of the Obligated Group without limit,

(ii) any Person, if prior to such transfer, there is delivered to the Master Trustee an Officer's Certificate stating that (1) such transfer will be a loan evidenced in writing, (2) such loan is for a reasonable term and bears a reasonable interest rate, and (3) such loan is reasonably expected to be repaid in accordance with its terms or

(iii) any Person if the member of the Combined Group shall receive as consideration for such transfer services or Property the fair market value of which is at least equal to the Property so transferred, such fair market value to be

determined by management of the member of the Combined Group making such transfer or the Obligated Group Representative.

The write-off of a loan as uncollectible, as opposed to the making of a loan, shall not be treated as a disposition of Property for the purpose of this Section 3.15.

**Section 3.16 Provisions Concerning Determination of Debt Service Requirement**

The following provisions shall govern the calculation of the Debt Service Requirements on Indebtedness.

(a) Balloon Indebtedness. The Debt Service Requirement on Balloon Long-Term Indebtedness for each Fiscal Year, including any Fiscal Year in which 25% or more of the principal amount of the Balloon Long-Term Indebtedness is due (a "balloon payment year", with the principal amount payable in any balloon payment year being referred to as a "balloon payment"), may be determined in accordance with the repayment terms of the Balloon Long-Term Indebtedness or as otherwise permitted in subparagraphs (i), (ii) or (iii) below:

(i) The Debt Service Requirement on the balloon payment or portion thereof may be deemed equal to the estimated Debt Service Requirements on an equal amount of Long-Term Indebtedness (other than Balloon Indebtedness) payable on such basis as determined by the Obligated Group Representative in a certificate delivered to the Master Trustee, over a term not to exceed thirty (30) years from the date of such calculation, at the Bond Index.

(ii) Determinations of the Debt Service Requirements on Balloon Long-Term Indebtedness may be based on the terms of a Credit Facility under which funds are available for the payment of all or a portion of a balloon payment. If the Credit Facility is scheduled to expire prior to the date the balloon payment is due and is not renewed or replaced prior to the scheduled expiration date, the Related Financing Documents shall require the amount available under the Credit Facility to be drawn down prior to its expiration and immediately applied to the payment of the balloon payment. If that condition is met, or if the Credit Facility is scheduled to expire after the balloon payment is due, the Debt Service Requirements on the Balloon Long-Term Indebtedness may be calculated as follows: (A) it shall be assumed that the funds available under the Credit Facility are drawn down on a date (the "assumed drawdown date") which is the earlier of the first day of the balloon payment year in respect of which the Credit Facility is issued or the expiration date of the Credit Facility; (B) the Debt Service Requirements on the Balloon Long-Term Indebtedness for each Fiscal Year (or portion thereof) prior to the assumed drawdown date shall be the actual Debt Service Requirements thereon for such period; and (C) the Debt Service Requirements on the Balloon Long-Term Indebtedness for each Fiscal Year (or portion thereof) after the assumed drawdown date shall be deemed equal to the sum of the principal and interest payable during such period pursuant to the Credit

Facility and the actual Debt Service Requirements payable during such period in respect of any portion of the Balloon Long-Term Indebtedness for which funds are not available under the Credit Facility.

(iii) Determination of Debt Service Requirement on Balloon Long-Term Indebtedness may be based upon an established sinking fund for the payment of all or a portion of any balloon payment to become due in respect of the Balloon Long-Term Indebtedness, which sinking fund may be held by the holders of the Balloon Long-Term Indebtedness (or a trustee or paying agent acting on their behalf) or may be held by a Member separate and apart from all other funds of such Member. For the purposes of determining the Debt Service Requirements on the Balloon Long-Term Indebtedness, the Obligated Group Representative shall deliver to the Master Trustee a schedule of deposits to be made into the sinking fund for the purpose of paying all or a portion of the balloon payment, together with a resolution of the Governing Body of the applicable member of the Combined Group approving the establishment of the sinking fund and the schedule of deposits to be made therein. The balloon payment (or portion thereof for which the sinking fund is established) shall be deemed payable in accordance with the schedule of deposits, except that any deposit (or portion thereof) which is not made when due shall (until made) be deemed payable in the balloon payment year. All other Debt Service Requirements on the Balloon Long-Term Indebtedness shall be determined in accordance with the repayment terms of such Indebtedness.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to Section 3.06.

(b) Demand Indebtedness. For the purposes of determining the Debt Service Requirements in any Fiscal Year on any Demand Indebtedness, the Debt Service Requirements shall be calculated (i) assuming none of such Demand Indebtedness is tendered, (ii) during the period commencing on the date of issuance through the first date when the holder has the right or option to tender such Demand Indebtedness for payment prior to the stated maturity date (the "Put Date"), using the actual debt service payable on such Demand Indebtedness, where such Demand Indebtedness bears interest at a variable rate, calculating interest on such Demand Indebtedness pursuant to subsection 3.16(c), and (iii) after the Put Date, assuming level debt service over the period commencing on the Put Date and ending on the date that is 30 years after the date of issuance of such Demand Indebtedness and using the Bond Index.

(c) Variable Rate Indebtedness. For the purpose of determining the Debt Service Requirements on any Variable Rate Indebtedness, the interest shall be calculated as follows:

(i) Any Variable Rate Indebtedness that has been outstanding less than twelve (12) months shall be deemed to bear interest at the Bond Index as determined by the Obligated Group Representative.

(ii) Any Variable Rate Indebtedness that has been outstanding for at least twelve (12) months, shall be deemed to bear interest at a rate equal to the weighted average rate for the twelve (12) month period ending on the date of calculation or on the latest practicable date prior to such calculation.

(iii) If a member of the Combined Group has entered into an interest rate hedge with respect to the Variable Rate Indebtedness, under which the member makes fixed rate payments in exchange for a counterparty making variable rate payments, the Variable Rate Indebtedness shall be assumed to bear interest at the fixed rate of interest simulated by the hedge arrangement, in lieu of the rate determined under subparagraph 3.16(c)(i) or 3.16(c)(ii).

(d) Derivative Obligations. The obligations of a member of the Combined Group to make payment under a Derivative Agreement shall not constitute Indebtedness. Except as provided for in Section 3.16(c)(iii) above, if any member of the Combined Group has entered into a Derivative Agreement for the purpose of hedging or modifying the interest cost on Indebtedness, then during the term of the Derivative Agreement and so long as the provider under the Derivative Agreement is not in default, net amounts owed by such member shall be included in the calculation of Debt Service Requirements or as a credit thereto if such net amounts are due to the member, exclusive of any amounts due upon early termination of a Derivative Agreement. For purposes of this Section 3.16(d), net cashflows under a Derivative Agreement shall be calculated as detailed in such Derivative Agreement, assuming (i) any amounts calculated on the basis of a fixed rate must utilize the fixed rate stated in such Derivative Agreement, and (ii) any amounts calculated on the basis of a variable rate of interest must be calculated as provided for in Section 3.16(c)(i) or 3.16(c)(ii), as applicable.

(e) Guaranties. When calculating the principal and the Debt Service Requirements attributable to a Guaranty, including the Debt Service Requirements of any Obligation issued to evidence or secure a Guaranty:

(i) The principal amount of such Indebtedness shall be deemed to equal the principal amount of the obligation guaranteed by the member of the Combined Group.

(ii) The Debt Service Requirements on such Indebtedness shall be deemed to be:

(A) 0% of the debt service requirements (calculated in the same manner as Debt Service Requirements) on the guaranteed obligation, if a member of the Combined Group has not been called upon to make a payment under the Guaranty within the twelve (12) months immediately preceding the date of the calculation, and the primary obligor's income

available for debt service (calculated in the same manner as Income Available for Debt Service) for the period of calculation was or is projected or forecasted to be at least equal to 200% of the maximum annual debt service requirements of the primary obligor (calculated in the same manner as Maximum Annual Debt Service Requirements); or

(B) 20% of the debt service requirements (calculated in the same manner as Debt Service Requirements) on the guaranteed obligation, if a member of the Combined Group has not been called upon to make a payment under the Guaranty within the twelve (12) months immediately preceding the date of the calculation, and the primary obligor's income available for debt service (calculated in the same manner as Income Available for Debt Service) for the period of calculation was or is projected or forecasted to be less than 200% of the maximum annual debt service requirements of the primary obligor (calculated in the same manner as Maximum Annual Debt Service Requirements); provided, that if there shall have occurred a payment by any member of the Combined Group on such Guaranty, then during the period commencing on the date of such payment and ending on the day that is one year after such other Person resumes making all payments on such guaranteed obligation, 100% of the amount payable for principal and interest on such guaranteed Indebtedness during the period for which the computation is being made shall be taken into account.

(f) Permitted Debt Amortization. At the time of computation, if the ratings on the Obligated Group's Related Bonds are rated by two or more Rating Agencies in one of the four highest rating categories, the Obligated Group Representative may compute the Debt Service Requirements for Long-Term Indebtedness and Guaranties for any period as described below:

(i) In the case of any Long-Term Indebtedness, the amount of principal and interest payable during a Fiscal Year on such Long-Term Indebtedness on a historical basis shall be determined assuming (A) that the principal balance of such Long-Term Indebtedness (after adjustment of Guaranties as provided in paragraph (iii)) for such Fiscal Year was refinanced at the beginning of such Fiscal Year, (B) that such principal balance will be payable over a term of thirty (30) years commencing as of the beginning of such Fiscal Year, (C) that such principal balance bears interest at the Bond Index, and (D) the debt service on such Long-Term Indebtedness is payable in equal annual installments sufficient to pay both principal and interest over such term of 30 years;

(ii) In the case of any Long-Term Indebtedness, the amount of principal and interest payable during each Fiscal Year on such Long-Term Indebtedness in periods after the date of determination shall be projected

assuming (A) that the principal balance of such Long-Term Indebtedness (after adjustment of Guaranties as provided in paragraph (iii)) on the date of determination will be refinanced, (B) that such principal balance will be payable over a term of thirty (30) years from the date of determination, (C) that such principal balance will bear interest at the Bond Index, and (D) the debt service on such Long-Term Indebtedness will be payable in equal annual installments sufficient to pay both principal and interest over such term of 30 years; and

(iii) In the case of any Guaranty, the principal of (and premium, if any) and interest and other debt service charges on the debt that is guaranteed for the period of time for which Debt Service Requirements are calculated shall be weighted in the calculation of debt amortization requirements as provided in Section 3.16(e) with respected to such Guaranty.

(g) Capital Leases. The principal amount of Indebtedness in the form of a "capital lease" (defined below) shall be deemed to be the amount, as of the date of determination, at which the aggregate "net rentals" (defined below) due and to become due under such capital lease would be reflected as a liability on the balance sheet of the lessee, and the Debt Service Requirements on a capital lease for the period of time for which calculated shall be deemed to be the aggregate amount of net rentals to be payable under such capital lease during such period. "Capital lease" means any lease of real or personal Property that is capitalized on the balance sheet of the lessee under generally accepted accounting principles. "Net rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under such lease excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

(h) Provisions Not Mutually Exclusive. The provisions of this Section 3.16 are not and shall not be deemed to be mutually exclusive. If two or more of the foregoing provisions are applicable to any particular Long-Term Indebtedness, each such provision shall be applied, as and to the extent appropriate. The foregoing shall also apply to any calculation of the Debt Service Requirement on any Indebtedness of a similar nature which is guaranteed by a Member.

(i) Indebtedness Not to be Counted More Than Once. When more than one obligation or instrument evidences the same Indebtedness, that Indebtedness shall not be counted more than once. By way of illustration and not limitation of that rule, a Member may be obligated to pay the same Indebtedness under a lease or loan agreement for Related Bonds, an

Obligation issued under a Supplemental Indenture, and a reimbursement obligation under a Credit Facility for the Related Bonds; only the Obligation shall be counted as Indebtedness.

**Section 3.17 Compliance with Supplemental Indentures and Related Financing Documents**. Members shall comply with any additional requirements as may be applicable under the terms of each Supplemental Indenture or Related Financing Document in effect as of the date of the action in question.

**Section 3.18 Reserved.**

**Section 3.19 Substitution of Obligation**. The Obligated Group and the Master Trustee may, without the consent of or notice to any of the Holders of Obligations, amend or supplement this Indenture to modify, amend, change or remove any covenant, agreement, term or provision of the Indenture (other than a modification of the type described in Section 6.02) in order to effect the affiliation of the Obligated Group with another entity or entities and the inclusion of the Members of the Obligated Group in another obligated group (the "New Obligated Group") under a new master trust indenture (the "New Master Indenture") executed by the Members of the New Obligated Group and an independent corporate trustee (the "New Master Trustee") (such transaction is referred to collectively herein as the "Obligated Group Transaction"), subject to the following requirements and conditions:

(a) The modifications, amendments, changes and removals permitted by this Section shall include those necessary or appropriate to implement the Obligated Group Transaction and to effect (i) the inclusion of the Members in the New Obligated Group, or (ii) the issuance of new or replacement Obligation or Obligations (the "Replacement Obligations") of the New Obligated Group under the New Master Indenture to evidence or secure any Indebtedness or Related Bonds, which Replacement Obligation or Obligations would constitute joint and several obligations of the members of the New Obligated Group, or (iii) the release or discharge-of any collateral securing any Obligation or Related Bonds, including any mortgage, any equipment lien, any pledge of revenues and receivables, or any debt service reserve fund, in consideration for the issuance of a Replacement Obligation or Obligations of the New Obligated Group under the New Master Indenture to secure any Indebtedness or Related Bonds, or (iv) the replacement of all or a portion of the Obligated Group's financial and operating covenants and related definitions set forth in this Indenture with the New Obligated Group's financial and operating covenants and related definitions set forth in the New Master Indenture.

(b) The Obligated Group may implement the Obligated Group Transaction, and the Master Trustee upon the request of the Obligated Group Representative shall implement the Obligated Group Transaction, if:

(i) the Obligated Group Representative gives written notice of the substance of such proposed Obligated Group Transaction to each rating agency that has in effect a rating for any Obligation or Related Bonds then Outstanding prior to the date such Obligated Group Transaction is to take effect, and either

(A) (I) each such Rating Agency having in effect a rating for any Obligation or Related Bonds then Outstanding without taking into account any Credit Facility (or, if no Rating Agency has such outstanding rating, at least one rating agency selected by the Obligated Group Representative) shall confirm in writing prior to the implementation of the Obligated Group Transaction that the ratings on any such Replacement Obligations or Related Bonds of the New Obligated Group immediately subsequent to the Obligated Group Transaction (X) will be not less than "A3" or "A-" or its equivalent, or (Y) if the then current rating of any Related Bonds or Obligation (without giving effect to any Credit Facility) is less than "A3" or "A-", then such rating will be not less than the then current rating of the Related Bonds or Obligations, and (II) the Obligated Group Representative delivers an Officer's Certificate certifying that (A) after giving effect to such Replacement Obligations and assuming that the New Obligated Group constituted the Obligated Group under this Master Indenture, the New Obligated Group could demonstrate compliance with the provisions of Section 3.06(a)(D)(1), (2) or (3), assuming the incurrence of $1.00 of additional Long-Term Indebtedness, and (III) the New Master Indenture contains a pledge of Gross Receipts substantially similar to the pledge of Gross Receipts in this Indenture as of the date thereof; or

(B) (I) the Obligated Group Representative delivers an Officer's Certificate certifying that after giving effect to such Replacement Obligations and assuming that the New Obligated Group constituted the Obligated Group under the Mater Indenture, the New Obligated Group could demonstrate compliance with the provisions of Section 3.06(a)(D)(1), (2) or (3), assuming the incurrence of one dollar of additional Long-Term Indebtedness provided, however, for purposes of Long-Term Indebtedness, the Long-Term Debt Service Coverage Ratio shall not be less than 1.30 or the total Long-Term Indebtedness of the Obligated Group outstanding on the last day of the most recent Fiscal Year shall not be greater than 60% of the Capitalization of the New Obligated Group, and (II) the New Master Indenture contains a pledge of Gross Receipts substantially similar to the pledge of Gross Receipts in the Indenture as of the date thereof; and

(ii) an original executed counterpart of the New Master Indenture is delivered to the New Master Trustee; and

(iii) original Replacement Obligations for all Obligation Outstanding under this Indenture are delivered to the New Master Trustee, which Replacement Obligations are issued by or on behalf of the New Obligated Group under and pursuant to and secured by the New Master Indenture and shall have been duly

authenticated by the New Master Trustee under the terms of the New Master Indenture; and

(iv) at or prior to the implementation of the Obligated Group Transaction, there shall also be delivered to the Master Trustee, each Related Bond Issuer and each Related Bond Trustee, (A) an Opinion of Bond Counsel to the effect that under then-existing law the implementation of the Obligated Group transaction and the execution of the amendments or supplements contemplated in this Section, in and of themselves, would not adversely affect the validity of any Outstanding Related Bonds or the exclusion from federal income taxation of interest payable on such Related Bonds, and (B) an Opinion of Counsel to the effect that (I) the Replacement Obligation or Obligations of the New Obligated Group to be delivered to secure any Indebtedness or Related Bonds constitute legal, valid and binding obligations of the members of the New Obligated Group enforceable in accordance with their terms subject to customary exceptions, and (II) the issuance of the Replacement Obligation or Obligations will not cause such Related Bonds or such Replacement Obligation or Notes to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended (or that such Related Bonds or Obligations have been so registered if registration is required) and will not subject the New Master Indenture to the qualification provisions of the Trust Indenture Act of 1939, as amended (or that the New Master Indenture has been so qualified if qualification is required).

(c) Not less than 15 days before the implementation of the Obligated Group Transaction, the Obligated Group Representative shall direct each Related Bond Trustee to give written notice thereof, by first-class mail, to each Related Bond Issuer and to all owners of the Related Bonds then Outstanding.

**Section 3.20 Excluded Property**.

(a) As of the date of delivery of this Indenture, the Members have designated the Property described on ***Exhibit B*** as Excluded Property.

(b) Any Property acquired by any Member of the Obligated Group after the date of this Indenture shall be deemed to constitute Excluded Property, unless such acquired Property is an integral part of the operation of such Obligated Group Member's activities, as determined by the Obligated Group Representative.

(c) Additional Property may be designated as Excluded Property under this Indenture, without consent of any Holders of Obligations, if: (i) such Property could have been transferred or sold by the member of the Combined Group to a Person other than a member of the Combined Group pursuant to Section 3.15 of this Indenture; or (ii) the Master Trustee receives an Officer's Certificate to the effect that (A) such Property does not constitute an integral part of the operation of the Combined Group's activities and (B) the total value of all Property added as Excluded Property subsequent to the date of delivery of this Indenture does

not exceed 10% of the total value of Property of the Combined Group (calculated on the basis of the book value of the assets shown on the asset side of the balance sheet in the combined financial statements of the Combined Group for the most recent Fiscal Year next preceding the date of such addition for which combined financial statements reported by independent certified public accountants are available or, if the member so elects, on the basis of current market value); or (iii) the Master Trustee receives an Officer's Certificate to the effect that such Property is unimproved real Property not an integral part of the operation of such Combined Group's activities.

(d) The Members may, at any time, re-designate any Excluded Property as Property by providing the Master Trustee with an Officer's Certificate describing such Property. On and after the date of the delivery of such Officer's Certificate, such re-designated Property shall not be Excluded Property.

**Section 3.21 Long-Term Debt Service Coverage Ratio; Rate Covenant.**

(a) The Obligated Group shall (and shall cause each Restricted Affiliate to) set rates and charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated for each Fiscal Year, will not be less than 1.10.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by clause (a) hereof, as derived from the Audited Financial Statements for the most recently concluded Fiscal Year for which those statements are available, is not met, the Obligated Group agrees to retain an independent Consultant to make recommendations to increase the Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of that level is impracticable, to the highest level attainable. Any Consultant so retained shall be required to submit recommendations within sixty (60) days after being retained. Each Member of the Obligated Group agrees that it will (and shall cause each Restricted Affiliate to), to the extent permitted by law, follow the recommendations of the Consultant. So long as a Consultant shall be retained and each member of the Combined Group shall follow the Consultant's recommendations to the extent permitted by law, the Obligated Group shall be deemed to be in compliance with this Section even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level, provided that the revenues and the amount of the Unrestricted Cash and Investments shall be sufficient to pay, when due, the operating expenses of the Combined Group and the debt service on all Indebtedness of the Combined Group for the Fiscal Year. The Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this subsection (b) more frequently than biennially.

(c) If a report of a Consultant is delivered to the Master Trustee to the effect that Governmental Restrictions have been imposed which make it impossible for the coverage requirement in clause (a) to be met, then the coverage requirement shall be reduced to the maximum coverage permitted by Governmental Restrictions but in no event less than 1.00. Thereafter, for so long as those Governmental Restrictions are in effect, a report of a Consultant stating that those Governmental Restrictions make it impossible for the coverage requirement in

clause (a) to be met shall be delivered to the Master Trustee biennially. Notwithstanding the foregoing, it shall be an Event of Default under Section 3.21(a) and Section 4.01 hereof if for any two consecutive Fiscal Years the Long-Term Debt Service Coverage Ratio is less than 1.00.

## ARTICLE IV

## DEFAULT AND REMEDIES

**Section 4.01 Events of Default**. Event of Default, as used herein, shall mean any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding hereunder within five (5) days of when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of this Indenture;

(b) Failure to attain a Long-Term Debt Service Coverage Ratio of at least 1.00:1.00 for each of two consecutive Fiscal Years;

(c) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under this Indenture for a period of sixty (60) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding; *provided, however*, that if said failure be such that it cannot be corrected within sixty (60) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 60-day period and diligently pursued until the Event of Default is corrected;

(d) An event of default shall occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued hereunder;

(e) (i) Any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding hereunder), which Indebtedness is in an aggregate principal amount greater than five percent (5%) of Total Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or (ii) there shall occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than five percent (5%) of Total Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default

such Indebtedness shall have been accelerated; *provided, however*, that such default shall not constitute an Event of Default within the meaning of this Section if within 30 days (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith shall commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(f) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and

(g) The institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

**Section 4.02 Acceleration; Annulment of Acceleration**.

(a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may and, upon the written request of the Holders of not less than the majority in aggregate principal amount of Obligations Outstanding, shall, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of this Indenture to the contrary notwithstanding. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit,

action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied or waived pursuant to Section 4.09 hereof, then the Master Trustee may, and upon the written request of Holders of not less than a majority in aggregate principal amount of the Obligations Outstanding shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

**Section 4.03 Additional Remedies and Enforcement of Remedies**.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders hereunder by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Bring suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State of New York;

(vi) Enforcement of any Mortgage granted by any Member of the Obligated Group; and

(vii) Enforcement of any other right of the Holders conferred by law or hereby.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions hereof and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

**Section 4.04 Application of Moneys after Default**. Except as otherwise provided in any applicable Supplement during the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article shall be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to Section 5.05 hereof, in accordance with the provisions hereof, and of any applicable Supplement and, with respect to the payment of Obligations thereunder, as follows:

(a) Unless all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations, including scheduled payments on an Obligation issued in connection with a Derivative Agreement ("Regularly Scheduled Swap Payments") in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full all installments or payments due on any date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations or payments on an Obligation issued in connection with a Derivative Agreement other than Regularly Scheduled Swap Payments ("Other Swap Payments") which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference;

Third: To the extent there exists a Credit Facility Issuer with respect to any series of Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above; and

Fourth: To the payment of all other Outstanding Obligations (including, without limitation, obligations securing Derivative Agreements) ratably according to the amounts due thereunder, without any discrimination or preference.

(b) If all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of all amounts then due and unpaid upon Obligations without preference or priority of principal or Other Swap Payments over interest or Regularly Scheduled Swap Payments or of interest or Regularly Scheduled Swap Payments over principal or Other Swap Payments, or of any installment of interest or Regularly Scheduled Swap Payments over any other installment of interest or Regularly Scheduled Swap Payments, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, interest and all amounts due under any Derivative Agreement, to the Persons entitled thereto without any discrimination or preference.

(c) If all amounts due with respect to all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of Subsection (b) of this Section in the event that all amounts due with respect to all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

**Section 4.05 Remedies Not Exclusive**. No remedy by the terms hereof conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity or by statute on or after the date hereof.

**Section 4.06 Remedies Vested in the Master Trustee**. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining as plaintiffs or defendants any Holders. Subject to the provisions of Section 4.04 hereof, any recovery or judgment shall be for the equal benefit of the Holders.

**Section 4.07 Holders' Control of Proceedings**. If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions hereof or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is not in conflict with any applicable law or the provisions hereof, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and provided further that nothing in this Section shall impair the right of the Master Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by the Holders; and provided, further, that the Credit Facility Issuer, if any, with regard to any series of Related Bonds, and not the Holders, shall have the right to control proceedings with respect thereto in the manner described in this Section.

**Section 4.08 Termination of Proceedings**. In case any proceeding taken by the Master Trustee on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Master Trustee or to the Holders, then the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

**Section 4.09 Waiver of Event of Default**.

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action

or proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Notwithstanding anything contained herein to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, shall waive any Event of Default hereunder and its consequences; *provided, however*, that, except under the circumstances set forth in subsection (b) of Section 4.02 hereof, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default hereunder, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

**Section 4.10 Appointment of Receiver**. Upon the occurrence of any Event of Default described in Subsection (a), (b), (d), (e), (f) and (g) of Section 4.01 hereof, unless the same shall have been waived as herein provided, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance hereof or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer. Each Member of the Obligated Group, respectively, hereby consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.

**Section 4.11 Remedies Subject to Provisions of Law**. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Article are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions hereof invalid or unenforceable under the provisions of any applicable law.

**Section 4.12 Notice of Default**. The Master Trustee shall, within ten (10) days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all

Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

## ARTICLE V

## THE MASTER TRUSTEE

**Section 5.01 Certain Duties and Responsibilities.**

(a) Except during the continuance of an Event of Default:

(i) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Master Trustee; and

(ii) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Master Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(ii) the Master Trustee shall not be liable for any error of judgment made in good faith by a chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice president (however designated), the secretary, any assistant secretary,

the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer or employee of the Master Trustee customarily performing functions similar to those performed by any of the above designated officers or with respect to a particular matter, any other officer or employee to whom such matter is referred because of his knowledge of and familiarity with the particular subject, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(iii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under this Indenture, except under the circumstances set forth in Subsection (c) of Section 4.09 hereof requiring the consent of the Holders of all the Obligations at the time Outstanding; and

(iv) no provision of this Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial or other, liability, directly or indirectly, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section.

**Section 5.02 Certain Rights of Master Trustee**. Except as otherwise provided in Section 5.01:

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

(b) Any request, direction or statement of any Member of the Obligated Group mentioned herein shall be sufficiently evidenced by an Officer's Certificate and any action of the Governing Body may be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Member of the Obligated Group to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of this Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any

action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel or an independent auditor and the written advice of such counsel or independent auditor or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture whether on its own motion or at the request or direction of any of the Holders pursuant to this Indenture which shall be in the opinion of the Master Trustee likely to involve expense or liability not otherwise provided for herein, unless there shall have been offered and furnished to the Master Trustee reasonable security or indemnity satisfactory to the Master Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction or otherwise in connection herewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Member of the Obligated Group, personally or by agent or attorney, upon reasonable prior notice to such Member.

(g) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Master Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

**Section 5.03 Right to Deal in Obligations and Related Bonds and With Members of the Obligated Group**. Except as otherwise permitted under a Related Bond Resolution, the Master Trustee may in good faith buy, sell or hold and deal in any Obligations and Related Bonds with like effect as if it were not such Master Trustee and may commence or join in any action which a Holder or holder of a Related Bond is entitled to take and may otherwise deal with Members of the Obligated Group with like effect as if the Master Trustee were not the Master Trustee; *provided, however*, that if the Master Trustee has or shall acquire any conflicting interest, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign as Master Trustee.

**Section 5.04 Removal and Resignation of the Master Trustee**. The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default shall have occurred and be continuing, by an

instrument in writing signed by the Obligated Group Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created hereby. Written notice of such resignation or removal shall be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group Representative within thirty (30) days of the date notice of resignation or removal is given, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment hereunder, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties hereunder, shall mail a notice of such assumption to each registered Holder.

**Section 5.05 Compensation and Reimbursement**. Each Member of the Obligated Group, respectively, agrees:

(a) To pay the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall be agreed to in writing between the Obligated Group Representative and the Master Trustee, but shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(b) Except as otherwise expressly provided herein, to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee, including fees on collection and enforcement, in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and its agents), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith.

(c) To indemnify the Master Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust or its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As security for the performance of the Members of the Obligated Group under this Section, the Master Trustee shall have a lien prior to any Obligations upon all property and funds held or collected by the Master Trustee as such, except funds held in trust for the payment of principal of or interest or premiums on Obligations.

**Section 5.06 Recitals and Representations**. The recitals, statements and representations contained herein, or in any Obligation (excluding the Master Trustee's authentication on the Obligations) shall be taken and construed as made by and on the part of the Members of the Obligated Group, respectively, and not by the Master Trustee, and the Master Trustee neither assumes nor shall be under any responsibility for the correctness of the same.

The Master Trustee makes no representation as to, and is not responsible for, the validity or sufficiency hereof, of the Obligations, or the validity or sufficiency of insurance to be provided. The Master Trustee shall be deemed not to have made representations as to the security afforded hereby or hereunder or as to the validity or sufficiency of such document. The Master Trustee shall not be concerned with or accountable to anyone for the use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof. The Master Trustee shall have no duty of inquiry with respect to any default or Events of Default described herein without actual knowledge of or receipt by the Master Trustee of written notice of a default or an Event of Default from a Member of the Obligated Group or any Holder.

**Section 5.07 Separate or Co-Master Trustee**. At any time or times, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee shall have power to appoint, and, upon the request of the Holders of at least a majority in aggregate principal amount of Obligations Outstanding, shall appoint, one or more Persons approved by the Master Trustee either to act as co-trustee or co-trustees, jointly with the Master Trustee, or to act as separate trustee or separate trustees, and to vest in such person or persons, in such capacity, such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section.

Every co-trustee or separate trustee shall, to the extent permitted by law but to such extent only, be appointed subject to the following terms, namely:

(a) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed by the Master Trustee, or separate trustee or separate trustees jointly, as shall be provided in the instrument appointing such co-trustee or co-trustees or separate trustee or separate trustees, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or co-trustees or separate trustee or separate trustees.

(c) Any request in writing by the Master Trustee to any co- trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant for the taking, or the refraining from taking, of such action by such co-trustee or separate trustee.

(d) Any co-trustee or separate trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Master Trustee at any time, by any instrument in writing, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section. Upon the request of the Master Trustee, the Obligated Group Representative, on behalf of the Members, shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No trustee or any paying agent hereunder shall be personally liable by reason of any act or omission of any other trustee or paying agent hereunder, nor will the act or omission of any trustee or paying agent hereunder be imputed to any other trustee or paying agent.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Master Trustee.

Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, it or he shall be vested with such rights, powers, duties or obligations, as shall be specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms hereof. Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-trustee or separate trustee may, at any time by an instrument in writing, constitute the Master Trustee its or his attorney-in-fact and agent, with full power and authority

to perform all acts and things and to exercise all discretion on its or his behalf and in its or his name.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Master Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner herein provided.

**Section 5.08 Disclosure**. The Master Trustee is authorized to disclose to a central repository of information and data regarding municipal bond issues such material as shall be required to be disclosed in accordance with applicable regulations and guidelines regarding such disclosure, including without limitation the American Bankers Association Corporate Trust Disclosure Guidelines for Master Trustees, and the Members of the Obligated Group shall in connection with any such disclosure pay the reasonable compensation and expenses of the Master Trustee, including the fees and expense of its counsel, incurred in connection with such disclosure and shall provide the Master Trustee with such indemnification as shall be reasonably satisfactory to the Master Trustee.

## ARTICLE VI

## SUPPLEMENTS AND AMENDMENTS

**Section 6.01 Supplements Not Requiring Consent of Holders**. The Obligated Group Representative, on behalf of the Members, when authorized by resolution or other action of equal formality by the Governing Body of the Members for whose benefit an Obligation is being authorized, and the Master Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission herein.

(b) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Holders.

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of Section 6.02(a).

(d) To qualify this Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of Indebtedness as permitted hereunder, so long as no Event of Default has occurred and is continuing under the Indenture.

(f) To obligate a successor to any Member of the Obligated Group as provided in Section 3.11.

(g) To comply with the provisions of any federal or state securities law.

(h) So long as no Event of Default has occurred and is continuing under this Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Indenture has occurred and is continuing, to make any change to the provisions of this Indenture if the following conditions are met:

(i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A) evidence satisfactory to the Master Trustee to the effect that there exists for each Related Bond or Obligation, Credit Enhancement (as defined in Section 3.12) or (B) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change;

(ii) with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Related Bond would otherwise be entitled.

**Section 6.02 Supplements Requiring Consent of Holders**.

(a) Other than Supplements referred to in Section 6.01 hereof and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by the Obligated Group Representative, on behalf of the Members, when authorized by resolution or other action of equal formality by the Governing Body of the Members for whose benefit the Obligation is being authorized, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; *provided, however*, nothing in this Section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in this Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as shall be prescribed by each Member of the Obligated Group following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section 6.02 for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by Section 8.01 of this Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as herein provided, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

**Section 6.03 Execution and Effect of Supplements**.

(a) In executing any Supplement permitted by this Article, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Supplement is authorized or permitted hereby. The Master Trustee may but shall not be obligated to enter into any such Supplement which affects the Master Trustee's own rights, duties or immunities.

(b) Except as otherwise set forth in such Supplement, upon the execution and delivery of any Supplement in accordance with this Article, the provisions hereof shall be modified in accordance therewith and such Supplement shall form a part hereof for all purposes and every Holder of an Obligation theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Supplement in accordance with this Article may bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplement.

## ARTICLE VII

## SATISFACTION AND DISCHARGE OF INDENTURE

**Section 7.01 Satisfaction and Discharge of Indenture**. If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable hereunder by the Members of the Obligated Group or any thereof, then this Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture. Each Member of the Obligated Group, respectively, hereby agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with this Indenture or such Obligations.

**Section 7.02 Payment of Obligations after Discharge of Lien**. Notwithstanding the discharge of the lien hereof as in this Article provided, the Master Trustee shall nevertheless retain such rights, powers and duties hereunder as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and the registration, transfer, exchange and replacement of Obligations as provided herein.

Nevertheless, any moneys held by the Master Trustee or any paying agent for the payment of the principal of, premium, if any, or interest on any Obligation remaining unclaimed for five years after the principal of all Obligations has become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided herein, shall then be paid to the Members of the Obligated Group, as their interests may appear, and the Holders of any Obligations not theretofore presented for payment shall thereafter be entitled to look only to the Members of the Obligated Group for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

## ARTICLE VIII

## CONCERNING THE HOLDERS

**Section 8.01 Evidence of Acts of Holders**.

(a) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of any Obligation securing an issue of Related Bonds, the registered owners of such Related Bonds then outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of such series of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds of such series then outstanding; provided however that if any portion of such Related Bonds is secured by a Credit Facility, the applicable Credit Facility Issuer shall be deemed to be the Holder for the purpose of any such request, direction or consent with respect to the portion of such Related Bonds secured by the Credit Facility. Notwithstanding the foregoing, the request, consent or direction of the applicable Credit Facility Issuer shall not be required if a Credit Facility Default then exists with respect to such Credit Facility Issuer.

(b) As to any request, direction, consent or other instrument provided hereby to be signed and executed by the Holders, such action may be in any number of concurrent writings, shall be of similar tenor, and may be signed or executed by such Holders in person or by agent appointed in writing.

(c) Proof of the execution of any such request, direction, consent or other instrument or of the writing appointing any such agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes hereof and shall be conclusive in favor of the Master Trustee and the Members of the Obligated Group, with regard to any action taken by them, or either of them, under such request, direction or consent or other instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

(ii) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(d) Nothing in this Section shall be construed as limiting the Master Trustee to the proof herein specified, it being intended that the Master Trustee may accept any other evidence of the matters herein stated which it may deem sufficient.

(e) Any action taken or suffered by the Master Trustee pursuant to any provision hereof upon the request or with the assent of any person who at the time is the Holder of any Obligation, shall be conclusive and binding upon all future Holders of the same Obligation.

(f) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of an Obligation that constitutes a Guaranty, for purposes of any such request, direction or consent, the principal amount of such Obligation shall be deemed to be the stated principal amount of such Obligation.

**Section 8.02 Obligations or Related Bonds Owned by Members of Obligated Group**. In determining whether the Holders of the requisite aggregate principal amount of Obligations have concurred in any demand direction, request, notice, consent, waiver or other action under this Indenture, Obligations or Related Bonds that are owned by any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be outstanding. Obligations or Related Bonds so owned that have been pledged in good faith may be regarded as Outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Obligations or Related Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or indirect common control with any Member of the Obligated Group. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee.

**Section 8.03 Instruments Executed by Holders Bind Future Holders**. At any time prior to (but not after) the Master Trustee takes action in reliance upon evidence, as provided in Section 8.01 hereof, of the taking of any action by the Holders of the percentage in aggregate principal amount of Obligations specified herein in connection with such action, any Holder of such an Obligation or Related Bond that is shown by such evidence to be included in Obligations the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in Section 8.01, revoke such action so far as concerns such Obligation or Related Bond. Except upon such revocation any such action taken by the Holder of an Obligation or Related Bond in any direction, demand, request, waiver,

consent, vote or other action of the Holder of such Obligation or Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Obligation or Related Bond, and of any Obligation or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Obligation or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Obligations specified herein in connection with such action shall be conclusively binding upon each Member of the Obligated Group, the Master Trustee and the Holders of all of such Obligations or Related Bonds.

## ARTICLE IX

## MISCELLANEOUS PROVISIONS

**Section 9.01 Limitation of Rights**. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Obligations issued hereunder is intended or shall be construed to give to any Person other than each Member of the Obligated Group, the Master Trustee, any Credit Facility Issuer and the Holders hereunder any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties mentioned in this Section.

**Section 9.02 Severability**. If any one or more sections, clauses, sentences or parts hereof shall for any reason be questioned in any court of competent jurisdiction and shall be adjudged invalid or unenforceable, such judgment shall not affect, impair or invalidate the remaining provisions hereof, or the Obligations issued pursuant hereto, but shall be confined to the specific sections, clauses, sentences and parts so adjudged.

**Section 9.03 Holidays**. Except to the extent a Supplement or an Obligation provides otherwise:

(a) Subject to subsection (b) of this Section 9.03, when any action is provided herein to be done on a day or within a time period named, and the day or the last day of the period falls on a day on which banking institutions in the jurisdiction where the Corporate Trust Office is located are authorized by law to remain closed, the action may be done on the next ensuing day not a day on which banking institutions in such jurisdiction are authorized by law to remain closed with effect as though done on the day or within the time period named.

(b) When the date on which principal of or interest or premium on any Obligation is due and payable is a day on which banking institutions at the place of payment are authorized by law to remain closed, payment may be made on the next ensuing day on which banking institutions at such place are not authorized by law to remain closed with the same effect as though payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date.

**Section 9.04 Governing Law**. This Indenture and any Obligations issued hereunder are contracts made under the laws of the State of New York and shall be governed by and construed in accordance with such laws.

**Section 9.05 Counterparts**. This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

**Section 9.06 Immunity of Individuals**. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any Obligations issued hereunder or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, member, employee or agent of any Member of the Obligated Group, and all such liability of any such individual as such is hereby expressly waived and released as a condition of and in consideration for the execution hereof and the issuance of Obligations issued hereunder.

**Section 9.07 Binding Effect**. This instrument shall inure to the benefit of and shall be binding upon each Member of the Obligated Group, the Master Trustee and their respective successors and assigns subject to the limitations contained herein.

**Section 9.08 Notices**.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be deemed sufficiently given or served if by hand or overnight courier or by fax, if followed by mail as provided hereafter, and if given in writing, mailed by first class mail, postage prepaid and addressed as follows:

(i) If to any Member of the Obligated Group, addressed to the Obligated Group Representative at its principal place of business, which on the date hereof is: 144 Genesee Street, Buffalo, New York 14203, Attention: Chief Financial Officer with a copy to Phillips Lytle LLP, One Canalside, 125 Main Street, Buffalo, New York 14203, Attention Deborah A. Doxey, Esq.

(ii) If to the Master Trustee, addressed to it at 101 Barclay Street, 21st Floor, New York, New York 10286, Attention: Steven Vaccarello.

(iii) If to any registered Holder, addressed to such Holder at the address shown on the books of the Master Trustee kept pursuant hereto.

(b) Any Member of the Obligated Group, or the Master Trustee may from time to time by notice in writing to the other and to the registered Holders designate a different address or addresses for notice hereunder.

(c) So long as any Member is subject to regulation by the Department of Health of the State of New York, the Master Trustee shall, upon the issuance of any Obligations, notify the Commissioner of the Department of Health of such issuance at Division of Legal

Affairs, New York State Department of Health, Empire State Plaza, Tower Building, 24th Floor, Albany, New York 12237.

IN WITNESS WHEREOF, each Member of the Obligated Group has caused these presents to be signed in its name and on its behalf by its duly authorized officer and to evidence its acceptance of the trusts hereby created, the Master Trustee has caused these presents to be signed in its name and on its behalf by its duly authorized officer, all of as of the day and year first above written.

[Signature Page Follows]

**BORROWER:**

**CATHOLIC HEALTH SYSTEM, INC.**

By: _____
James A. Dunlop, Jr.
Executive Vice President and
Chief Financial Officer

**MERCY HOSPITAL OF BUFFALO**

By: _____
David P. Macholz
Treasurer

**SISTERS OF CHARITY HOSPITAL OF BUFFALO, NEW YORK**

By: _____
David P. Macholz
Treasurer

**KENMORE MERCY HOSPITAL**

By: _____
David P. Macholz
Treasurer

**MOUNT ST. MARY'S HOSPITAL OF NIAGARA FALLS**

By: _____
David P. Macholz
Treasurer

**MCAULEY- SETON HOMECARE CORPORATION**

By: _____
David P. Macholz
Treasurer

**NIAGARA HOMEMAKER SERVICES, INC.**

By: _____
David P. Macholz
Treasurer

**TRUSTEE:**

**THE BANK OF NEW YORK MELLON,**
**as Master Trustee**

By: _____
Name: _____
Title: _____

# APPENDIX G

# FORM OF APPROVING OPINION OF BOND COUNSEL

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**FORM OF APPROVING OPINION OF BOND COUNSEL**

Upon delivery of the Series 2019B Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to DASNY, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
7 WORLD TRADE CENTER
250 GREENWICH STREET, 41ST FLOOR
NEW YORK, NEW YORK 10007

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We, as Bond Counsel to the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic of the State of New York (the "State"), constituting a public benefit corporation created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Dormitory Authority Act"), have examined a record of proceedings relating to the issuance of $43,925,000 aggregate principal amount of Catholic Health System Obligated Group Revenue Bonds, Series 2019B (the "Series 2019B Bonds").

The Series 2019B Bonds are issued under and pursuant to the Dormitory Authority Act, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York of 1973, as amended, and the Health Care Financing Consolidation Act, being a part of Chapter 83 of the Laws of New York of 1995 (collectively, the "Act"), the Catholic Health System Obligated Group Revenue Bond Resolution adopted by the Authority on March 6, 2019 (the "Bond Resolution"), as supplemented by the Series 2019B Resolution Authorizing Up To $220,000,000 Catholic Health System Obligated Group Revenue Bonds, Series 2019B adopted by the Authority on March 6, 2019 (the "Series 2019B Resolution"). The Bond Resolution and the Series 2019B Resolution are herein collectively referred to as the "Resolutions."

The Series 2019B Bonds are dated, mature, are payable, bear interest and are subject to redemption and purchase as provided in the Resolutions and the Bond Series Certificate of the Authority fixing the terms and the details of such Series 2019B Bonds (the "Series 2019B Certificate").

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

As to questions of fact material to our opinion, we have, with your consent, relied upon the certified proceedings and other certifications of public officials and officers of the Institution and the other members of the Obligated Group furnished to us, without undertaking to verify the same by independent investigation.

The Series 2019B Bonds, together with the Authority's Catholic Health System Obligated Group Revenue Bonds, Series 2019A (the "Series 2019A Bonds"), are treated as a single issue for Federal tax purposes. We have served as bond counsel with respect to the issuance of the Series 2019A Bonds and, on the date hereof, have rendered our opinion with respect to the exclusion of interest

on the 2019A Bonds from gross income for Federal income tax purposes in substantially the form of paragraph 6 below and subject to the same conditions and limitations set forth herein. Noncompliance with such conditions and limitations may cause interest on the Series 2019A Bonds and the Series 2019B Bonds to become subject to Federal income taxation retroactive to the date of issue, irrespective of the date on which such noncompliance occurs or is discovered.

Based upon our examination, we are of the opinion that under existing law:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions, and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Bond Resolution creates the valid pledge which it purports to create of the proceeds of the sale of the Bonds, the Revenues and all funds and accounts established by the Bond Resolution (other than the Arbitrage Rebate Fund, the Credit Facility Repayment Fund and the Purchase and Remarketing Fund, each as defined in the Bond Resolution), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Bond Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Bond Resolution.

3. The Series 2019B Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2019B Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2019B Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2019B Bonds.

5. The Loan Agreement, dated as of March 6, 2019 (the "Loan Agreement"), between the Authority and the Institution, has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Institution, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Series 2019B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2019B Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2019B Bonds in order that interest on the Series 2019B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2019B Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2019B Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

On the date of delivery of the Series 2019B Bonds, the Authority and the Institution will execute a Tax Regulatory Agreement containing provisions and procedures pursuant to which such

requirements can be satisfied (the "Tax Regulatory Agreement"). In executing the Tax Regulatory Agreement, the Authority and the Institution, on behalf of itself and the other members of the Obligated Group, covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2019B Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed (i) the material accuracy of the representations, certifications of fact, and statements of reasonable expectations contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Series 2019B Bonds, and (ii) compliance by the Authority, the Institution and the other members of the Obligated Group with the procedures and covenants set forth in the Tax Regulatory Agreement with respect to such tax matters.

7. Under existing statutes, interest on the Series 2019B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

We express no opinion regarding any Federal, state or local tax consequences with respect to the Series 2019B Bonds, except as stated in paragraphs 6 and 7. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any facts or circumstances that may hereafter come to our attention, any changes in law or in interpretations thereof that may hereafter occur, or for any other reason. In addition, we express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel regarding Federal, state or local tax matters, including, without limitation, the exclusion from gross income for Federal income tax purposes of interest on the Series 2019B Bonds.

In rendering our opinion in paragraph 6, we have relied on the opinion of counsel to the Institution and the other members of the Obligated Group, regarding among other matters, the current qualification of the Institution and the other members of the Obligated Group, respectively, as organizations described in Section 501(c)(3) of the Code. We note that such opinion is subject to a number of qualifications and limitations. Each of the Institution and the other members of the Obligated Group has covenanted that it will do nothing to impair its status as a tax-exempt organization and that it will comply with the Code and any applicable regulations throughout the term of the Bonds. Failure of the Institution or the other members of the Obligated Group to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their respective status as organizations described in Section 501(c)(3) of the Code or use of the Series 2019B Bond-financed assets in activities that constitute unrelated trades or businesses of the Institution or the other members of the Obligated Group, as applicable, within the meaning of Section 513 of the Code, may result in interest on the Series 2019B Bonds being included in gross income for Federal income tax purposes, possibly from the date of issuance of the Series 2019B Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2019B Bonds, the Resolutions, the Loan Agreement and the Tax Regulatory Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity, including those related to equitable subordination (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 2019B Bond, and in our opinion the form of said Series 2019B Bond and its execution are regular and proper.

Very truly yours,

# APPENDIX H

# FORM OF CONTINUING DISCLOSURE AGREEMENT

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**AGREEMENT TO PROVIDE CONTINUING DISCLOSURE**

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**
**CATHOLIC HEALTH SYSTEM OBLIGATED GROUP**
**REVENUE BONDS, SERIES 2019B**

This **AGREEMENT TO PROVIDE CONTINUING DISCLOSURE** (the "*Disclosure Agreement*"), dated as of April 25, 2019, is executed and delivered by Catholic Health System, Inc. (the "*Corporation*" or the "*Obligated Person*"), in its capacity as representative (the "*Obligated Group Representative*") of that certain obligated group consisting of the Corporation, Mercy Hospital of Buffalo ("*Mercy*"), Sisters of Charity Hospital of Buffalo, New York ("*Sisters of Charity*"), Kenmore Mercy Hospital ("*Kenmore*"), Mount St. Mary's Hospital of Niagara Falls ("*Mount St. Mary's*"), McAuley-Seton Home Care Corporation ("*McAuley*") and Niagara Homemaker Services, Inc. d/b/a Mercy Home Care ("*Mercy Home Care*") and together with the Corporation, Mercy, Sisters of Charity, Kenmore, Mount St. Mary's and McAuley, the "*Obligated Group*") and Digital Assurance Certification, L.L.C. ("*DAC*"), as exclusive Disclosure Dissemination Agent (the "*Disclosure Dissemination Agent*") for the Holders (hereinafter defined) of the Bonds (hereinafter defined) issued by the Dormitory Authority of the State of New York (the "*Issuer*" or "*DASNY*") and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "*Rule*").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the parties hereto through use of the DAC system and are not intended to constitute "advice" within the meaning of the United States Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Act*"). DAC is not obligated hereunder to provide any advice or recommendation to the Issuer, the Obligated Person or anyone on the Issuer's or the Obligated Person's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Resolution (hereinafter defined). The capitalized terms shall have the following meanings:

"*Annual Filing Date*" means the date, set in Sections 2(a)(i) and 2(d) of this Disclosure Agreement, by which the Annual Report is to be filed with the MSRB.

"*Annual Report*" means an Annual Report described in and consistent with Section 3(a) of this Disclosure Agreement.

"*Audited Financial Statements*" means the financial statements (if any) of the Corporation for the prior Fiscal Year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in

paragraph (b)(5)(i) of the Rule and specified in Section 3(a)(ii)(B) of this Disclosure Agreement.

"*Bond Trustee*" means The Bank of New York Mellon and its successors and assigns.

"*Bonds*" means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"*Certification*" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Quarterly Report, Audited Financial Statements, Voluntary Financial Disclosure, Notice Event notice, Failure to File Event notice or Voluntary Event Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Quarterly Report, Audited Financial Statements, Voluntary Financial Disclosure, Notice Event notice, Failure to File Event notice or Voluntary Event Disclosure required to be or voluntarily submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Obligated Person and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"*Disclosure Dissemination Agent*" means Digital Assurance Certification, L.L.C., acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Obligated Person pursuant to Section 9 hereof.

"*Disclosure Representative*" means the chief financial officer of the Obligated Person or his or her designee, or such other person as the Obligated Person shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"*Failure to File Event*" means the Obligated Person's failure to file an Annual Report on or before the Annual Filing Date.

"*Financial Obligation*" means a (i) a debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"*Fiscal Year*" means the 12-month period beginning on January 1 and ending on December 31 or any other 12-month period selected by the Corporation as the Fiscal Year of the Corporation for financial reporting purposes.

"*Force Majeure Event*" means: (i) acts of God, war or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access System maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or

telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

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

"*Information*" means collectively, the Qurterly Reports, Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"*Issuer*" means the Dormitory Authority of the State of New York, as conduit issuer of the Bonds.

"*Master Indenture*" means the Amended and Restated Master Trust Indenture dated as of April 25, 2019, as supplemented and amended, by and between the Master Trustee and the Obligated Group.

"*Master Trustee*" means The Bank of New York Mellon, as master trustee.

"*MSRB*" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the United States Securities Exchange Act of 1934, as amended.

"*Notice Event*" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

"*Obligated Person*" means any person who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

"*Official Statement*" means that Official Statement prepared by the Issuer and the Obligated Person in connection with the Bonds, as listed on Exhibit A.

"*Quarterly Filing Date*" means the date, set in Sections 2(b)(i), by which the Quarterly Report is to be filed with the MSRB.

"*Quarterly Report*" means a Quarterly Report described in and consistent with Section 3(b) of this Disclosure Agreement.

"*Resolution*" means DASNY's bond resolution(s) pursuant to which the Bonds were issued.

"*Voluntary Event Disclosure*" means information of the category specified in any of subsections (c)(vi)(1) through (c)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"*Voluntary Financial Disclosure*" means information of the category specified in any of subsections (c)(vii)(1) through (c)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual and Quarterly Reports

(a) Annual Reports

(i) The Obligated Person shall, or shall cause the Disclosure Dissemination Agent to, not later than the last day of the sixth calendar month after the end of the Corporation's Fiscal Year (or any time thereafter following a Failure to File Event as described in this Section), commencing with the Fiscal Year ending December 31, 2019, provide an electronic copy of the Annual Report and Certification to the MSRB through its Electronic Municipal Market Access ("*EMMA*") System for municipal securities disclosures. The Annual Report and Certification may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(ii) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Obligated Person of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Obligated Person shall, not later than two (2) business days prior to the Annual Filing Date, either: (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report, and the Certification, or (ii) instruct the Disclosure Dissemination Agent in writing, with a copy to the Bond Trustee, that a Failure to File Event may occur, state the date by which the Annual Financial Information and Audited Financial Statements for such year are expected to be provided, and, at the election of the Obligated Person, instruct the Disclosure Dissemination Agent to send a notice to the MSRB in substantially the form attached as Exhibit B on the Annual Filing Date, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(iii) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Obligated Person hereby irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(iv) If Audited Financial Statements of the Obligated Person are prepared but not available prior to the Annual Filing Date, the Obligated Person shall provide unaudited financial statements for filing prior to the Annual Filing Date in accordance with Section 3(a)(ii)(B) hereof and, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Bond Trustee, for filing with the MSRB.

(b) Quarterly Reports

(i) The Obligated Person shall provide, or shall cause the Disclosure Dissemination Agent to provide, not later than the last day of the second calendar month following the end of each fiscal quarter of the Corporation, commencing with the fiscal quarter ending March 31, 2019, an electronic copy of the Quarterly Report and Certification, to the MSRB through EMMA. The Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(ii) If on the fifteenth (15th) day prior to the Quarterly Filing Date, the Disclosure Dissemination Agent has not received a copy of the Quarterly Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Obligated Person of its undertaking to provide the Quarterly Report pursuant to Section 2(b). Upon such reminder, the Disclosure Representative shall, not later than two (2) business days prior to the Quarterly Filing Date, either: (i) provide the Disclosure Dissemination Agent with an electronic copy of the Quarterly Report and Certification, or (ii) instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to send a notice to the MSRB in substantially the form attached as Exhibit B, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(iii) If the Disclosure Dissemination Agent has not received a Quarterly Report and Certification by 6:00 p.m. Eastern time on the Quarterly Filing Date (or, if such Quarterly Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter), a Failure to File Event shall have occurred and the Obligated Group irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Quarterly Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to each Annual Filing Date and Quarterly Filing Date;

(ii) upon receipt, promptly file each Annual Report and Quarterly Report received under Section 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b) with the MSRB, identifying the Notice Event as instructed pursuant to Section 4(a) or 4(b) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. Principal and interest payment delinquencies;

2. Non-Payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, IRS notices or events affecting the tax-exempt status of the securities;

7. Modifications to rights of securities holders, if material;

8. Bond calls, if material;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Ratings changes;

12. Tender offers;

13. Bankruptcy, insolvency, receivership or similar event of a Member of the Obligated Group;

14. Merger, consolidation, or acquisition of a Member of the Obligated Group, if material;

15. Appointment of a successor or additional trustee, or the change of name of a trustee, if material;

16. Incurrence of a Financial Obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if material; and

17. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

(iv) upon receipt (or irrevocable direction pursuant to Section 2(a)(iii) or Section 2(b)(iii) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual/quarterly financial information as required" when filing pursuant to Section 2(a) or Section 2(b) of this Disclosure Agreement;

(v) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Obligated Person pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"

2. "change in obligated person or obligated group;"

3. "notice to investors pursuant to bond documents;"

4. "certain communications from the Internal Revenue Service;"

5. "secondary market purchases;"

6. "bid for auction rate or other securities;"

7. "capital or other financing plan;"

8. "litigation/enforcement action;"

9. "change of tender agent, remarketing agent, or other on-going party;"

10. "derivative or other similar transaction;" and

11. "other event-based disclosures;"

(vi) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Obligated Person pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. "quarterly/monthly financial information;"

2. "change in fiscal year/timing of annual disclosure;"

3. "change in accounting standard;"

4. "interim/additional financial information/operating data;"

5. "budget;"

6. "investment/debt/financial policy;"

7. "information provided to rating agency, credit/liquidity provider or other third party;"

8. "consultant reports;" and

9. "other financial/operating data;"

(vii) provide the Obligated Person evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(d) The Obligated Person may adjust the Quarterly Filing Dates and Annual Filing Date upon change of its Fiscal Year by providing written notice of such change and the new Quarterly Filing Date and Annual Filing Date to the Disclosure Dissemination Agent, the Bond Trustee and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(e) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

Neither the Master Trustee nor the Dissemination Agent need verify the content or correctness of the Annual Report or Quarterly Report.

SECTION 3. Content of Reports.

(a) Annual Report.

(i) Each Annual Report shall contain the financial information and operating data contained in the following tables in the Appendix A of the final Official Statement:

(A) Utilization statistics of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION – Utilization" (table only);

(B) sources of patient service revenue of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION – Payor Mix (table only);

(C) revenue and expense data of the type set forth under the heading "FINANCIAL AND OPERATING INFOMRATION – Historical Financial Information" (may be omitted if provided as part of the Audited Financial Statements);

(D) data of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION – Debt Service Coverage (table only, excluding Pro Forma Maximum Annual Debt Service Coverage);

(E) data of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION – Liquidity (tables only, excluding Pro Forma Cash-to-Debt); together with

(F) such narrative explanation as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Corporation.

(ii) Each Annual Report shall also contain the following:

(A) a certificate stating whether the Obligated Group is in compliance with the provisions of the Master Indenture; and

(B) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("*GAAP*") or alternate accounting principles as described in the Official Statement will be included in the Annual Report. If Audited Financial Statements are not available, the Obligated Person shall be in compliance under this Disclosure Agreement if unaudited financial statements, prepared in accordance with GAAP or alternate accounting principles as described in the Official Statement, are included in the Annual Report.

(b) Quarterly Reports. Each Quarterly Report shall contain the following financial information together with operating data contained in the following tables in the Appendix A of the final Official Statement:

(i) quarterly unaudited consolidated financial statements of the Corporation for such quarter consisting of unaudited consolidated balance sheets as of the end of such quarter and related statement of operations and changes in net assets for such quarter (year to date), all prepared on substantially the same basis as the most recently prepared Audited Financial Statements; and

(ii) the quarterly statistics of the Corporation for the categories specified above in Section 3(a)(i) above; together with such narrative explanation as may be necessary to avoid misunderstanding regarding the presentation of the quarterly utilization statistics concerning the Corporation.

(c) Any or all of the items listed in this Section 3 may be included by specific reference from other documents, including official statements of debt issues with respect to which each Member of the Obligated Group is an "obligated person" (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or are available from the MSRB Internet Website. If the document incorporated by reference is a Final Official Statement, it must be available from the MSRB. The Obligated Person will clearly identify each such document so incorporated by reference.

(d) Any Report or Quarterly Report containing modified operating data or financial information shall include an explanation, in narrative form, of such modifications.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices and determinations with respect to the tax status of the securities or other material events affecting the tax status of the securities;

7. Modifications to rights of the security holders, if material;

8. Bond calls, if material;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Tender offers;

13. Bankruptcy, insolvency, receivership or similar event of a Member of the Obligated Group;

    **Note to subsection (a)(13) of this Section 4:** For the purposes of the event described in subsection (a)(13) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

14. The consummation of a merger, consolidation or acquisition involving the Obligated Person, or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

15. Appointment of a successor or additional trustee or the change of name of a trustee, if material;

16. Incurrence of a Financial Obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if material; and

17. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

The Obligated Person shall, in a timely manner not in excess of ten business days after its occurrence, notify the Bond Trustee and the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Upon actual knowledge of the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly notify the Bond Trustee in writing of the occurrence of such Notice Event. Each such notice from the Obligated Person shall instruct Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that

has occurred (which shall be any of the categories set forth in Section 2(c)(iv) of this Disclosure Agreement), include the desired text of the disclosure, the written authorization for the Disclosure Dissemination Agent to disseminate such information, and identify the desired date for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Obligated Person or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Obligated Person or the Disclosure Representative, such notified party will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Obligated Person determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(c)(iv) of this Disclosure Agreement), include the text of the disclosure that the Obligated Person desires to make, contain the written authorization of the Obligated Person for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed as prescribed in subsection (a) or as prescribed in subsection (b) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB, in accordance with Section 2(c)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers.

Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference in the Annual Reports, Audited Financial Statements, Notice Event notices and Voluntary Event Disclosure, the Obligated Person shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations.

The Obligated Person acknowledges and understands that other state and federal laws, including but not limited to the United States Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the United States Securities Exchange Act of 1934, as amended, may apply to the Obligated Person, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Obligated Person acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Obligated Person may instruct the Disclosure Dissemination Agent to file Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(c)(vi) of this Disclosure Agreement), include the text of the disclosure that the Obligated Person desires to make, and identify the date the Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Obligated Person as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(c)(vi) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Obligated Person may instruct the Disclosure Dissemination Agent to file Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(c)(vii) of this Disclosure Agreement), include the desired text of the disclosure, contain the written authorization for the Disclosure Dissemination Agent to disseminate such information, if applicable, and identify the desired date for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Obligated Person as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(c)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that neither the issuer nor the Obligated Person is obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or to file any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Section 7, or including any other information in any Annual Report, Failure to File Event notice or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Report, Failure to File Event notice or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement or to file Voluntary Event Disclosure or Voluntary Financial Disclosure, the Obligated Person shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Voluntary Financial Disclosure, Voluntary Event Disclosure, Failure to File Event Notice or Notice Event notice.

SECTION 8. Termination of Reporting Obligation.

The obligations of the Obligated Person and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Obligated Person is no longer an Obligated Person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent.

The Obligated Person hereby appoints DAC as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Obligated Person may, upon thirty days written notice to the Disclosure Dissemination Agent and the Bond Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Obligated Person or DAC, the Obligated Person agrees to appoint a successor Disclosure Dissemination Agent or, alternatively, agrees to assume all responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Obligated Person shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Obligated Person.

SECTION 10. Remedies in Event of Default.

In the event of a failure of the Obligated Person or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Obligated Person has provided such information to the Disclosure Dissemination Agent as provided in this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information, or any other information, disclosures or notices provided to it by the Obligated Person and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Obligated Person, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Obligated Person's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent

shall have no duty to determine or liability for failing to determine whether the Obligated Person has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Obligated Person at all times.

THE OBLIGATED PERSON AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT, THE ISSUER AND THE BOND TRUSTEE AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITY WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LOSSES, EXPENSES AND LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AND THE BOND TRUSTEE'S (AND ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS') GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Obligated Person under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

**(**b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and it shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Obligated Person.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format through the EMMA System and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. No Issuer or Bond Trustee Responsibility.

The Obligated Person and the Disclosure Dissemination Agent acknowledge that neither the Issuer nor the Bond Trustee have undertaken any responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Disclosure Agreement, and shall have no liability to any person, including any Holder of the Bonds, with respect to any such reports, notices or disclosures. DASNY (as conduit issuer) is not, for purposes of and within the meaning of the Rule, (i) committed by contract or other arrangement to support payment of all, or part of, the obligations on the Bonds, or (ii) a person for whom annual financial information and notices of material events will be provided. The Bond Trustee shall be indemnified and held harmless in connection with this Disclosure Agreement to the same extent provided in the Resolution for matters arising thereunder.

SECTION 13. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Obligated Person and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to each of the Obligated Person and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided none of the Obligated Person or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Obligated Person and the Disclosure Dissemination Agent shall have the right to amend this Disclosure Agreement for any of the following purposes:

(i) to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time;

(ii) to add or change a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to the Obligated Person or the Bond Trustee and the assumption by any such successor of the covenants of the Obligated Person or the Bond Trustee hereunder;

(iv) to add to the covenants of the Obligated Person or the Disclosure Dissemination Agent for the benefit of the Holders, or to surrender any right or power herein conferred upon the Obligated Person or the Disclosure Dissemination Agent;

(v) for any purpose for which, and subject to the conditions pursuant to which, amendments may be made under the Rule, as amended or modified from time to time, or any formal authoritative interpretations thereof by the Securities and Exchange Commission.

SECTION 14. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the Obligated Person, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law.

This Disclosure Agreement shall be governed by the laws of the State of New York (without regard to its conflicts of laws provisions).

SECTION 16. Counterparts.

This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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The Disclosure Dissemination Agent and the Obligated Person have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

**DIGITAL ASSURANCE CERTIFICATION, L.L.C.**,
as Disclosure Dissemination Agent

By:_____
Name:_____
Title:_____

**CATHOLIC HEALTH SYSTEM, INC.,**
as Obligated Person and as the Obligated Group Representative on behalf of itself and the other Members of the Obligated Group

By:_____
Name:_____
Title:_____

## EXHIBIT A

## NAME AND CUSIP NUMBER OF BONDS

| | |
|---|---|
| Name of Issuer: | Dormitory Authority of the State of New York |
| Obligated Person(s): | Catholic Health System, Inc. |
| Name of Bond Issue: | Dormitory Authority of the State of New York Catholic Health System Obligated Group Revenue Bonds, Series 2019B |
| Date of Issuance: | April 25, 2019 |
| Date of Official Statement: | April 25, 2019 |

| Maturity | CUSIP No. |
|---|---|
| 2048 | 64990GMH2 |

**EXHIBIT B**

**NOTICE TO MSRB OF FAILURE TO FILE [QUARTERLY/ANNUAL] REPORT**

| | |
|---|---|
| Name of Issuer: | Dormitory Authority of the State of New York |
| Obligated Person(s): | Catholic Health System, Inc. |
| Name of Bond Issue: | Dormitory Authority of the State of New York Catholic Health System Obligated Group Revenue Bonds, Series 2019B |
| Date of Issuance: | April 25, 2019 |

CUSIP Numbers:

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an [Quarterly/Annual] Report with respect to the above-named Bonds as required by the Agreement to Provide Continuing Disclosure, dated as of April 25, 2019, by and between the Obligated Person and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Obligated Person has notified the Disclosure Dissemination Agent that it anticipates that the [Quarterly/Annual] Report will be filed by _____.

Dated:_____

Digital Assurance Certification, L.L.C., as
Disclosure Dissemination Agent, on behalf of the
Obligated Person

_____

cc: Obligated Person
Bond Trustee

## EXHIBIT C-1
## EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and Obligated Person's Names:

_____

Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

_____

Number of pages attached: _____

Description of Notice Events (Check One):

1._____"Principal and interest payment delinquencies;"
2._____"Non-Payment related defaults, if material;"
3._____"Unscheduled draws on debt service reserves reflecting financial difficulties;"
4._____"Unscheduled draws on credit enhancements reflecting financial difficulties;"
5._____"Substitution of credit or liquidity providers, or their failure to perform;"
6._____"Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7._____"Modifications to rights of securities holders, if material;"
8._____"Bond calls, if material;"
9._____"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of a Member of the Obligated Group;"
14._____"Merger, consolidation, or acquisition of a Member of the Obligated Group, if material;"
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
16._____"Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material;" and
17._____"Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties."

____ Failure to provide annual/quarterly financial information as required.

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

_____

Name: _____Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date:

## EXHIBIT C-2
## VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of April 25, 2019 by and among the Obligated Person, the Trustee and DAC.

Issuer's and Obligated Person's Names:

_____

Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

Description of Voluntary Event Disclosure (Check One):

1._____"amendment to continuing disclosure undertaking;"
2._____"change in obligated person or obligated group;"
3._____"notice to investors pursuant to bond documents;"
4._____"certain communications from the Internal Revenue Service;"
5._____"secondary market purchases;"
6._____"bid for auction rate or other securities;"
7._____"capital or other financing plan;"
8._____"litigation/enforcement action;"
9._____"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date:

## EXHIBIT C-3
## VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of April 25, 2019 by and among the Obligated Person, the Trustee and DAC.

Issuer's and Obligated Person's Names:

_____

Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

Description of Voluntary Financial Disclosure (Check One):

1._____"quarterly/monthly financial information;"
2._____"change in fiscal year/timing of annual disclosure;"
3._____"change in accounting standard;"
4._____"interim/additional financial information/operating data;"
5._____"budget;"
6._____"investment/debt/financial policy;"
7._____"information provided to rating agency, credit/liquidity provider or other third party;"
8._____"consultant reports;" and
9._____"other financial/operating data."

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date:

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# APPENDIX I

# INFORMATION REGARDING THE INITIAL CREDIT FACILITY ISSUER

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## INFORMATION REGARDING THE INITIAL CREDIT FACILITY ISSUER

Manufacturers and Traders Trust Company (the "Bank" or "M&T Bank") is a New York commercial bank with its headquarters in Buffalo, New York. M&T Bank has domestic banking offices located in New York State, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia and the District of Columbia. The Bank operates under a charter granted by the State of New York in 1892, and traces the continuity of its banking business to the organization of the Manufacturers and Traders Bank in 1856. At December 31, 2018, the Bank had total consolidated assets of approximately $119.6 billion, loans (net of unearned income) of approximately $88.3 billion, deposits of approximately $91.6 billion, and shareholders' equity of approximately $14.9 billion. As of December 31, 2018, the Bank's Tier 1 capital ratio was 10.84%, its total capital ratio was 12.72% and its Tier 1 leverage ratio was 9.42%, all of which exceeded the required capital ratios for classification as "well capitalized," the highest classification under the regulatory capital guidelines.

### M&T Bank Corporation

The Bank is a wholly owned subsidiary of M&T Bank Corporation ("M&T"). M&T is incorporated under the laws of New York and is registered as a financial holding company under the Bank Holding Company Act of 1956. Its principal subsidiary is the Bank, the assets of which accounted for approximately 99% of M&T's consolidated total assets at December 31, 2018.

The ratings of Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings on the obligations of M&T and M&T Bank as of December 31, 2018, were as follows: Moody's: Long-term Issuer rating for M&T, 'A3;' long-term deposit/short-term deposit/long term issuer & senior debt ratings for M&T Bank, 'Aa3/P-1/A3', respectively; outlook stable; S&P Global: Long-term Issuer rating for M&T, 'A-'; long-term deposit/short-term deposit/long term issuer & senior debt ratings for M&T Bank 'A/A-1/A', respectively; outlook stable; Fitch Ratings: Long-term Issuer rating for M&T, 'A'; long-term deposit/short-term deposit/long term issuer & senior debt ratings for M&T Bank, 'A+/F1/A', respectively; outlook stable. Further information with respect to such ratings may be obtained from Moody's, S&P Global and Fitch, respectively. No assurances can be given that the current ratings will be maintained.

### Available Information

The Bank submits quarterly reports called "Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices," or "Call Reports," with the FDIC. The Call Reports are publicly available at the FDIC, 550 17th Street, N.W., Washington, D.C. 20429, and are also available online at https://cdr.ffiec.gov/public/. Each Call Report consists of a balance sheet, income statement, changes in equity capital and other supporting schedules as of the end of the period to which the report relates. The Call Reports are prepared substantially in accordance with generally accepted accounting principles. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosures about the Bank, they do provide important information concerning the financial condition of the Bank.

In addition, information regarding M&T's businesses, its financial condition and results of operations is contained in its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q and other filings it makes with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended. Copies of these reports are available from the SEC at 100 F Street, N.E., Washington, D.C. 20549 or online on the SEC's website at http://www.sec.gov.

Upon written request, the Bank will provide at no cost to any person to whom this Official Statement is delivered copies of the publicly available portion of the most recent Call Report that the Bank has filed with

the FDIC and M&T's most recent periodic reports under the Securities Exchange Act of 1934 on Form 10-K and Form 10-Q and any current report on Form 8-K subsequent to M&T's most recent report on Form 10-K. Written requests should be directed to: M&T Bank, Shareholder Relations, One M&T Plaza, 8th Floor, Buffalo, NY 14203.

The information contained in this Appendix relates to and has been obtained from the Bank. The information concerning the Bank is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information regarding the bank is qualified in its entirety by the detailed information appearing in the documents referenced above. The delivery of this information shall not create any implication that there has been no change in the affairs of the M&T or the Bank since the date hereof, or that the information contained or referred to above is correct as of any time subsequent to its date.

The underwriter and its counsel, and the Authority and its counsel, have not independently verified any financial information furnished by the Bank, nor have they ascertained the correctness, accuracy, or completeness of such information. In addition, they have not independently determined the financial position of the Bank or whether the Bank is or will be financially capable of fulfilling its obligations under the Letter of Credit. There can be no assurance that such information is indicative of the current financial position or future financial performance or financial condition of the Bank.

THE LETTER OF CREDIT IS AN UNSECURED OBLIGATION OF THE BANK. IT IS NOT A SAVINGS ACCOUNT, CHECKING ACCOUNT OR OTHER DEPOSIT ACCOUNT OBLIGATION OF THE BANK.

IN THE EVENT OF A DEFAULT BY THE BANK UNDER THE LETTER OF CREDIT, NO INSURANCE PROCEEDS FROM THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY, INSTRUMENTALITY OR AUTHORITY WOULD BE AVAILABLE TO PAY THE BONDS.

THE OBLIGATIONS OF THE BANK UNDER THE LETTER OF CREDIT ARE THE OBLIGATIONS OF THE BANK AND ARE NOT THE OBLIGATIONS OF M&T OR ANY OF ITS AFFILIATES.

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