



\$69,335,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HEALTH QUEST SYSTEMS, INC. OBLIGATED GROUP REVENUE BONDS,
SERIES 2007
consisting of \$14,280,000 Series 2007A
\$47,300,000 Series 2007B
\$7,755,000 Series 2007C (Federally Taxable)

Dated: Date of Issuance

Due: July 1, as shown below

Payment and Security: The Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007 (the "Series 2007 Bonds") are being issued in three series, the Series 2007A Bonds (the "Series 2007A Bonds"), the Series 2007B Bonds (the "Series 2007B Bonds") and the Series 2007C Bonds (Federally Taxable) (the "Series 2007C Bonds") and, are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable separately from and secured by a pledge of (i) the payments to be made under the Loan Agreements (collectively, the "Loan Agreements") each dated June 27, 2007, between the Authority and each of Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center, Putnam Hospital Center and Northern Dutchess Hospital (each an "Institution"), (ii) the hereinafter defined Series 2007A Obligation, Series 2007B Obligation and Series 2007C Obligation (collectively, the "Series 2007 Obligations"), and (iii) the funds and accounts (except the Arbitrage Rebate Fund for the Series 2007A Bonds and Series 2007B Bonds) created under the Authority's Health Quest Systems Inc. Obligated Group Revenue Bond Resolution, adopted by the Authority on June 27, 2007 (the "Revenue Bond Resolution") and under the Authority's three separate Series Resolutions each adopted on June 27, 2007 (the "Series Resolutions").

Payment of the principal of and interest on the Series 2007 Bonds, when due, is further secured by payments to be made pursuant to the Series 2007 Obligations issued pursuant to a Master Trust Indenture, dated as of September 1, 2007, as supplemented (the "Master Indenture"), by and between Health Quest Systems, Inc. ("HQ" or the "Representative"), the Institutions and The Bank of New York, as Master Trustee. HQ and the Institutions will be the initial members of the Obligated Group established under the Master Indenture (the "Obligated Group"). The Series 2007 Obligations are general obligations of each member of the Obligated Group and each member of the Obligated Group is jointly and severally liable for amounts payable by the Obligated Group under the Series 2007 Obligations and all other Obligations (defined herein) issued under the Master Indenture, including certain Obligations to be issued at the same time as the Series 2007 Obligations to secure certain outstanding indebtedness of the members of the Obligated Group.

Each Institution's obligations under the applicable Loan Agreement is a general obligation of such Institution. Each Loan Agreement requires the applicable Institution to pay, in addition to the fees and expenses of the Authority and The Bank of New York, as Trustee, amounts sufficient to pay each Institution's allocable share of the principal, Sinking Fund Installments, or Redemption Price, if any, of and interest on the Series 2007 Bonds, as such payments shall become due and to maintain such Institution's allocable share of the applicable Debt Service Reserve Funds for the Series 2007 Bonds at its respective requirement. At the time of delivery of the Series 2007 Bonds, an amount equal to the Debt Service Reserve Fund Requirement for the applicable series of the Series 2007 Bonds will be deposited into the applicable Debt Service Reserve Fund.

The Series 2007 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.

Payment of the principal of and interest on each series of the Series 2007 Bonds when due will be guaranteed by a separate financial guaranty insurance policy to be issued by Assured Guaranty Corp. simultaneously with the delivery of each series of the Series 2007 Bonds.



Description: The Series 2007 Bonds of each series will be issued as fully registered bonds in denominations of \$5,000 and any integral multiples thereof. Interest on Series 2007 Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2008. Interest on the Series 2007 Bonds will be payable at the principal corporate trust office of The Bank of New York, as Trustee, by check or draft mailed to the registered owner thereof. See "PART 3 - THE SERIES 2007 BONDS" herein.

The Series 2007 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 2007 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2007 Bonds, payments of the principal and Redemption Price of and interest on such Series 2007 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 2007 BONDS- Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2007 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.

Tax Exemption: In the opinion of Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority and the Institutions described herein, interest on the Series 2007A Bonds and Series 2007B Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007A Bonds and Series 2007B Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Interest on the Series 2007C Bonds is not excluded from gross income for Federal income tax purposes and so will be fully subject to Federal income taxation. Bond Counsel is further of the opinion that, by virtue of the Act (as defined herein), interest on the Series 2007 Bonds is exempt from personal income taxation imposed by the State of New York or any political subdivision thereof, including The City of New York and the City of Yonkers. See "PART 12 - TAX MATTERS" herein regarding certain other tax considerations.

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

(See inside cover hereof)

The Series 2007 Bonds are offered when, as, and if received by the Underwriters. The offer of the Series 2007 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 Nixon Peabody LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the members of Obligated Group by Iseman, Cunningham, Riester & Hyde LLP, Albany, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York. The Authority expects the Series 2007 Bonds to be delivered in definitive form in New York, New York on or about September 6, 2007.

Bear, Stearns & Co. Inc.

Southwest Securities

Wachovia Bank, National Association

\$69,335,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HEALTH QUEST OBLIGATED GROUP REVENUE BONDS,
SERIES 2007
consisting of
\$14,280,000 Series 2007A
\$47,300,000 Series 2007B
\$7,755,000 Series 2007C (Federally Taxable)

Series 2007A

\$4,145,000 Series Bonds

Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers¹	Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers¹
2008	\$55,000	4.00%	3.75%	649903TL5	2013	\$450,000	4.00%	4.20%	649903TR2
2009	385,000	4.00	3.80	649903TM3	2014	470,000	4.25	4.30	649903TS0
2010	405,000	4.00	3.90	649903TN1	2015	490,000	4.25	4.40	649903TT8
2011	410,000	4.00	4.00	649903TP6	2016	510,000	4.50	4.50	649903TU5
2012	435,000	4.00	4.10	649903TQ4	2017	535,000	4.50	4.57	649903TV3

\$7,145,000 5.25% Term Bonds due July 1, 2027* Yield 5.07%, CUSIP⁽¹⁾ 649903TW1
 \$2,990,000 5.00 % Term Bonds due July 1, 2030, Yield 5.15%, CUSIP⁽¹⁾ 649903TX9

Series 2007B

\$11,530,000 Serial Bonds

Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers¹	Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers¹
2008	\$510,000	5.00%	3.75%	649903TY7	2013	\$1,220,000	5.00%	4.20%	649903UD1
2009	1,005,000	5.00	3.80	649903TZ4	2014	1,275,000	5.00	4.30	649903UE9
2010	1,045,000	5.00	3.90	649903UA7	2015	1,340,000	5.00	4.40	649903UF6
2011	1,100,000	5.00	4.00	649903UB5	2016	1,405,000	5.00	4.50	649903UG4
2012	1,155,000	5.00	4.10	649903UC3	2017	1,475,000	5.00	4.57	649903UH2

\$15,215,000 5.25 % Term Bonds due July 1, 2027* Yield 5.07%, CUSIP⁽¹⁾ 649903UJ8
 \$20,555,000 5.125 % Term Bonds due July 1, 2037, Yield 5.20%, CUSIP⁽¹⁾ 649903UK5

Series 2007C (Federally Taxable)

\$7,755,000 6.25 % Term Bonds due July 1, 2020, Yield 6.381%, CUSIP⁽¹⁾ 649903UL3

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* Priced to July 1, 2017 par call date.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Obligated Group, or the Underwriters to give any information or to make any representations with respect to the Series 2007 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 Obligated Group or the Underwriters.

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 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, reoffer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Obligated Group 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 Obligated Group has reviewed the parts of this Official Statement describing the Institutions, HQ, the Obligated Group, the Master Indenture and the Projects, including but not limited to "PART 1 - INTRODUCTION", "PART 4 - PLAN OF FINANCING", "PART 7 - HEALTH QUEST OBLIGATED GROUP", and "PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP". The Obligated Group shall certify as of the dates of offering and delivery of the Series 2007 Bonds that such parts of this Official Statement relating to the Obligated Group 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 the light of the circumstances under which the statements are made, not misleading. The Obligated Group makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

References in this Official Statement to the Act (as defined herein), the Revenue Bond Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages (as defined herein), the Master Indenture, the 2007 Supplemental Indentures (as defined herein), the Intercreditor Agreement (as defined herein) and the Series 2007 Obligations do not purport to be complete. Refer to the Act, the Revenue Bond Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages, the Master Indenture, the 2007 Supplemental Indentures, the Intercreditor Agreement and the Series 2007 Obligations for full and complete details of their provisions. Copies of the Act, the Revenue Bond Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages, the Master Indenture, the 2007 Supplemental Indentures, the Intercreditor Agreement and the Series 2007 Obligations are on file with the Authority and the Trustee.

Other than with respect to the information concerning the Bond Insurer under the caption "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Bond Insurance" and in Appendix G, none of the information in this Official Statement has been supplied or verified by the Bond Insurer. The Bond Insurer makes no representation or warranty, express or implied, as to the accuracy or completeness of any other information set forth herein, the validity of the Series 2007 Bonds or the tax-exempt status of interest thereon.

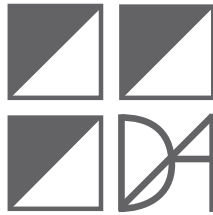
The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.

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 Obligated Group have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2007 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2007 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK
DAVID D. BROWN, IV - EXECUTIVE DIRECTOR

515 BROADWAY, ALBANY, N.Y. 12207
GAIL GORDON, ESQ. - CHAIR

OFFICIAL STATEMENT RELATING TO

\$69,335,000

**DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
HEALTH QUEST SYSTEMS, INC. OBLIGATED GROUP
REVENUE BONDS, SERIES 2007A**

consisting of

\$14,280,000 Series 2007A

\$47,300,000 Series 2007B

\$7,755,000 Series 2007C (Federally Taxable)

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page hereto, is to provide information about the Dormitory Authority of the State of New York (the "Authority"), and the obligated group comprised of Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center ("VBMC"), Putnam Hospital Center ("PHC"), Northern Dutchess Hospital ("NDH" and collectively with VBMC and PHC, the "Institutions"), and Health Quest Systems, Inc., (the "Representative" or "HQ", and collectively with the Institutions, the "Obligated Group"), in connection with the offering by the Authority of \$69,335,000 aggregate principal amount of its Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007, dated their date of issuance in three series: \$14,280,000 Series 2007A Bonds (the "Series 2007A Bonds"), \$47,300,000 Series 2007B Bonds (the "Series 2007B Bonds") and \$7,755,000 Series 2007C Bonds (Federally Taxable) (the "Series 2007C Bonds", and collectively with the Series 2007A Bonds and the Series 2007B Bonds, the "Series 2007 Bonds").

The following is a brief description of certain information concerning the Series 2007 Bonds, the Authority and the Obligated Group. A more complete description of such information and additional information that may affect decisions to invest in the Series 2007 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 A and Appendix E hereto.

Purpose of the Issue

The proceeds of the Series 2007 Bonds will be loaned by the Authority to the Institutions pursuant to three separate Loan Agreements each dated as of June 27, 2007 in amounts corresponding to the sum of each Institution's allocable share of the proceeds of the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds as further described herein. The proceeds of the Series 2007A Bonds shall be loaned to VBMC and applied to the refunding of certain outstanding indebtedness issued on behalf of VBMC. Portions of the proceeds of the Series 2007B Bonds shall be loaned to each of the Institutions and applied to a portion of the cost of construction of a five story building housing medical/surgical beds, physicians' offices and radiation oncology and the expansion of a parking lot at PHC, the acquisition of medical service equipment at each of the Institutions and the refunding of certain outstanding indebtedness of NDH. The proceeds of the Series 2007C Bonds shall be loaned to PHC and applied to certain costs of the above-described construction and renovation at PHC not eligible for tax-exempt financing. Proceeds of the Series 2007 Bonds together with other available funds will also be used to make a deposit to separate Debt Service Reserve Funds for each series of the Series 2007 Bonds, and to pay the costs of

issuance of the Series 2007 Bonds. See “PART 4 - PLAN OF FINANCING” and “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.”

Authorization of Issuance

The Series 2007 Bonds will be issued pursuant to the Health Quest Systems, Inc. Obligated Group Revenue Bond Resolution adopted by the Authority on June 27, 2007 (the “Revenue Bond Resolution”), the three separate Series Resolutions corresponding to each series of the Series 2007 Bonds, the Series 2007A Resolution Authorizing Health Quest Systems Inc. Obligated Group Revenue Bonds, Series 2007A, the Series 2007B Resolution Authorizing Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007B and the Series 2007C Resolution Authorizing Health Quest Systems, Inc. Obligated Group Taxable Revenue Bonds, Series 2007C, all adopted June 27, 2007 (collectively, the “Series Resolutions” and collectively with the Revenue Bond Resolution, the “Resolution”), and the Act. Additional Bonds may in the future be issued pursuant to the Resolution and each such Series of Bonds shall be separately secured by (i) the funds and accounts established pursuant to the applicable Series Resolution, and (ii) the applicable Obligation (as defined herein) to be issued by the Obligated Group pursuant to the Master Trust Indenture, dated as of September 1, 2007, as supplemented (the “Master Indenture”), by and between the members of the Obligated Group and The Bank of New York, as Master Trustee (the “Master Trustee”). See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS.”

The Series 2007 Bonds

Each of the Series 2007 Bonds will be dated their date of issuance, and will accrue interest from their date at the rates, and will mature at the times, as set forth on the inside cover page hereof. Interest on the Series 2007 Bonds will be payable on January 1 and July 1 commencing January 1, 2008. See “PART 3 - THE SERIES 2007 BONDS - Description of the Series 2007 Bonds.”

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 9 - THE AUTHORITY.”

Health Quest Obligated Group

Health Quest Systems, Inc. is the parent corporation of VBMC, PHC and NDH and is the Representative of the Obligated Group under the Master Indenture. The Representative, VBMC, PHC and NDH are each members of the Obligated Group and are jointly and severally liable for the Obligations (as hereinafter defined) securing the Series 2007 Bonds. VBMC is a 365-bed acute care hospital located in Poughkeepsie, Dutchess County, New York, PHC is a 164-bed acute care hospital located in Carmel, Putnam County, New York and NDH is a 68-bed acute care hospital located in Rhinebeck, Dutchess County, New York. See “PART 7 - HEALTH QUEST OBLIGATED GROUP” and “Appendix B – Health Quest Systems, Inc. and Subsidiaries Consolidated Financial Statements and Consolidating Information as of December 31, 2006 and 2005.”

Payment of the Bonds

The Bonds issued under the Resolution, including the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds, are and will be special obligations of the Authority payable solely from the Revenues. The Revenues include certain payments to be made by the Institutions under their respective Loan Agreements or to be made by the Representative or the Institutions, as the initial members of the Obligated Group, on the Obligations of the Obligated Group issued under the Master Indenture, which payments are pledged and assigned to the Trustee. The Institutions’ payment obligations under their respective Loan Agreements are general obligations of such Institution secured by the Series 2007 Obligations (as defined below). The Series 2007 Obligations are also secured by a security interest in the Gross Receipts of the members of the Obligated Group on a parity with all other Obligations issued under the Master Indenture. The Series 2007 Obligations are also secured by liens on the Institutions’ primary hospital facilities pursuant to Mortgages granted by each Institution to the Master Trustee (the “2007 Mortgages”). In connection with the delivery of the Master Indenture, each of the Institutions has also granted a mortgage to the Master Trustee on the same facilities in order to secure the hereinafter defined Existing Debt Obligations (the “Additional 2007 Mortgages”). In connection with the issuance of additional Obligations, the Institutions may grant to the Master Trustee additional mortgage liens (the “Additional Future Mortgages”). The

2007 Mortgages, the Additional 2007 Mortgages and the Additional Future Mortgages are referred to collectively as the "Mortgages". The Mortgages secure on a parity basis the Obligations issued under the Master Indenture designated under the Master Indenture as secured by a mortgage lien (the "Covered Obligations"). See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Payment of the Series 2007 Bonds" and "- Obligations under the Master Indenture" and "-Other Indebtedness and Intercreditor Agreement".

Security for the Series 2007 Bonds

Each series of the Series 2007 Bonds is and will be separately secured by the pledge and assignment made by the Authority pursuant to the Resolution to the Trustee of the Revenues applicable to such series and all funds and accounts authorized by the Resolution and established under the respective Series Resolution (with the exception of the Arbitrage Rebate Fund for the Series 2007A Bonds and Series 2007B Bonds), which include separate Debt Service Reserve Funds for the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Security for the Series 2007 Bonds" and "Obligations under the Master Indenture - The Mortgage" and "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures."

In addition, payment when due on the Series 2007 Bonds, and payment when due of the payment obligations of the respective Institutions to the Authority under the Loan Agreements, is secured by an Obligation corresponding to each series of the Series 2007 Bonds (the "Series 2007A Obligation", the "Series 2007B Obligation" and the "Series 2007C Obligation" and collectively, the "Series 2007 Obligations") issued pursuant to the Master Indenture and the applicable supplement thereto (Supplemental Indenture for Obligation No. 1 through and including Supplemental Indenture for Obligation No. 3 dated as of September 1, 2007 are each referred to as a "Supplemental Indenture"). The Master Indenture constitutes a joint and several obligation of each member of the Obligated Group to repay all obligations issued under the Master Indenture (each an "Obligation"), including the Series 2007 Obligations. The obligation of current and any future members of the Obligated Group to make the payments required by the Master Indenture with respect to the Series 2007 Obligations is secured by a security interest in the Gross Receipts of the initial members and any future member of the Obligated Group and by the 2007 Mortgages. Gross Receipts do not include, among other things, revenue derived from Property that does not constitute Health Care Facilities (*i.e.*, Excluded Property) under the Master Indenture. The Series 2007 Obligations will be registered in the name of the Authority. The issuance of future Obligations is subject to the satisfaction of certain financial covenants set forth in the Master Indenture which bind all members of the Obligated Group, as described in "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Obligations under the Master Indenture" and "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures." As security for the Series 2007 Obligations, the Institutions have granted the 2007 Mortgages on the land and buildings that include the primary hospital facilities of VBMC, PHC and NDH (the "Mortgaged Property").

The respective rights of the holders of the Series 2007 Obligations and certain other indebtedness of the members of the Obligated Group are governed by a Third Amended and Restated Intercreditor Agreement dated the date of issuance of the Series 2007 Bonds (the "Intercreditor Agreement"). See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Other Indebtedness and Intercreditor Agreement".

The members of the Obligated Group, upon compliance with the terms and conditions and for the purposes described in the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a joint and several obligation of the members of the Obligated Group on a parity with the Series 2007 Obligations and all other Obligations outstanding under the Master Indenture with respect to the Gross Receipts and if such Obligation is designated by the Obligated Group as a Covered Obligation, some or all of the Mortgaged Property. See "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures." Such other Indebtedness, if not so evidenced by an Obligation issued under the Master Indenture, would constitute a debt solely of the individual member of the Obligated Group incurring such Indebtedness, and not a joint and several obligation of the entire Obligated Group and, therefore, would not be entitled to the benefits of the Master Indenture. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Obligations under the Master Indenture" and "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures."

The Revenue Bond Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds issued pursuant to the Resolution for the benefit of the applicable Institution and other

future members of the Obligated Group. The holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the holders of Bonds of any other Series. Each Series of Additional Bonds shall be secured by a separate Obligation issued under the Master Indenture. For a more complete discussion of the security for the Series 2007 Bonds, see "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Security for the Series 2007 Bonds."

The Series 2007 Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

The Mortgages

The Institutions' payment obligations on the Series 2007 Obligations will be secured by the 2007 Mortgages granted by the three Institutions. The 2007 Mortgages will be granted to the Master Trustee and will include a security interest in certain fixtures, furnishings and equipment now or hereafter owned by such Institution and located on or used in connection with the Mortgaged Property. The Master Trustee is permitted to release or subordinate certain portions of the Mortgaged Property from the lien of the 2007 Mortgages under certain conditions set forth in the Master Indenture and the Supplemental Indentures; provided, that so long as the Series 2007 Bonds are Outstanding, the Master Trustee (i) may not release, subordinate or amend the 2007 Mortgages in whole or in part without the prior written consent of the Authority and the Bond Insurer (as defined below), and (ii) will, upon the direction of the Authority and the Bond Insurer, consent to the release or subordination of the 2007 Mortgages as the Authority and the Bond Insurer deem reasonably necessary or appropriate. No such release or subordination will require the consent of the holders of the Series 2007 Bonds or the Trustee. The Institutions have granted, and in the future may grant, liens on the Mortgaged Property on a parity with the 2007 Mortgages. The Additional 2007 Mortgages will be issued concurrently with the issuance of the Series 2007 Bonds and will secure the Existing Debt Obligations. The Master Indenture provides that Covered Obligations secured by Additional Future Mortgages may also be granted. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Obligations under the Master Indenture - The Mortgages" and "- Other Indebtedness and Intercreditor Agreement."

Bond Insurance

Concurrently with the issuance of the Series 2007 Bonds, Assured Guaranty Corp. ("Assured Guaranty" or the "Bond Insurer") will issue a financial guaranty insurance policy corresponding to each series of the Series 2007 Bonds (each a "Policy" and collectively, the "Policies"). Each Policy guarantees the scheduled payment of principal of and interest on the Series 2007 Bonds when due as set forth in the form of the Policy included in Appendix G to this Official Statement. See "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Bond Insurance" and Appendix G - Specimen Assured Guaranty Insurance Policy."

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2007 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 Agreements, the 2007 Mortgages, the Master Indenture, the 2007 Supplemental Indentures, the Intercreditor Agreement and the Series 2007 Obligations. Copies of the Act, the Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages, the Master Indenture, the 2007 Supplemental Indentures, the Intercreditor Agreement and the Series 2007 Obligations are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreements," "Appendix D - Summary of Certain Provisions of the Resolution" and "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures", for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2007 Bonds

The Bonds issued under the Resolution, including the Series 2007 Bonds, are and will be special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the Series 2007 Bonds are payable solely from the applicable Revenues and all applicable funds and accounts (excluding the Arbitrage Rebate Fund for the Series 2007A Bonds and the Series 2007B Bonds) established by the respective Series Resolution. The Revenues consist of the payments required to be made by the Institutions under their respective Loan Agreement or to be made by the Obligated Group under the Series 2007 Obligations to be issued with respect to the Series 2007 Bonds on account of the principal, Sinking Fund Installments and Redemption

Price of and interest on the Series 2007 Bonds and to maintain the Debt Service Reserve Funds at their respective requirement. The Revenues have been assigned by the Authority to the Trustee for the benefit of the holders of the Series 2007 Bonds.

The Institutions' obligations under their respective Loan Agreement are general obligations of such Institution. The Authority has directed the Institutions, and the Institutions have agreed, to make the payments under the Loan Agreements directly to the Trustee. Any payments made on the Series 2007 Obligations issued with respect to the Series 2007 Bonds shall also be made directly to the Trustee. The Loan Agreements obligate the Institutions to make monthly payments sufficient to pay, among other things, each Institution's allocable share of the principal and Sinking Fund Installments of and interest on the Series 2007 Bonds as they become due, and to maintain the Institution's allocable share of the applicable Debt Service Reserve Funds at their respective requirements. See "PART 3 - THE SERIES 2007 BONDS - Redemption and Purchase in Lieu of Redemption Provisions."

Security for the Series 2007 Bonds

Each series of the Series 2007 Bonds will be secured by the payments described above to be made under the applicable Loan Agreements, all funds and accounts authorized under the Resolution and established by the applicable Series 2007 Series Resolution (with the exception of the Arbitrage Rebate Fund for the Series 2007A Bonds and the Series 2007B Bonds), and payments to be made by the Obligated Group under the applicable Series 2007 Obligation. Pursuant to the terms of the Resolution, the funds and accounts established and pledged by each Series Resolution secure only the applicable series of Series 2007 Bonds, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. See "Appendix D - Summary of Certain Provisions of the Resolution."

Debt Service Reserve Funds

The Series Resolutions establish separate Debt Service Reserve Funds corresponding to each series of the Series 2007 Bonds to be funded at the time of the delivery of the Series 2007 Bonds. The Debt Service Reserve Funds are to be funded in an amount equal to the individual Debt Service Reserve Fund Requirement for the applicable series of Series 2007 Bonds. See Appendix A for the definition of the Debt Service Reserve Fund Requirement. The Debt Service Reserve Fund Requirements for the Series 2007A Bonds and the Series 2007B Bonds are based on the combined maximum annual debt service for the Series 2007A Bonds and the Series 2007B Bonds and is equal to the maximum amount that may be invested without regard to yield restriction pursuant to the Internal Revenue Code of 1986, as amended (the "Code"); the amount on deposit in the Debt Service Reserve Funds for each of the Series 2007A Bonds and Series 2007B Bonds equals their actual debt service in the year such combined maximum annual debt service occurs. Each Debt Service Reserve Fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the applicable series of the Series 2007 Bonds. Any payments to be made by the Institutions to restore the Debt Service Reserve Funds are to be made directly to the Trustee for deposit to such Debt Service Reserve Fund. See "Appendix D - Summary of Certain Provisions of the Resolution."

Moneys in the Debt Service Reserve Funds are to be withdrawn and deposited in the applicable Debt Service Fund whenever the amount in the Debt Service Fund, on the fourth (4th) Business Day prior to an interest or principal payment date for the respective series of Series 2007 Bonds, is less than the amount that is necessary to pay the principal and Sinking Fund Installments of and interest on such Series 2007 Bonds payable on such interest or principal payment date and Redemption Price or purchase price of such Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption. The Resolution requires that with respect to each series of the Series 2007 Bonds, the Institution or Institutions who borrowed a portion of the proceeds of such Series 2007 Bonds restore the applicable Debt Service Reserve Fund to its requirement by paying the amount of any deficiency to the Trustee within five (5) days after receiving notice of a deficiency. Moneys in the Debt Service Reserve Fund in excess of the applicable Debt Service Reserve Fund Requirement may be withdrawn and applied in accordance with the Resolution. See "Appendix D - Summary of Certain Provisions of the Resolution - Debt Service Reserve Fund."

In lieu of or in substitution for moneys or securities held in each Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Series 2007 Bonds of any particular series upon satisfaction of the terms set forth in the Resolution, see "Appendix D - Summary of Certain Provisions of the Resolution".

Any delivery of securities to the Trustee for deposit in any of the Debt Service Reserve Funds shall constitute a pledge of, and shall create a security interest in, such securities for the benefit of the Authority to secure performance of certain of the obligations of the applicable Institution under the applicable Loan Agreement and for the benefit of the Trustee to secure performance of the obligations of the Authority under the Resolution.

The Series 2007 Obligations

Payment of the principal of, Sinking Fund Installments on, Redemption Price of or purchase price in lieu of redemption and interest on the Series 2007 Bonds when due, and payment when due of the obligations of the Institutions to the Authority under the Loan Agreements, will be secured by payments made by the Obligated Group pursuant to the Series 2007 Obligations. The Series 2007 Obligations will be issued to the Authority, which will assign all payments under the Series 2007 Obligations (but for the Authority's right to receive certain fees and expenses) to the Trustee for the benefit of the Bondholders. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Obligations under the Master Indenture" herein.

Events of Default and Acceleration under the Resolution

The following constitute events of default under the Resolution: (i) a default by the Authority in the payment when due of the principal, Sinking Fund Installments or Redemption Price, if any, of or interest on any Series 2007 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 2007A Bonds or the Series 2007B 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 2007 Bonds or in the Resolution which continues for thirty (30) days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee's discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds with the prior written consent of the Bond Insurer 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 Agreements, shall have occurred and is continuing and all sums payable by an Institution under the applicable Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of any Institution to make payment under its Loan Agreement shall not constitute an Event of Default under the Loan Agreement if timely payment of the Series 2007 Obligation is made by the Obligated Group in place of the payment due under such Loan Agreement. If the Obligated Group defaults under the Master Indenture or under any Obligation issued thereunder, such default shall constitute an Event of Default under the Loan Agreements. Unless all sums payable by an Institution under its Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an Event of Default under such 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 Trustee shall, upon the written request of the Bond Insurer or if the Bond Insurer is in default of its payment obligations under the Policy the holders of not less than 25% in principal amount of the Outstanding Series 2007 Bonds, by written notice to the Authority, declare the principal of and interest on the Series 2007 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 Trustee shall, with the prior written consent of the Bond Insurer or if the Bond Insurer is in default of its payment obligations under the Policy the holders of not less than 25% in principal amount of Series 2007 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 Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the holders of the Series 2007 Bonds 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, Sinking Fund Installment or Redemption Price of, or interest on, any of the Series 2007 Bonds, the Trustee shall be protected in withholding such notice thereof to the holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the holders of the Series 2007 Bonds.

Additional Bonds

In addition to the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds, the Revenue Bond Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other

specified purposes including refunding Outstanding Bonds or other notes or bonds issued on behalf of other members of the Obligated Group.

Loan Agreements

Concurrently with the issuance of the Series 2007 Bonds, the Authority will execute three separate but substantially similar Loan Agreements with each Institution whereby each Institution agrees to repay its allocable share of the proceeds of the Series 2007 Bonds which provide for the financing and refinancing of Projects for such Institution. The Loan Agreement between the Authority and VBMC provides that VBMC agrees to repay 100% of the principal, interest and Redemption Price of the Series 2007A Bonds and approximately 7.822% of the principal, interest and Redemption Price of the Series 2007B Bonds. The Loan Agreement between the Authority and PHC provides that PHC agrees to repay approximately 59.165% of the principal, interest and Redemption Price of the Series 2007B Bonds and 100% of the principal, interest and Redemption Price of the Series 2007C Bonds. The Loan Agreement between the Authority and NDH provides that NDH agrees to repay approximately 33.013% of the principal, interest and Redemption Price of the Series 2007B Bonds. The obligation of the Institutions to make payments under their Loan Agreements are secured by Series 2007 Obligations corresponding to the applicable Series of Series 2007 Bonds.

Obligations under the Master Indenture

General

In addition to other sources of payment described herein, principal of, Sinking Fund Installments, Redemption Price of, purchase price in lieu of redemption, and interest and any redemption premium on the Series 2007 Bonds will be payable from moneys paid by the initial members and any other future members of the Obligated Group pursuant to the Series 2007 Obligations. The Series 2007 Obligations will be issued to the Authority, which will assign all payments under the Series 2007 Obligations to the Trustee (but for the Authority's rights to receive certain fees and expenses) as security for the payment of the principal of, Sinking Fund Installments on, Redemption Price of, purchase price in lieu of redemption, and interest on the Series 2007 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 subsequent member of the Obligated Group are subject to covenants under the Master Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio, a minimum Days Cash on Hand covenant, and covenants 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.

THE MASTER INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT MAY SHARE THE SECURITY FOR THE SERIES 2007 OBLIGATIONS (I.E., A MORTGAGE ON THE MORTGAGED PROPERTY 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 AS OTHERWISE PERMITTED BY THE MASTER INDENTURE. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE TRUSTEE FOR THE SECURITY OF THE SERIES 2007 BONDS.

Security for the Series 2007 Obligations

Pursuant to the Master Indenture, each Obligation issued thereunder will be a joint and several general obligation of the members of the Obligated Group. Upon issuance of the Series 2007 Bonds, the Institutions and the Representative will be the initial members 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. Permitted Liens include but are not limited to the Liens created by the Additional 2007 Mortgages, the Additional Future Mortgages, Liens on the Mortgaged Property and Gross Receipts subject to the Intercreditor Agreement and Liens on Excluded Property. "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures - Limitations on Creation of Liens". 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 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP - Enforceability of the Master Indenture."

Security Interest in Gross Receipts

As security for its obligations under the Master Indenture, each member of the Obligated Group must pledge and grant to the Master Trustee a security interest in such member's Gross Receipts. Gross Receipts are defined 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, 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; provided, 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 an Obligated Group member under any loan agreement, lease agreement, sublease agreement or any similar instrument relating to the loan or other provision of proceeds of bonds to a member of the Obligated Group; (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, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, health-care receivables 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.

The Master Indenture provides that upon the occurrence of an Event of Default thereunder the Master Trustee may, and upon written direction of the holders of 25% in aggregate principal amount of Obligations or upon the written direction of one or more providers of credit enhancement of not less than 25% in the aggregate principal amount of Bonds that are secured by Obligations, if any, and subject to the provisions of the Intercreditor Agreement, shall direct each member of the Obligated Group to deliver or cause to be delivered to the Master Trustee all Gross Receipts until such Event of Default is cured. Such Gross Receipts shall be applied in accordance with Intercreditor Agreement if the Intercreditor Agreement is then in effect or under the Master Indenture if the Intercreditor Agreement is no longer in effect.

The Mortgages

To secure payments required to be made by the Institutions under the Series 2007 Obligations issued under the Master Indenture, the Institutions will grant the 2007 Mortgages on the Mortgaged Property to the Master Trustee, which 2007 Mortgages include a security interest in certain fixtures, furnishings and equipment located thereon. The Mortgaged Property includes the "core" hospital facilities of the Institutions, including the primary site for each inpatient facility of the Institution. See "PART 7 - HEALTH QUEST OBLIGATED GROUP - Facilities," herein for further information regarding such "core" hospital facilities. In connection with the delivery of the Master Indenture, each of the Institutions has also granted the Additional 2007 Mortgages to the Master Trustee in connection with the Existing Debt Obligations. The Institutions may grant Additional Future Mortgages to secure on an equal and ratable basis all Covered Obligations issued under the Master Indenture, including but not limited to the Series 2007 Obligations, Existing Debt Obligations and the future Covered Obligations. The Intercreditor Agreement will provide for the allocation of the proceeds of the foreclosure of any such 2007 Mortgages, Additional 2007 Mortgages and Additional Future Mortgages as well as prior mortgages granted by VBMC and PHC. In addition, the Master Trustee is permitted to release or subordinate certain portions of the Mortgaged Property under certain conditions set forth in the Master Indenture and the 2007 Supplemental Indentures; provided, that so long as the Series 2007 Bonds are Outstanding the Master Trustee (i) may not release, subordinate or amend the Mortgages

in whole or in part without the prior written consent of the Authority and the Bond Insurer (which consent shall not be unreasonably withheld with respect to Liens permitted under the Master Indenture), and (ii) will, upon the written direction of the Authority and the Bond Insurer, execute and deliver consents, waivers, estoppels, releases, partial releases, subordination agreements or any other documents as the Authority and the Bond Insurer consider necessary or appropriate. No such release or subordination will require the consent of the holders of the Series 2007 Bonds or the Trustee. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures.”

The Master Indenture provides that upon the occurrence of an Event of Default thereunder the Master Trustee may, and upon written direction of the holders of 25% in aggregate principal amount of Covered Obligations or upon the written direction of one or more providers of credit enhancement of not less than 25% in the aggregate principal amount of Bonds that are secured by Covered Obligations, if any, and subject to the provisions of the Intercreditor Agreement, shall proceed forthwith to protect and enforce the rights of the holders of Covered Obligations by such suits, actions, foreclosure proceedings or other proceedings as the Master Trustee, being advised by counsel, shall deem expedient regarding enforcement rights under the Mortgages, including the Series 2007 Mortgages. See Appendix E hereto under the caption “2007 SUPPLEMENTAL INDENTURES - Additional Remedies Regarding the Mortgages.”

Other Indebtedness and Intercreditor Agreement

Concurrently with the issuance of the Series 2007 Bonds, the Obligated Group will issue Obligations corresponding to certain outstanding indebtedness of members of the Obligated Group. Such Obligations will be in the aggregate principal amount of \$81,820,000 (the “Existing Debt Obligations”). Concurrently with the issuance of the Series 2007 Obligations, each Institution will grant the Additional 2007 Mortgages to secure the Existing Debt Obligations. The Liens on Gross Receipts and the mortgage Liens on the Mortgaged Property are subject to the terms of the Intercreditor Agreement.

The Intercreditor Agreement is by and among the Authority, the Dutchess County Industrial Development Authority (the “IDA”), the Trustee, the Master Trustee, the bond insurer and the bond trustee for the Series 1997 Bonds (as defined below), the bond insurer and the bond trustee for the Series 2004 Bonds (as defined below), the bond insurer and bond trustee for the Series 2005 Bonds (as defined below), the credit provider and the bond trustee for the Series 1999 Bonds (as defined below), the Bond Insurer and The Bank of New York, as security agent (the “Security Agent”). The Intercreditor Agreement governs the ability of the parties thereto to exercise foreclosure and other remedies under and to receive proceeds realized upon the collateral securing the Series 2007 Obligations. Concurrently with the issuance of the Series 2007 Bonds, the Obligated Group will issue Existing Debt Obligations to secure the following: (i) the Authority’s Vassar Brothers Hospital Insured Revenue Bonds, Series 1997 (the “Series 1997 Bonds”), (ii) the IDA’s Civic Facility Revenue Bonds, Series 2004 (Vassar Brothers Medical Center Facility) (the “Series 2004 Bonds”), (iii) the IDA’s Civic Facility Revenue Bonds Series 2005 (Vassar Brothers Medical Center Facility) (the “Series 2005 Bonds”) and (iv) the Putnam Hospital Center Multi-Modal Revenue Bonds (the “Series 1999 Bonds”). The Series 1997 Bonds were originally issued in the aggregate principal amount of \$58,500,000 and are currently outstanding in the aggregate principal amount of \$44,185,000. The Series 2004 Bonds were originally issued in the aggregate principal amount of \$17,000,000 and are currently outstanding in the aggregate principal amount of \$15,050,000. The Series 2005 Bonds were originally issued in the aggregate principal amount of \$19,975,000 and are currently outstanding in the aggregate principal amount of \$19,075,000. The Series 1999 Bonds were originally issued in the aggregate principal amount of \$4,500,000 and are currently outstanding in the aggregate principal amount of \$3,510,000. Each of these bond issues is, or will be upon issuance of the Series 2007 Bonds, secured by the same collateral as secures the Series 2007 Obligations.

The members of the Obligated Group may issue additional Obligations under the Master Indenture that are secured on a parity with outstanding Obligations including the Series 2007 Obligations by the pledge of Gross Receipts. The Master Indenture further provides that the Obligated Group may issue additional Obligations secured by a Mortgage on some or all of the Mortgaged Property. Obligations secured by a Mortgage are designated by the Master Indenture as Covered Obligations. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures - Limitation on Indebtedness” for a description of the conditions under which the members of the Obligated Group may issue additional Obligations under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the members of the Obligated Group may incur debt in the form of Indebtedness incurred by the members of the Obligated Group individually that is not evidenced or secured by an Obligation issued under the Master Indenture. Such borrowing may be secured by Liens on Property permitted under the Master Indenture,

including without limitation Liens on Excluded Property, or, with limitations, accounts receivable. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures” for a description of various financial covenants applicable to the Institution and any other members of the Obligated Group.

The Institutions have certain Indebtedness outstanding in addition to that described above. See “Appendix B - Health Quest Systems, Inc. and Subsidiaries Consolidated Financial Statements and Consolidating Information as of December 31, 2006 and 2005.”

THE SERIES 2007 BONDS ARE NOT A DEBT OF THE STATE NOR WILL THE STATE BE LIABLE THEREON. THE AUTHORITY HAS NO TAXING POWER. THE AUTHORITY HAS NEVER DEFAULTED IN THE TIMELY PAYMENT OF PRINCIPAL OF OR INTEREST ON ITS BONDS OR NOTES. SEE “PART 9 - THE AUTHORITY.”

Bond Insurance

The following information is not complete and reference is made to Appendix G for a specimen of a financial guaranty insurance policy of Assured Guaranty.

The Insurance Policy

Assured Guaranty has made a commitment to issue a Policy relating to each series of Series 2007 Bonds, effective as of the date of issuance of such Series 2007 Bonds. Under the terms of each Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on such series of Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (the “Insured Payments”). Insured Payments shall not include any additional amounts owing by the Authority solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. Each Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

“Due for Payment” means, when referring to the principal of each series of the Series 2007 Bonds, the stated maturity date thereof, or the date on which such Series 2007 Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Series 2007 Bonds, means the stated dates for payment of interest.

“Nonpayment” means the failure of the Authority to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on a series of the Series 2007 Bonds. It is further understood that the term Nonpayment in respect of a series of the Series 2007 Bond also includes any amount previously distributed to the holder of such Series 2007 Bond in respect of any Insured Payment by or on behalf of the Authority, which amount has been recovered from such holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the holders of each series of the Series 2007 Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under each Policy.

The Policies are not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in forty-nine states, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty’s business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty’s financial strength is rated “AAA” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., “AAA” by Fitch, Inc. and “Aaa” by Moody’s Investors Service, Inc. Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guarantee the market price of the securities it guarantees, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2006, Assured Guaranty had total admitted assets of \$1,248,270,663 (audited), total liabilities of \$962,316,898 (audited), total surplus of \$285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of \$916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, Assured Guaranty had total admitted assets of \$1,274,707,293 (unaudited), total liabilities of \$1,032,077,892 (unaudited), total surplus of \$242,629,401 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$933,783,902 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) in making such determinations.

The following documents are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The consolidated balance sheets of Assured Guaranty as of December 31, 2006 and December 31, 2005 and the related consolidated statements of operations and comprehensive income, of shareholder’s equity and of cash flows for each of the three years in the period ended December 31, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2006 (which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on February 28, 2007), as amended by the Form 10-K/A filed by AGL on March 1, 2007;
- The unaudited consolidated balance sheet and statement of shareholder’s equity of Assured Guaranty as of and for the period ended March 31, 2007, respectively, and the related consolidated statements of

operations and comprehensive income and cash flows for the three months ended March 31, 2007 and March 31, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (which was filed by AGL with the SEC on May 7, 2007);

- The unaudited consolidated balance sheet and statement of shareholder's equity of Assured Guaranty as of and for the period ended June 30, 2007, respectively, and the related consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2007 and June 30, 2006, and the statements of cash flows for the six months ended June 30, 2007 and June 30, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (which was filed by AGL with the SEC on August 9, 2007); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance - The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

All consolidated financial statements of Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Series 2007 Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100.

Assured Guaranty makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance" above.

PART 3 - THE SERIES 2007 BONDS

General

The Series 2007 Bonds will be issued pursuant to the Revenue Bond Resolution and the applicable Series Resolution. The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2007 Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2007 Bonds, payments of the principal and Redemption Price of and interest on the Series 2007 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as hereinafter defined) of the Series 2007 Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2007 Bonds, the Series 2007 Bonds will be exchangeable for fully registered Series 2007 Bonds of the same series and maturity in any authorized denominations without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange and for the cost of preparing the new bond, subject to the conditions and restrictions set forth in the Resolution. See "- Book-Entry Only System" below and "Appendix D - Summary of Certain Provisions of the Resolution."

Description of the Series 2007 Bonds

The Series 2007 Bonds will be dated their date of issuance. The Series 2007 Bonds will mature and will accrue interest from their date at the rates and at the times set forth on the inside cover page of this Official Statement. The Series 2007 Bonds will be offered as fully registered Bonds in denominations of \$5,000 or any integral multiple in excess thereof. Interest on the Series 2007 Bonds will be computed on the basis of a year of twelve 30-day months.

Interest on the Series 2007 Bonds is payable on January 1 and July 1 commencing January 1, 2008, as set forth on the inside cover of this Official Statement.

The Record Dates for the Series 2007 Bonds are the 15th day of the month prior to each Interest Payment Date. The Authority will not be obligated to make any exchange or transfer of Series 2007 Bonds (i) during the period beginning on the Record Date next preceding an Interest Payment Date for the Series 2007 Bonds and ending on such Interest Payment Date or (ii) after the date next preceding the date on which the Trustee commences selection of Series 2007 Bonds for redemption.

Redemption and Purchase in Lieu of Redemption Provisions

The Series 2007 Bonds are subject to redemption and purchase in lieu of redemption as described below.

Optional Redemption

The Series 2007A Bonds maturing after July 1, 2017 are subject to optional redemption prior to maturity, at the election or direction of the Authority at the request of the Obligated Group, on or after July 1, 2017, in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Series 2007B Bonds maturing after July 1, 2017 are subject to optional redemption prior to maturity, at the election or direction of the Authority at the request of the Obligated Group, on or after July 1, 2017, in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Series 2007C Bonds are not subject to optional redemption prior to maturity.

Special Redemption

The Series 2007 Bonds are also subject to redemption prior to maturity, in whole or in part, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, at the option of the Authority, on any Interest Payment Date, from the proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Mortgaged Property or the applicable Project, and which proceeds are not otherwise applied as permitted under the Master Indenture.

In addition, the Series 2007B Bonds and the Series 2007C Bonds are subject to redemption prior to maturity, in whole or in part, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, at the option of the Authority, on any Interest Payment Date, from unexpended proceeds of the Series 2007B or Series 2007C Bonds upon the abandonment of all or a portion of the Project due to a legal or regulatory impediment.

Mandatory Redemption

In addition, the Series 2007 Bonds indicated below are subject to redemption, in part, on each July 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, 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 2007 Bonds specified for each of the years shown below:

Series 2007A Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2018	\$560,000	2025	\$805,000
2019	585,000	2026	855,000
2020	620,000	2027*	895,000
2021	650,000	2028	945,000
2022	685,000	2029	995,000
2023	725,000	2030*	1,050,000
2024	765,000		

*Maturity

Series 2007B Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2018	\$725,000	2028	\$2,210,000
2019	465,000	2029	2,325,000
2020	1,335,000	2030	2,010,000
2021	1,545,000	2031	1,715,000
2022	1,625,000	2032	1,800,000
2023	1,715,000	2033	1,895,000
2024	1,805,000	2034	1,990,000
2025	1,895,000	2035	2,095,000
2026	2,000,000	2036	2,200,000
2027*	2,105,000	2037*	2,315,000

*Maturity

Series 2007C Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2009	\$505,000	2015	\$725,000
2010	535,000	2016	770,000
2011	565,000	2017	815,000
2012	605,000	2018	865,000
2013	640,000	2019	920,000
2014	680,000	2020*	130,000

*Maturity

Purchase in Lieu of Optional Redemption

Subject to the prior written consent of the Bond Insurer, the Series 2007A Bonds and the Series 2007B Bonds are subject to purchase by or at the direction of the Authority at the request of the Obligated Group, prior to maturity, on the same terms that would apply if the applicable Series 2007 Bonds were then being optionally redeemed.

General

The Authority may from time to time direct the Trustee to purchase Series 2007 Bonds with moneys in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any Series 2007 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on such Series 2007 Bonds. The Obligated Group also may purchase Series 2007 Bonds and apply any Series 2007 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on the Series 2007

Bonds. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's Series 2007 Bonds will be reduced for such year.

Selection of Bonds to be Redeemed

In the case of redemptions of the Series 2007 Bonds of each series, other than mandatory redemptions, the Authority will select the principal amounts and maturities (including any Sinking Fund Installments) of the Series 2007 Bonds to be redeemed. Except as described in the next paragraph, if less than all of the Series 2007 Bonds of a maturity are to be redeemed, the Series 2007 Bonds to be redeemed will be selected by the Trustee, by lot as provided in the Resolution.

For purposes of effectuating each annual redemption of the Series 2007C Bonds from mandatory Sinking Fund Installments, the Series 2007C Bonds shall be selected for redemption in the following manner: (1) if the Series 2007C Bonds are in book-entry form at the time of such redemption, the Paying Agent will instruct DTC to instruct the DTC Participants (as hereinafter defined) to select such Series 2007C Bonds for redemption *pro rata* among all Beneficial Owners (as defined herein) of the Outstanding Series 2007C Bonds, and neither the Authority nor the Paying Agent will have any responsibility to insure that DTC or its Participants properly select such Series 2007C Bonds for redemption, and (2) if the Series 2007C Bonds are not then in book-entry form at the time of mandatory redemption, on each redemption date the Paying Agent shall select Series 2007C Bonds for redemption *pro rata* among all Holders of the Series 2007C Bonds; provided, however, such Series 2007C Bonds shall be redeemed in denominations of \$5,000 or any integral multiple thereof.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2007 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any Series 2007 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten (10) business days prior to the date such notice is given. The failure of any such registered owner of a Series 2007 Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2007 Bond.

If on the redemption date moneys for the redemption of the Series 2007 Bonds or portions thereof to be redeemed, are held by the Trustee so as to be available for payment of the Redemption Price, together with interest thereon to the redemption date, and if notice of redemption has been mailed, then interest on such Series 2007 Bonds or portions thereof will cease to accrue from and after the redemption date and such Series 2007 Bonds will no longer be considered to be Outstanding.

In addition, any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on the Series 2007 Bonds to be redeemed and that if such moneys are not so received, such notice shall be of no force and effect and such Series 2007 Bonds shall not be required to be redeemed.

Notice of Purchase in Lieu of Redemption

Notice of the purchase of the Series 2007 Bonds as described under “– Purchase in Lieu of Optional Redemption” above, will be given in the name of the Obligated Group to the registered owners of the Series 2007 Bonds to be purchased by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the purchase date specified in such notice. The Series 2007 Bonds to be purchased are required to be tendered to the Trustee on the date specified in such notice. Series 2007 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event Series 2007 Bonds are called for purchase in lieu of an optional redemption, such purchase shall not operate to extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2007 Bonds and such Series 2007 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest and shall continue to be subject to optional redemption as described herein.

The Obligated Group's obligation to purchase a Series 2007 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the purchase price for all of the Series 2007 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 2007 Bonds to be purchased, the former registered owners of such Series 2007 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 2007 Bonds tendered or deemed tendered for purchase 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 2007 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2007 Bonds are to be purchased, the Series 2007 Bonds to be purchased will be selected by lot in the same manner as Series 2007 Bonds to be redeemed in part are to be selected.

Book-Entry Only System

DTC will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate for each maturity and each series will be issued for the Series 2007 Bonds and will be deposited with DTC.

DTC, the world's largest 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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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", and together with Direct Participants, the "Participants"). DTC has Standard & Poor's Ratings Services highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information on DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2007 Bonds, except in the event that use of the Book-Entry Only System for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 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 Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Beneficial Owners of the Series 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults and proposed amendments to the documents relating to the Series 2007 Bonds. For example, Beneficial Owners of the Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the applicable maturity and series of Series 2007 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2007 Bonds to be redeemed.

Neither DTC, Cede & Co. nor such other DTC nominee will consent or vote with respect to Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "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 2007 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 2007 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of 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 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.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2007 Bonds registered in its name for the purposes of payment of the principal or redemption premium, if any, of, or interest on, the Series 2007 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2007 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. None of the Authority, the Trustee or the Obligated Group will have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2007 Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2007 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner.

For every transfer and exchange of beneficial ownership of the Series 2007 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to the Series 2007 Bonds at any time by giving reasonable notice to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Series 2007 Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, the Series 2007 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2007 Bonds of the same series and maturity in other authorized denominations as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. Neither the Authority, the

Obligated Group, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, OR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2007 BONDS (i) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2007 BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN SERIES 2007 BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2007 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC OR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH PARTICIPANTS ARE ON FILE WITH DTC.

NONE OF THE AUTHORITY, THE TRUSTEE OR THE OBLIGATED GROUP WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE PARTICIPANTS OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

PART 4 - PLAN OF FINANCING

The Series 2007A Bonds will be issued for the purpose of making a loan to VBMC in the aggregate principal amount of the Series 2007A Bonds. VBMC will apply a portion of the proceeds of the Series 2007A Bonds to the refunding of the IDA's Civic Facility Revenue Bonds, Series 2000 (Vassar Brothers Hospital Civic Facility) (the "Prior Bonds").

The Series 2007B Bonds will be issued for the purpose of making loans to VBMC, PCH and NDH in the aggregate principal amounts of \$3,700,000 and \$27,985,000 and \$15,615,000, respectively. Each of VBMC, PCH and NDH will apply the proceeds of its loan to the acquisition of medical service equipment. NDH will also apply a portion of its loan to the refunding of existing indebtedness. PCH will also apply a portion of its loan to the construction of a five story building of approximately 113,500 square feet to house 70 relocated medical/surgical beds, physicians' offices, therapeutic external radiation oncology services, cardiology services and conference center and dining services and the expansion of existing parking facilities.

The Series 2007C Bonds will be issued for the purpose of making a loan to PCH in the aggregate principal amount of the Series 2007C Bonds. PCH will apply a portion of the proceeds of the Series 2007C Bonds to certain costs of construction and renovation at PCH described in the preceding paragraph not eligible for tax-exempt financing.

Proceeds of the Series 2007 Bonds will also be applied to fund separate Debt Service Reserve Funds for each Series and to pay costs of issuance of such series of Series 2007 Bonds.

PART 5 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS

The following table sets forth the amount coming due on each principal and Interest Payment Date during each twelve-month period ending December 31 of the years shown for (i) the payment of the principal and Sinking Fund Installments on each Series of the Series 2007 Bonds, payable on July 1 of each such period and the interest payments coming due during each such period with respect to the Series 2007 Bonds; (ii) the total debt service payments coming due during such period with respect to other long-term indebtedness of the Obligated Group; and (iii) the total aggregate debt service payments coming due during such period with respect to all such Series 2007 Bonds and such other indebtedness of the Obligated Group. Interest payments coming due on January 1 are set forth below as paid in the prior year.

12 Month Period Ending December 31,	Series 2007A		Series 2007B		Series 2007C		Total Debt Service on other long- term indebtedness*	Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest		
2007	\$ ---	\$222,984	\$ ---	\$775,845	\$ ---	\$154,831	\$12,286,782	\$13,440,442
2008	55,000	696,938	510,000	2,415,981	---	484,688	10,117,426	14,280,033
2009	385,000	688,138	1,005,000	2,378,106	505,000	468,906	9,966,205	15,396,355
2010	405,000	672,338	1,045,000	2,326,856	535,000	436,406	8,697,600	14,118,200
2011	410,000	656,037	1,100,000	2,273,231	565,000	402,031	8,300,407	13,706,706
2012	435,000	639,137	1,155,000	2,216,856	605,000	365,469	7,783,329	13,199,791
2013	450,000	621,437	1,220,000	2,157,481	640,000	326,563	7,538,590	12,954,071
2014	470,000	602,450	1,275,000	2,095,106	680,000	285,313	6,599,583	12,007,452
2015	490,000	582,050	1,340,000	2,029,731	725,000	241,406	6,550,857	11,959,044
2016	510,000	560,163	1,405,000	1,961,106	770,000	194,687	6,473,229	11,874,185
2017	535,000	536,650	1,475,000	1,889,106	815,000	145,156	6,460,459	11,856,371
2018	560,000	509,913	725,000	1,833,200	865,000	92,656	6,461,504	11,047,273
2019	585,000	479,856	465,000	1,801,963	920,000	36,875	6,574,540	10,863,234
2020	620,000	448,225	1,335,000	1,754,713	130,000	4,062	6,072,079	10,364,079
2021	650,000	414,887	1,545,000	1,679,113	---	---	6,059,806	10,348,806
2022	685,000	379,844	1,625,000	1,595,900	---	---	6,014,945	10,300,689
2023	725,000	342,831	1,715,000	1,508,225	---	---	4,363,273	8,654,329
2024	765,000	303,719	1,805,000	1,415,825	---	---	4,334,837	8,624,381
2025	805,000	262,506	1,895,000	1,318,700	---	---	4,321,894	8,603,100
2026	855,000	218,931	2,000,000	1,216,456	---	---	1,029,668	5,320,055
2027	895,000	172,994	2,105,000	1,108,700	---	---	1,022,462	5,304,156
2028	945,000	125,875	2,210,000	996,813	---	---	1,014,276	5,291,964
2029	995,000	77,375	2,325,000	880,603	---	---	1,005,113	5,283,091
2030	1,050,000	26,250	2,010,000	769,519	---	---	1,567,770	5,423,539
2031	---	---	1,715,000	674,066	---	---	1,061,500	3,450,566
2032	---	---	1,800,000	583,994	---	---	1,049,000	3,432,994
2033	---	---	1,895,000	489,309	---	---	1,035,500	3,419,809
2034	---	---	1,990,000	389,756	---	---	1,045,500	3,425,256
2035	---	---	2,095,000	285,078	---	---	---	2,380,078
2036	---	---	2,200,000	175,019	---	---	---	2,375,019
2037	---	---	2,315,000	59,322	---	---	---	2,374,322

*Interest on tax-exempt indebtedness and taxable indebtedness which bear interest at a variable rate is assumed to bear interest at rates equal to 4.0% and 6.0% per annum, respectively.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2007 Bonds:

Sources of Funds

	<u>Series A</u>	<u>Series B</u>	<u>Series C</u>	<u>Total</u>
Principal Amount	\$14,280,000	\$47,300,000	\$7,755,000	\$69,335,000
Moneys Released Upon Defeasance	1,668,052	--	--	1,668,052
Equity Contribution	--	2,920,204	1,201,148	4,121,352
Net Original Issue Premium/Discount	<u>24,652</u>	<u>369,420</u>	<u>(88,950)</u>	<u>305,122</u>
Total	<u>\$15,972,704</u>	<u>\$50,589,624</u>	<u>\$8,867,198</u>	<u>\$75,429,526</u>

Uses of Funds

	<u>Series A</u>	<u>Series B</u>	<u>Series C</u>	<u>Total</u>
Project Costs	--	\$30,885,852	\$6,908,823	\$37,794,675
Deposit to Refunding Escrow	\$14,192,319	--	--	14,192,319
Loan Refinancing	--	12,060,832	--	12,060,832
Debt Service Reserve Fund	1,080,838	3,408,231	989,688	5,478,757
Capitalized Interest	--	1,840,674	617,030	2,457,704
Costs of Issuance ⁽¹⁾	<u>699,547</u>	<u>2,394,035</u>	<u>351,657</u>	<u>3,445,239</u>
Total	<u>\$15,972,704</u>	<u>\$50,589,624</u>	<u>\$8,867,198</u>	<u>\$75,429,526</u>

⁽¹⁾ Includes certain New York State Department of Health Fees, Authority fees, as well as fees and expenses of Bond Counsel and counsel to the Obligated Group, rating agency fees, Underwriters' Discount, premium for the Bond Insurance Policy, bond issuance charges, title insurance and Trustee and Master Trustee fees.

PART 7 - HEALTH QUEST OBLIGATED GROUP

Introduction

Health Quest Systems, Inc. (defined in this Official Statement as "HQ" or the "Representative") is a membership corporation organized under the not-for-profit corporation laws of the State that is exempt from Federal income taxation under Section 501(c) (3) of the Internal Revenue Code of 1986, as amended (the "Code"). HQ is the parent of VBMC, a 365-bed acute care hospital located in Poughkeepsie, Dutchess County, approximately 80 miles north of New York City; NDH, a 68-bed acute care hospital, located approximately 18 miles to the north of VBMC in Rhinebeck, Dutchess County; and PHC, a 164-bed acute care hospital, located approximately 34 miles to the south of VBMC in Carmel, Putnam County. Joining these hospitals under one common parent and a unified management structure by virtue of the affiliation has created cost efficiencies and access to new markets in northern Dutchess County, the greater Kingston area, across the Hudson River in Ulster County, and in southern Columbia County, and to the south in southern Dutchess County, Putnam County, and northern Westchester County. While NDH and PHC retain their capacity as primary and secondary care providers, they serve as feeders of secondary and tertiary services to VBMC. HQ now exercises active management powers over VBMC, NDH and PHC (defined in this Official Statement as the "Institutions") as well as certain other entities (see "Organization and Affiliates" below). The Obligated Group is comprised of HQ, VBMC, PHC and NDH.

Services and Programs

The Institutions offer a variety of inpatient and outpatient services. In addition to general medical and surgical services, they provide specialized clinical services in the areas of cardiac surgery, oncology, orthopedics, inpatient rehabilitation, psychiatry, wound care and women's and children's health.

As of April 30, 2007, the certified bed complement of the Institutions has been allocated as follows:

Service	VBMC	NDH	PHC	Total
Medical/Surgical	276	40	110	426
Intensive Care	14	7	0	21
Cardiac Care	10	0	10	20
Maternity	32	11	14	57
Neonatal Intensive Care	15	0	0	15
Pediatrics	18	0	10	28
Rehabilitation	0	10	0	10
Psychiatric	<u>0</u>	<u>0</u>	<u>20</u>	<u>20</u>
TOTAL	365	68	164	597

Vassar Brothers Hospital, d/b/a Vassar Brothers Medical Center. VBMC provides a full range of primary and secondary, and selected tertiary acute care services on an inpatient and outpatient basis. VBMC has four Centers of Clinical Excellence including:

- The Heart Institute, offering open heart surgery, electrophysiology studies, cardiac catheterization, coronary angioplasty, an 8-bed Chest Pain Center and a Heart Failure Unit. The Heart Institute is led by a team of three Board certified cardio-thoracic surgeons and 27 Board certified cardiologists. In 2006, the Heart Institute performed 421 cardiothoracic surgeries, 2,602 diagnostic cardiac catheterization procedures, 797 cardiac catheterization interventions, 592 electrophysiological studies and 173 peripheral vascular procedures.
- The Maternity Center including the only Level III Neonatal Intensive Care Unit (the most intensive unit of care) in the Mid-Hudson Valley region, the only dedicated pediatric unit in Dutchess County and state-of-the-art maternity suites. VBMC is the market leader for obstetrical services in the Mid and Lower Hudson Valley region with 2,583 deliveries in 2006.
- Oncology services offered through the Dyson Center for Cancer Care (the "Dyson Center"), providing Intensity-Modulated Radiation Therapy, inpatient therapy and an infusion center; the Murphy Center for Radiation Oncology; and a Breast Center. Radiation Oncology services are provided at three sites: Fishkill and Poughkeepsie in Dutchess County and Ulster Radiation Oncology Center, jointly with Benedictine Hospital, in Kingston, Ulster County. VBMC serves more cancer patients than any other hospital in the Mid-Hudson Valley and its cancer program is accredited by the American College of Surgeons as a Community Hospital Comprehensive Cancer Program, the highest designation by the organization that a non-academic medical center can attain. The Dyson Center is staffed with a dedicated radiologist who specializes in the diagnosis of breast cancer and the only fellowship-trained breast surgeon in the Mid-Hudson Valley. Radiotherapy equipment includes four linear accelerators, computerized tomography-based simulation and brachytherapy.
- Surgical Services including the Center for Advanced Surgery, providing advanced laparoscopic capability and bloodless surgery options. Other surgical services include general, hepatobiliary, vascular, thoracic, cardiothoracic, dental, plastic and reconstructive surgery; neurology, obstetrics/gynecology, ophthalmology, orthopedics, otolaryngology, podiatry and urology.

In addition, VBMC fills the need for specialized clinical services including:

- A physician intensivist program staffed by seven full-time physicians Board certified in critical care, pulmonary and internal medicine

- A physician hospitalist program staffed by eight full-time specialists in internal medicine who manage the care of patients referred by private practitioners
- A palliative care support program for patients and their family members
- A surgical physician assistant program providing first assist in the operating room as well as first call response to emergency room and inpatient units to aid surgical coverage
- A stroke program
- Rapid response team, emergency services, ambulatory surgery, an outpatient clinic on its hospital campus and outpatient radiology, physical, occupational, and speech therapy.

VBMC also offers ambulatory surgery, imaging, radiation oncology and sleep dysfunction studies at the Vassar Brothers Medical Mall in Fishkill.

Putnam Hospital Center. PHC offers medical, surgical, psychiatric, pediatric and obstetrical/gynecological care, 24-hour emergency services, home health care and community based services.

Other services provided by PHC include hospitalist coverage, coronary/intensive care, orthopedic services, pain management, renal dialysis, alcohol/substance abuse detoxification, physical therapy (including aquatic therapy), neurological, respiratory and cardiac diagnostic and treatment facilities, radiological services including magnetic resonance imaging (“MRI”) , and a comprehensive birthing center with Board certified obstetricians, gynecologists, neonatologists and certified nurse midwives.

Outpatient services include an emergency department, ambulatory surgery and outpatient radiology, physical, occupational and speech therapy. A Pain Management Program is directed by an anesthesiologist with a support team comprised of specialists in physical medicine, rehabilitation, psychiatry, psychology and physical therapy. The outpatient Physical Therapy Department, in addition to its general rehabilitation program, offers aquatic therapy, wound treatment, a sports medicine program and a spine program.

Northern Dutchess Hospital. NDH offers emergency, rehabilitative, medical and surgical services, comprehensive outpatient and community-based services. These services include: pediatrics, obstetrics and gynecology, internal medicine, family practice, hospitalist, ophthalmology, orthopedics, surgery, emergency medicine, anesthesia/pain management, neurology, gastroenterology, psychology, oncology, plastic surgery and a stroke program.

The Neugarten Family Birth Center delivers more than 700 babies each year and features a birthing room specifically designed for water births and water therapy.

Women’s View, a center without walls, provides diagnostic, medical and wellness services for women including: obstetrics and gynecology services, physical therapy programs, nutritional counseling, lymphedema management, therapeutic massage, acupuncture, Reiki and support and educational programs such as yoga, hypno-birthing, and weight management.

Paul Rosenthal Rehabilitation Center provides comprehensive acute inpatient rehabilitation, accredited by the Commission for Accreditation of Rehabilitation Facilities, for those who have suffered from stroke, brain injury, degenerative neurological disorders, spinal cord injury, orthopedic impairments, joint replacements, multiple traumas and fractures.

The Bone & Joint Center incorporates an array of orthopedic services including new technology for computer assisted orthopedic surgery, joint replacement, the Arthritis Center (rheumatology), pain management, sports medicine, bone densitometry for osteoporosis screening, and physical and occupational therapy.

NDH Center for Wellness and Rehabilitation is home to a cardiac rehabilitation program, a physical and occupational therapy department and a speech program. The Wellness Center also houses an exercise and weight training area, and offers group exercise classes.

Support services include laboratory and pathology, nutritional counseling, respiratory care, diagnostic radiology and cardiology, pharmacy, podiatry, primary vision care and a sleep disorders laboratory.

Facilities

All of VBMC's outpatient and emergency facilities occupy the city block in Poughkeepsie bounded by Reade Place, Lincoln Avenue, and Livingston Street. The facilities aggregate approximately 520,000 gross square feet, were constructed between 1890 and 2002 and consist of the main hospital with five inpatient areas, the Corridor Wing, intensive and coronary care units, the Ambulatory Care Center, the Dyson Center and the Joseph Tower Building, which is used for administrative office space. The campus also includes a power plant and a maintenance building. A parking garage on the campus has approximately 700 spaces and is connected to the hospital via a pedestrian walkway. On land adjacent to the main hospital are parking areas that in the aggregate have another approximately 600 parking spaces. The facilities described in this paragraph are subject to the Mortgages.

In addition, VBMC owns approximately 51,500 gross square feet in the Fishkill Medical Mall which includes freestanding ambulatory surgical suite, outpatient clinical services such as radiation oncology, radiology services and the HQ business office. VBMC's interest in the Fishkill Medical Mall is subject to the Mortgages. The Ulster Radiation Oncology Center is located on the Benedictine Hospital campus, where it provides outpatient radiation oncology services; it is not subject to the Mortgages.

PHC is located on approximately 44.4 acres on Stoneleigh Avenue in Carmel. It was built on its current site in 1963 and additions were completed in 1973, 1999, 2003 and 2004 so that PHC's facilities presently comprise approximately 373,000 square feet. In 1990 space was renovated to construct a 20-bed adult psychiatric unit in response to the community's need for mental health services. In 1999 a new birthing center was opened. In 2001 an approximately 96,000 square foot medical office building was opened on the PHC campus with an ambulatory surgery unit, MRI center, pain management program, outpatient radiology and physical therapy departments, 36 physician offices and administrative offices. In 2003 a two-story, approximately 20,000 square foot addition to the hospital was constructed which houses a new and expanded emergency department, Urgent Care Center and additional physician offices was completed. PHC's hospital facilities, including the facilities financed with the proceeds of the Series 2007 Bonds, are subject to the Mortgages; however, the medical office building is not subject to the Mortgages.

The inpatient, outpatient and emergency facilities of NDH are located on approximately 10 acres within the Village of Rhinebeck. The facility consists of one major building that contains approximately 165,000 square feet and a separate maintenance building of approximately 4,000 square feet. There are approximately 335 on-grade parking spaces on the hospital campus and NDH leases an additional 90 parking spaces for employees on an adjacent property. The facilities described in this paragraph are subject to the Mortgages.

NDH also owns seven properties adjacent to its campus consisting of approximately 24,000 square feet which it uses for residential homes, a thrift shop, a women's health annex and lease space. It owns an additional property in Stanfordville which it operates for primary physician care. The women's health annex, a portion of the lease space, and the Stanfordville property are not subject to the Mortgages.

Patient Safety, Quality Outcomes and Patient Satisfaction

In the most recent public report by the Center for Medicare and Medicaid Services ("CMS"), Department of Health and Human Services of the United States ("DHHS") of hospital quality measures that includes July 2005 through June 2006, NDH's performance in acute myocardial infarction care was in the top 10 percentile of all hospitals.

VBMC was named by The Leapfrog Group as a Top 50 Acute Care Hospital for Quality and Patient Safety as published in the October 16, 2006 issue of *Modern Healthcare*. The Leapfrog Group is made up of more than 170 corporations and public agencies that buy health benefits on behalf of their employees, dependents and retirees. VBMC was listed number 28 in the April 2005 issue of *Consumers Digest* which reported on "50 Exceptional U.S. Hospitals".

The New York State Adult Cardiac Surgery Outcomes comparison report is a mandatory State database used to monitor all cardiac procedures done in all 37 open heart surgery programs in the State. Risk adjustments are made by a State standard normalizing process to insure that all open-heart surgical programs are evaluated equally. In the most recent report available (using 2002-2004 data), VBMC had a risk adjusted mortality rate below the statewide average rate for heart valve/coronary artery bypass graft surgery.

Solucient is a hospital information company that publishes an annual Top 100 Performance Leaders. These 100 Top Performance Leaders are selected based upon the hospitals' individual performance over five year periods in the following categories: quality, finances, operations and growth. In 2005 and 2006, Solucient named VBMC as a 100 Top Performance Improvement Leader and a 100 Top Hospital for Cardiovascular Services as published in Modern Healthcare in April 2005 and April 2006 respectively.

Organization and Affiliates

HQ is also the parent and sole member of the following affiliates who are not members of the Obligated Group and appoints all members of their boards of trustees. All are not-for-profit corporations exempt from Federal income taxes under Section 501(c) (3) of the Code, except as otherwise indicated.

Alamo Ambulance Service, Inc., owns, operates and maintains ambulance and ambulance services to provide transport and emergency medical services to sick, disabled or injured persons.

The Foundation for VBMC (the "Foundation") solicits, receives, invests and administers contributions on behalf of VBMC and its affiliated tax-exempt entities.

HealthServe, LLC. VBMC is the sole member of HealthServe, LLC, a limited liability for-profit company responsible for management of the hospital information systems of the Institutions and all other HQ affiliates.

Hudson Valley Home Care Inc. (Certified), provides home health care services in Dutchess County to Medicare and Medicaid patients.

Hudson Valley Home Care Inc., (Licensed), provides home health care services to patients in Dutchess, Putnam and Ulster Counties. While both "certified" home health agencies and "licensed" home health agencies require establishment pursuant to Article 36 of the New York State Public Health Law, "certified" agencies must also be qualified to participate as a "home health agency" under Medicare and Medicaid programs.

Imaging Support Services, LLC. VBMC owns a one-half interest in Imaging Support Services, LLC, a limited liability for-profit company which provides management and billing services, equipment, space and other resources to a professional radiology service corporation within VBMC's service area. VBMC is currently reviewing the terms of this joint venture for possible changes.

Northern Dutchess Residential Health Care Facility Inc. ("NDRHCF") operates a 100-bed skilled nursing facility in Rhinebeck on the NDH campus.

NDH Foundation promotes the health of the community, solicits, receives and administers funds, gifts, bequests, contributions, grants and all other forms of property for the benefit of NDH and NDRHCF.

PHC Foundation promotes the health of the community, solicits, receives and administers funds, gifts, bequests, contributions, grants and all other forms of property for the benefit of PHC.

Riverside Diversified Services, Inc. ("RDSI"), is the beneficial owner of seven physician practices that provide hospital and outpatient services for residents of the Mid-Hudson Valley. As of June 2007, RDSI's practices employed over 90 physicians, nurse practitioners, midwives and physician assistants in various specialties including cardiac surgery, breast surgery, obstetrics and gynecology; critical care intensivists, hospitalists, neonatology and emergency medicine.

Riverside Management Services, Inc. is a for-profit corporation of which HQ is sole stockholder and which is currently dormant.

Ulster Radiation Oncology Center. VBMC owns a fifty percent interest in Ulster Radiation Oncology Center, a joint venture with Benedictine Hospital located in Kingston, NY.

VBH Insurance Co. Ltd. is a Barbados for-profit corporation of which HQ is sole stockholder that provides self-insured retention and excess malpractice insurance coverage for the Institutions.

Wells Manor, Inc. NDH is the sole member of Wells Manor, Inc., a not-for-profit senior citizen housing complex with 55 one-bedroom and 19 efficiency units located in Rhinebeck.

Except for HQ, VBMC, PHC and NDH, no other affiliate of HQ is obligated in any respect for payment of debt service on the Series 2007 Bonds or associated Obligations issued under the Master Indenture.

Governance and Related Corporations

HQ appoints all members of the board of trustees for each of VBMC, PHC, NDH and affiliate organizations. The by-laws of HQ provide that it shall be governed by a board of 15 voting members including the Chief Executive Officer of HQ, the presidents of the medical staffs at VBMC, PHC and NDH and the presidents of the boards of trustees of VBMC, PHC and NDH. The balance of the HQ board trustees are to be drawn from the local community. The board is self-perpetuating and trustees serve three-year terms and are subject to nine-year term limits, with certain exceptions. The standing committees of the board are the executive committee, strategic planning committee, finance committee, executive compensation committee, performance improvement committee, information technology committee, business ethics committee, government relations committee, audit committee, and human resources committee. The HQ board meets at least once per quarter.

The current HQ board members, their year of initial election, the expiration of their current term and their principal occupation is set forth below:

HQ Board Members and Officers

NAME/OFFICE	YEAR FIRST APPOINTED	YEAR TERM EXPIRES	OCCUPATION
John C. VanWormer/Chairman	2005	2008	Former President, Stissing National Bank
Thomas Eastwood/Vice-Chairman	2005	2008	Retired Supervisor, New Business Services, Central Hudson Energy Corp.
Robert R. Dyson/Secretary	2007	2010	Chairman/Chief Executive Officer, Dyson Kissner Moran Corp.
Maryann Kepple/Treasurer ¹	2007	N/A	Vice-President Finance/Chief Financial Officer, HQ
Kenneth G. Giek/Past Chairman	2006	2009	Owner/Operator, Burnett-White Funeral Home
Michael T. Weber/President	2007	*	President and Chief Executive Officer, HQ
Joseph DiVestea	2007	2010	Senior Vice-President, Smith Barney
Michael C. Duffy	2007	2010	Retired Vice-President Personal Computer Manufacturing, IBM Corporation
Steven V. Lant	2006	2008	Chief Executive Officer, CH Energy Corp.
Daniel Hickey	2007	2009	President, Hickey Finn & Co.
Stephen P. Lumb	2006	2009	Retired, Owner/President, Lumb Woodworking
Amelia Martinko, MD	2007	2009	Physician, VBMC
Michael Moses, MD	2006	2008	Physician, NDH
John W. Neubauer	2006	2008	President, Audio Visual Products, Inc.
John F. Rath	2008	2008	Senior Vice-President, TD BankNorth
Eric Teitel, MD	2006	2009	Physician , PHC

* ex-officio

¹ Ms. Kepple serves as the Board Treasurer, however she is not a voting member of the HQ Board.

Conflict of Interest Policy

HQ has a conflict of interest policy, which requires any duality of interest or possible conflict of interest on the part of any governing board member, senior administrative staff member or influencing person to be disclosed to the Board and made a matter of record. If a Board member has a duality of interest or possible conflict of interest on any matter, the member may not vote or use personal influence on the matter.

Corporate Compliance

HQ has developed a corporate compliance program for its affiliated hospitals, related organizations and affiliate employees, board members, physicians and volunteers. The program provides the ethical framework for conduct to ensure adherence to all applicable laws and regulations. This framework provides a structure within which quality health care services are delivered in a manner that is effective and cost efficient in accordance with HQ's financial and social responsibility.

Internal Audit

HQ's internal audit activities are provided by Deloitte & Touche under an outsourced arrangement. Deloitte & Touche Internal Audit reports directly to the Audit Committee of the HQ Board. Based on a risk-based audit plan approved by management and the Audit Committee, Deloitte & Touche monitors and evaluates HQ's internal controls. Upon execution of internal audits, Deloitte & Touche provides management and the Audit Committee with an independent assessment of internal controls, including recommendations for enhancement of controls where necessary.

Management

HQ's senior management is comprised of the HQ President and Chief Executive Officer, the HQ Executive Vice President and Chief Operating Officer, the Vice President for Finance and Chief Financial Officer, other Vice Presidents, and the Chief Executive Officers of VBMC, PHC and NDH. Summary biographical information is listed below:

MICHAEL T. WEBER

President and Chief Executive Officer of HQ

Mr. Weber, 52, was named President and Chief Executive Officer of HQ in March 2007. He joined PHC in 1988 as the Chief Financial Officer, was named Chief Executive Officer of PHC in 2000 and in 2006 was named Chief Executive Officer of PHC and NDH. Mr. Weber received a Bachelor of Science degree from Canisius College and a Master of Health Administration degree from Western Connecticut State University.

MICHAEL MIMOSO

Executive Vice President and Chief Operating Officer, HQ

Mr. Mimoso, 41, joined NDH as the Chief Executive Officer in 2000 and assumed his present position in March 2007. Previously, he served as Vice President, HQ Administration from March 2006 to March 2007. Mr. Mimoso received a Bachelor of Science degree from Providence College and a Master of Health Services Administration degree from George Washington University.

DANIEL Z. ARONZON, MD

President and Chief Executive Officer of VBMC

Dr. Aronzon, 59, joined VBMC in 1979 and assumed his present position in 2005, a position he held on an acting basis since 2004. Previously, Dr. Aronzon had been the Senior Vice President of Medical Affairs (2001-2004) for both HQ and VBMC, President of the Medical and Dental Staff (1998 -2000), and a physician in private practice and member of VBMC's Medical and Dental Staff. Dr. Aronzon received a Bachelor of Arts degree from Union College and a Doctor of Medicine degree from New York Medical College. He completed his residency at Albert Einstein College of Medicine, New York, and is Board certified in pediatrics.

DONNA M. MCGREGOR, CPA, FHFMA

President and Chief Executive Officer of PHC

Ms. McGregor, 41, joined VBMC in 1998 and assumed her present position in March 2007. Previously, she served as Vice President for Finance and Chief Financial Officer of HQ, as well as Chief Financial Officer of VBMC (1998-2006). Ms. McGregor received a Bachelor of Business Administration and Accounting degree from Siena College and a Master of Business Administration degree from Long Island University. She is a Certified Public Accountant.

DENISE GEORGE, RN, MPA

President and Chief Executive Officer of NDH

Ms. George, 52, joined NDH in 1999 and assumed her present position in March 2007. Previously, she served as Chief Operating Officer (October 2006 – March 2007) and Vice-President of Clinical Services and Chief Nursing Officer (1999-2006) of NDH. Ms. George received a Bachelor of Science degree from Hunter College and a Master of Public Administration degree from New York University.

ANN ARMATER

Vice President for Development, HQ

Ms. Armater, 50, joined VBMC in 1986 and assumed her present position in 1999. She also served as Executive Director of the VBH (now VBMC) Foundation. Ms. Armater received a Bachelor of Arts degree from the College of New Rochelle and a Master of Social Work degree from Fordham University.

MARYANN KEPPLER, FHFMA

Vice President for Finance and Chief Financial Officer, HQ

Ms. Kepple, 49, joined VBMC in 2000 as the Corporate Controller and assumed her present position in March 2007. Previously she served as Assistant Vice President for Financial Operations for HQ and Chief Financial Officer of NDH (2001-2007). Ms. Kepple received a Bachelor of Science degree from Mercy College and a Master of Business Administration degree from Western Connecticut State University.

MARK KOCHANOWSKI

Vice President for Human Resources, HQ

Mr. Kochanowski, 63, joined HQ as Vice President for Human Resources in 2003. Previously, he served as Vice President of Human Resources and Administrative Services of HealthNow, which was the parent company for Blue Cross and Blue Shield of Western New York, and Blue Shield of Northeastern New York (1998-2003). Mr. Kochanowski received a Bachelor of Arts degree and a Master of Marketing and Economics degree, both from the University of Dayton.

FLORIE MUNROE, CPA, CIA, CCSA, CHC, CMPE, FHFMA

Vice President for Corporate Compliance and Chief Compliance Officer, HQ

Ms. Munroe, 60, joined HQ in 2004 as the Director of Corporate Compliance and was appointed to her present position in 2005. Prior to joining HQ, Ms. Munroe was the Compliance and Privacy Officer at Yale New Haven Health System from 2002 to 2004. She received a Bachelor of Arts degree from Manhattanville College and a Master in Business Administration degree from Pace University.

DAVID PING

Vice President of Strategic Planning and Business Development, HQ

Mr. Ping, 49, joined HQ in his present position in 2005. Previously, Mr. Ping was a consultant with Kurt Salmon Associates from 1982 to 2005. He received a Bachelor of Arts degree from Indiana University and a Master of HealthCare Administration degree from the University of Minnesota.

RONALD J. TATELBAUM, M.D., FACC

Senior Vice President, Medical Affairs, HQ

Dr. Tatelbaum, 58, joined the Medical Staff of VBMC in 1979 and assumed his present position in May 2006. Previously he was a physician in private practice (1979-2006). Dr. Tatelbaum received a Bachelor of Arts degree from Case Western Reserve University and a Doctor of Medicine degree from the Chicago Medical School. He completed his medical residency and a cardiology fellowship at Rhode Island Hospital. Dr. Tatelbaum is Board certified in cardiology.

FREDERICK A. THOMAS, J.D., LL.M.

Vice President, Legal Services, HQ

Mr. Thomas, 44, joined HQ in his present position in January 2007. Previously he served as the General Counsel of Greenwich Hospital, Greenwich, CT (1999-2007). Mr. Thomas received a Bachelor of Science degree from Trinity College, a Juris Doctor degree from Wake Forest University, and a Master of Law in Taxation degree from Georgetown University.

Medical Staff

HQ maintains separate medical and dental staffs for the Institutions. The following tables set forth the composition of the active staffs by clinical department for each Institution as of January 2007. As of such date, approximately 98% of the total medical and dental staffs of the Institutions were Board certified and their average age was 49. Some physicians have staff privileges at more than one Institution.

VBMC Medical Staff Profile
Active Staff Composition as of January 2007

<u>Clinical Department</u>	<u>Number of Physicians</u>	<u>Average Age</u>	<u>Percent Board Certified</u>
Anesthesiology	22	48	100%
Cardiology	36	46	100%
Dentistry	15	61	100%
Dermatology	4	58	100%
Emergency Medicine	16	50	88%
Family Practice	10	49	90%
Gastroenterology	18	46	100%
Medicine	103	49	98%
Obstetrics/Gynecology	42	48	100%
Oncology/Hematology	11	55	100%
Orthopedics	27	47	96%
Pathology	7	58	100%
Pediatrics/Neonatology	62	51	100%
Physical Medicine and Rehabilitation	7	48	100%
Podiatry	22	46	95%
Psychiatry	7	53	100%
Radiation Oncology	6	49	100%
Radiology	33	46	100%
Surgery	71	51	97%
Urology	<u>19</u>	49	98%
TOTALS	538	49	98%

PHC Medical Staff Profile
Active Staff Composition as of January 2007

<u>Clinical Department</u>	<u>Number of Physicians</u>	<u>Average Age</u>	<u>Percent Board Certified</u>
Anesthesiology	16	45	100%
Cardiology	9	48	100%
Dentistry	3	47	66%
Emergency Medicine	7	44	100%
Family Practice	4	56	100%
Gastroenterology	11	51	100%
Medicine	69	50	100%
Obstetrics/Gynecology	8	42	100%
Oncology/Hematology	10	56	100%
Orthopedics	12	49	100%
Pathology	3	50	100%
Pediatrics/Neonatology	19	50	100%
Podiatry	9	44	100%
Psychiatry	7	58	100%
Radiology	31	45	100%
Surgery	36	52	100%
Urology	<u>10</u>	52	100%
TOTALS	264	48	99.6%

NDH Medical Staff Profile
Active Staff Composition as of January 2007

<u>Clinical Department</u>	<u>Number of Physicians</u>	<u>Average Age</u>	<u>Percent Board Certified</u>
Anesthesiology	15	44	93%
Cardiology	23	46	100%
Dentistry	1	52	0%
Emergency Medicine	8	54	88%
Family Practice	13	42	92%
Gastroenterology	2	49	100%
Medicine	35	48	94%
Obstetrics/Gynecology	9	48	94%
Oncology/Hematology	2	49	100%
Orthopedics	22	48	95%
Pathology	7	58	100%
Pediatrics	22	52	100%
Physical Medicine and Rehabilitation	3	43	100%
Psychiatry	3	59	100%
Radiation Oncology	5	47	100%
Radiology	20	45	100%
Surgery	22	50	95%
Urology	13	51	92%
TOTALS	225	49	96%

Source: HQ Records

Service Area and Competition

HQ's service area consists of Dutchess and Putnam Counties, along with contiguous zip codes in Columbia, Westchester, Orange and Ulster Counties. Contained within the HQ service area are primary service areas for each Institution as well as "outlying" or secondary zip codes for the entire system. Some overlap exists in the individual Institution service areas, most notably the southern portion of the NDH service area and the northern portion of the VBMC service area. The following chart presents demographic data for each Institution's primary service area and for the HQ service area as a whole.

<u>Service Area</u>	<u>2005 Population</u>	<u>Projected Growth by 2010</u>	<u>Average Family 2005 Income</u>	<u>2005 Unemployment Rate</u>
HQ	729,396	4.8%	\$81,007	5.0%
VBMC	259,243	4.8	\$73,337	6.1
PHC	101,524	5.5	\$100,442	3.4
NDH	89,228	3.7	\$64,438	4.9

Source: Claritas

VBMC's principal competitor hospitals are St. Francis Hospital in Poughkeepsie; St. Luke's Hospital in Newburgh, Orange County; and Westchester Medical Center, a tertiary care medical center in Valhalla, Westchester County.

PHC's principal competitor hospitals, in addition to VBMC, are Hudson Valley Hospital Center in Cortlandt Manor, Westchester County; Northern Westchester Hospital in Mt. Kisco, Westchester County; and Westchester Medical Center.

NDH's principal competitor hospitals, in addition to VBMC, are St Francis Hospital, and Kingston Hospital and Benedictine Hospital both of which are located in Kingston, Ulster County.

The following table sets forth each competitor hospital their distance from the nearest Institution and the number of staffed beds, discharges, occupancy rates and outpatient visits for 2006:

<u>Hospital</u>	<u>Miles from Nearest Institution</u>	<u>Staffed Beds</u>	<u>Discharges¹</u>	<u>Occupancy Rate (%)²</u>	<u>Outpatient Visits</u>
VBMC	N/A	356	21,754	77%	167,942
PHC	N/A	146	7,939	63	141,592
NDH	N/A	68	3,836	64	55,533
St. Francis Hospital	2	319	9,845	67	242,799
Westchester Medical Center ⁽³⁾	26	910	23,686	58	n/a
St. Luke's Hospital ⁽⁴⁾	23	282	13,722	63	202,010
Kingston Hospital ⁽⁵⁾	11	160	6,682	64	113,903
Benedictine Hospital	12	163	6,577	77	97,076
Hudson Valley Hospital Center	17	128	6,026	64	156,998
Northern Westchester Hospital ⁽³⁾	17	195	9,390	58	n/a

¹ Excludes normal newborns

² Occupancy rate equals average daily census divided by total staffed beds

³ Do not report SPARCS data; information derived from other reported sources

⁴ Includes Newburgh and Cornwall campuses

⁵ Includes Margaretville Hospital

Source: American Hospital Association, SPARCS 2006

Market Share Trends for HQ Service Areas

The following tables provide market share trend data in each service area.

VBMC Service Area	2003	2004	2005	2006
VBMC	48.7%	50.3%	51.5%	55.2%
NDH	1.7	1.8	2.0	2.4
PHC	2.7	2.8	2.9	3.1
St. Francis Hospital	22.9	21.8	20.2	18.5
Westchester Medical Center	3.9	4.2	4.3	3.7
St. Lukes Hospital	3.8	3.5	3.4	3.0
PHC Service Area	2003	2004	2005	2006
PHC	44.3%	45.5%	45.1%	47.1%
VBMC	2.0	1.6	2.0	1.9
Hudson Valley Hospital Center	11.2	10.7	11.1	12.7
Westchester Medical Center	10.2	9.5	10.2	9.5
Northern Westchester Hospital	12.2	12.9	12.5	18.5
NDH Service Area	2003	2004	2005	2006
NDH	17.1%	17.2%	15.9%	18.0%
VBMC	12.7	13.3	14.5	15.5
Kingston Hospital	25.9	24.1	23.7	23.1
Benedictine Hospital	21.4	21.1	22.1	21.1
St. Francis Hospital	8.9	9.8	9.3	9.2

HQ Service Area (Aggregate)	2003	2004	2005	2006
VBMC	20.0%	20.8%	21.8%	24.2%
PHC	8.0	8.1	8.1	8.4
NDH	3.2	3.2	3.2	3.9
St. Lukes Hospital	9.1	9.0	9.2	8.7
St. Francis Hospital	9.4	9.3	8.8	8.3
Hudson Valley Hospital Center	6.1	6.0	6.3	7.1
Westchester Medical Center	6.5	6.5	6.5	6.1
Benedictine Hospital	6.0	5.8	6.2	5.8
Kingston Hospital	6.8	6.2	5.9	5.7
Northern Westchester Hospital	6.1	6.1	5.9	4.5*

*Data reported for nine months ended September 30, 2006.

Source: SPARCS. Normal newborns excluded.

Utilization

The following table sets forth selected historical utilization data for VBMC, PHC, NDH, and HQ for 2004, 2005, 2006 and for the four month periods ended April 30, 2006 and 2007:

	<u>Year Ended December 31,</u>			<u>Four months ended April 30,</u>	
	2004	2005	2006	2006	2007
VBMC					
Certified Beds (at year end)	315	365*	365	365	365
Total Discharges (1)	17,345	17,997	19,422	6,437	6,654
Medical/Surgical	13,179	13,855	15,332	5,099	5,294
Pediatrics	1,180	1,110	1,059	391	410
Neonatal ICU	261	267	280	91	76
Maternity	2,725	2,765	2,751	856	874
Patient Days (1)	92,375	95,581	102,338	34,518	36,047
Average Length of Stay	5.3	5.3	5.3	5.4	5.4
Average % Occ (cert beds)	80.1%	82.0%	76.8%	78.8%	82.3%
Emergency Room Visits (2)	41,664	43,764	45,814	14,631	16,888
Outpatient Clinic Visits	16,845	16,420	16,665	5,439	5,248
Ambulatory Surgery Procedures (3)	8,506	8,334	8,526	2,861	2,998
Newborns	2,431	2,434	2,583	761	772
Cardiothoracic Surgeries	292	328	421	137	135
Medicare Case Mix Index	1.5839	1.5892	1.5346	1.5349	1.5167

* VBMC placed 50 beds in service in December 2005

PHC ⁽⁵⁾	Year Ended December 31,			Four months ended April 30,	
	2004	2005	2006	2006	2007
Certified Beds (at year end)	164	164	164	164	164
Total Discharges (1)	7,021	7,057	7,456	2,434	2,487
Medical/Surgical	5,229	5,276	5,671	1,816	1,900
Medical Detoxification	412	493	551	204	181
Psychiatric	457	485	470	164	186
Maternity	923	803	764	250	220
Patient Days (1)	35,993	36,394	37,571	12,541	12,685
Average Length of Stay	5.1	5.2	5.0	5.2	5.1
Average % Occ (cert beds)	60.0%	60.8%	62.8%	63.7%	64.5%
Emergency Room Visits (2)	20,005	20,308	20,092	6,285	6,187
Ambulatory Surgery Procedures (3)	5,377	6,089	6,279	2,492	2,308
Newborns	607	544	515	172	156
Medicare Case Mix Index	1.4221	1.3549	1.3777	1.4325	1.3486
NDH	2004	2005	2006	2006	2007
Certified Beds (at year end)	68	68	68	68	68
Total Discharges (1)	2,892	2,858	3,109	986	1,121
Medical/Surgical	1,964	1,954	2,133	691	770
Rehabilitation	203	188	212	59	74
Maternity	725	716	764	236	277
Patient Days (1)	13,822	13,584	14,194	4,560	4,949
Average Length of Stay	4.8	4.8	4.6	4.6	4.4
Average % Occ (cert beds)	55.5%	54.7%	57.2%	55.9%	60.6%
Emergency Room Visits (2)	10,913	11,264	12,606	3,760	3,998
Outpatient Clinic Visits (4)	14,296	6,295	2,012	570	677
Ambulatory Surgery Procedures (3)	3,117	3,209	3,613	1,120	1,465
Newborns	713	706	757	235	262
Medicare Case Mix Index	1.3323	1.4093	1.4401	1.4232	1.4718
HQ Total	2004	2005	2006	2006	2007
Certified Beds (at year end)	547	597	597	597	597
Total Discharges ⁽¹⁾	27,258	27,912	29,987	9,857	10,262
Medical/Surgical	20,372	21,085	23,136	7,606	7,964
Maternity	4,373	4,284	4,279	1,342	1,371
All Other	2,513	2,543	2,572	909	927
Patient Days (1)	142,190	145,559	154,103	51,619	53,681
Average Length of Stay	5.2	5.2	5.1	5.2	5.2
Average % Occ (cert beds)	71.0%	72.3%	70.7%	72.1%	74.9%
Emergency Room Visits ⁽²⁾	72,582	75,336	78,512	24,676	27,073
Outpatient Clinic Visits ⁽⁴⁾	31,141	22,715	18,677	6,009	5,925
Ambulatory Surgery Procedures ⁽³⁾	17,000	17,632	18,418	6,473	6,771
Newborns	3,751	3,684	3,855	1,168	1,190
Cardiothoracic Surgeries	292	328	421	137	135

⁽¹⁾ Excluding Newborn

⁽²⁾ Treated and released without admission

⁽³⁾ Includes Outpatient Endoscopy, Cystoscopy, Minor Surgery and Same Day Surgeries

⁽⁴⁾ Reflects closing of four NDH Dental Clinic sites in 2005.

⁽⁵⁾ PHC does not operate clinics

Source: HQ Records

Management's Discussion of Utilization

From 2004 to 2006 total discharges of the three Institutions increased by 2,729 (10.0%). All three hospitals experienced discharge growth, with the increases primarily occurring in their medical/surgical services. The increased volume was facilitated by the addition of new physicians at the three hospitals, by the presence of hospitalists at all three hospitals to address the needs of their medical staffs and by growth in the cardiac surgery program at VBMC and in orthopedic surgery at PHC and NDH. While maternity discharges at VBMC and NDH were stable to slightly higher, at PHC they declined due to the loss of an obstetrics/gynecology physician group. On the other hand, the medical detoxification service at PHC enjoyed substantial growth due to the increasing need for this service in the community.

From 2004 to 2006, the average length of stay at all three hospitals was essentially unchanged. Total patient days increased at each hospital and for the three hospitals in the aggregate rose 11,913 (8.4%). Average occupancy for the three hospitals remained stable at 70.7% - 72.3% as increased inpatient volumes partially offset the addition of 50 inpatient beds at VBMC in December 2005. The Medicare Case Mix Index declined at VBMC and PHC. The decline at VBMC was primarily due to the 50 new beds placed in service which primarily have attracted medical cases that as a general matter have a lower acuity than surgical cases. The Medicare Case Mix Index rose at NDH primarily due to increases in orthopedic cases.

From 2004 to 2006, emergency room visits grew at VBMC and NDH, were unchanged at PHC but for the three hospitals in the aggregate increased 5,930 (8.2%). Ambulatory surgery procedures were unchanged at VBMC but grew significantly at the other hospitals due to growth in the orthopedic surgery program at PHC and NDH and the expansion of on site physician offices on the two campuses so that for the three hospitals as a whole, ambulatory surgery procedures increased 1,418 (8.3%). Clinic visits decreased by 86% due primarily to the closing of the four Dental Clinic sites previously associated with NDH.

For the four month period ended April 30, 2007 all three hospitals continued to experience increases in discharges over the comparable prior year period, with a total increase of 413 discharges (4.2%). The average length of stay was unchanged, total patient days increased 2,069 (4.0%) and average occupancy rose from 72.1% to 74.9%.

Emergency room visits increased at VBMC and NDH but declined slightly at PHC. In the aggregate, emergency room visits increased 2,397 (10%). Ambulatory surgery procedures increased significantly at NDH due to continued increases in orthopedic volume and also increased at VBMC, but decreased somewhat at PHC. The aggregate increase in ambulatory surgery procedures was 298 (4.6%). Outpatient clinic visits fell at VBMC, rose at NDH and in the aggregate were substantially unchanged while the Medicare Case Mix Index continued to decline at VBMC and PHC and to rise at NDH.

Summary Statements of Operations

The information provided below for the years ended December 31, 2004, 2005 and 2006 was derived from consolidating schedules that are part of the audit reports. The summary should be read in conjunction with the financial statements and related notes thereto of HQ appearing in Appendix B. PricewaterhouseCoopers, LLP, independent public accountants, has audited financial statements of HQ which are included in Appendix B, for the years ended December 31, 2005 and 2006. The data for the four months ended April 30, 2006 and 2007 include, in the opinion of management, all adjustments necessary to summarize fairly the results for such periods. The results for the four-month period ended April 30, 2007 may not be indicative of the results for all of fiscal year 2007.

The consolidated audited financial statements included in Appendix B also include the financial results of various affiliated organizations. However, the Obligated Group consists solely of VBMC, PHC, NDH and HQ. The members of the Obligated Group represented 91.4% of the operating revenue and 123% of the HQ consolidated operating gain for 2006.

(In Thousands)

HQ Obligated Group (Consolidated)	<u>Year Ended December 31,</u>			<u>Four-month periods ended April 30, (unaudited)</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
<i>Operating revenue</i>					
Net patient service revenue	\$368,808	\$389,801	\$439,963	\$141,762	\$159,000
Other revenue	15,233	15,543	14,568	4,637	4,890
Net assets released from restrictions used for operations	<u>430</u>	<u>179</u>	<u>121</u>	<u>0</u>	<u>0</u>
Total operating revenue	<u>384,472</u>	<u>405,522</u>	<u>454,652</u>	<u>146,399</u>	<u>163,890</u>
<i>Operating Expenses</i>					
Salaries and fees	153,205	163,837	179,889	58,047	63,558
Employee benefits	41,219	46,442	54,614	16,617	19,271
Supplies	61,501	66,076	75,446	24,443	25,537
Other expenses	71,589	81,106	88,813	29,224	33,485
Interest	5,254	5,775	6,808	2,317	2,126
Depreciation and amortization	19,209	20,252	22,603	7,464	8,469
Provision for bad debts, net	<u>20,371</u>	<u>3,660</u>	<u>5,884</u>	<u>2,291</u>	<u>4,233</u>
Total operating expenses	<u>372,349</u>	<u>387,148</u>	<u>434,057</u>	<u>140,403</u>	<u>156,679</u>
Operating income	12,123	18,374	20,595	5,996	7,211
Investment income and other	<u>4,824</u>	<u>5,686</u>	<u>8,285</u>	<u>2,841</u>	<u>5,284</u>
Excess of revenue over expenses	<u>\$16,946</u>	<u>\$24,061</u>	<u>\$28,880</u>	<u>\$8,837</u>	<u>\$12,495</u>

Management's Discussion and Analysis of Recent Financial Performance

This discussion contains disclosures which include "forward-looking statements". Forward-looking statements comprise all statements that do not relate solely to historical or current fact and can be identified by use of the words "pro-forma", "may", "believe", "will", "expect", "project", "estimate", "anticipate", "plan", or "continue". These forward-looking statements are based on management's current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control that could significantly affect current plans and expectations and HQ's future financial position and results of operations. These 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 impact reimbursements to health care providers and insurers, (iv) changes in Federal, state or local laws or regulations affecting the health care industry, (v) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses, and medical support personnel, (vi) liabilities and other claims asserted against HQ, including any pending and any future litigation, (vii) changes in accounting standards and practices, (viii) changes in general economic conditions, (ix) future divestitures or acquisitions which may result in additional charges, (x) changes in revenue mix, (xi) the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability on acceptable terms of capital to fund future plans and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments as a result of state budget constraints, (xv) failure of any commercial insurer to make payment due to financial difficulty, (xvi) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvii) the ability to monitor, maintain and comply with appropriate laws, regulations, policies and procedures affecting HQ's business, operations, or finances, including those relating to its continuing qualification as a tax exempt organization, to the requirements of Medicare and Medicaid programs, and to legislation and regulations relating to access to and the use of patient-related information, (xviii) the ability to achieve expected levels of patient volumes and control the costs

of providing services, and (xix) the level of investment returns. 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 HQ. Investors are always cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement.

Four-Month Period Ended April 30, 2007 Compared to Four-Month Period Ended April 30, 2006 (Unaudited). For the four-month period ended April 30, 2007, the Obligated Group realized operating income of \$7.2 million compared to operating income of \$6.0 million in the comparable prior year period. Total operating revenue increased \$17.5 million (11.9%) for the four months ended April 30, 2007 over the prior year period, while total operating expenses increased \$16.3 million (11.6%). Operating income increases were 27% at VBMC, 3% at PHC and 284% at NDH. Net patient service revenue increased \$17.2 million (12.2%) driven by increases in inpatient and outpatient volume partially offset by a reduction in patient acuity, resulting in a lower Medicare Case Mix Index at VBMC and PHC and by new and expanded services. Additionally, a number of managed care contracts included rate increases effective January 2007.

Salaries and fees expense increased \$5.5 million (9.5%) and employee benefits expense rose \$2.7 million (16.0%) for the four-month period ended April 30, 2007 over the prior year period, reflecting an increase in the average number of full time equivalent employees ("FTEs") from 2,984 to 3,068 and increased salary expenses due to increased rates and enhanced skill mix. The increase in employee benefit expenses was due to higher cost of health insurance, pension expense and workers compensation. Supplies expense increased by \$1.1 million (4.5%) due to the overall increase in patient volume particularly in orthopedics at PHC and NDH. Other expenses increased \$4.3 million (14.6%) due to higher utility costs, laboratory services attributed to greater patient volume and higher insurance costs for malpractice and property coverage. Interest expense decreased by \$0.2 million (8.2%) due to the expiration of certain equipment leases. Depreciation and amortization expense increased by \$1.0 million (13.5%) due to the addition of equipment and the first full year of depreciation associated with new facilities at NDH. The provision for bad debts increased \$1.9 million (84.3%) due to increases in the uninsured and underinsured population. Bad debts represent 2.7% of net patient service revenue in the first four months of 2007 compared to 1.6% in the prior year period.

Investment income and other income increased \$2.4 million (86.0%) in the four-month period ended April 30, 2007 compared to the same period in 2006. This increase is associated with a change in the investment advisor services for HQ in 2006 as well as changes in investment managers during 2007.

For the four-month period ended April 30, 2007, the Obligated Group reported an excess of revenue over expenses of \$12.5 million compared to \$8.8 million in the prior year period, an increase of 41.4%.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005. In 2006, operating income for the Obligated Group was \$20.6 million, an increase of \$2.2 million (12.1%) over 2005. Total operating revenue increased \$49.1 million (12.1%) while total operating expenses increased \$46.9 million (12.1%). All of the increase in operating income occurred at PHC and NDH; VBMC's operating income declined 3.5%. Net patient service revenue for the Obligated Group grew by \$50.2 million (12.9%) driven by volume increases in both inpatient and outpatient services and higher acuity resulting in a higher Medicare case mix at PHC and NDH. In addition, numerous renewals of managed care contracts were negotiated resulting in rate increases for key service lines.

Salaries and fees expense increased by \$16.0 million (9.8%) reflecting additional resources needed to staff fifty additional beds placed in service at VBMC and program growth. Employee benefit expense increased by \$8.2 million (17.6%) predominantly due to higher health insurance and pension expense. Supplies expense increased by \$9.4 million (14.2%) due to increased volume growth reflecting new and expanded services predominantly in orthopedics and cardiac programs. Other expenses increased \$7.7 million (9.5%) principally due to higher laboratory expenses, purchased services and service contracts. Interest expense increased by \$1.0 million (17.9%) due to the additional debt incurred by NDH for the building expansion program on its campus put into service in 2006. Depreciation and amortization expense increased by \$2.4 million (11.6%) primarily as a result of the NDH building expansion program and the addition of medical equipment and technology improvements for all three hospitals. The provision for bad debts increased by \$2.2 million (60.8%) due to overall growth in revenue and an increase in the uninsured and underinsured population. Bad debts represented 1.3% of net patient revenue in 2006 compared to 0.9% in 2005.

Investment income and other income increased by \$2.6 million (45.7%) due to strong market performance. The Obligated Group reported an excess of revenue over expenses in 2006 of \$28.9 million, an increase of \$4.8 million (20.0%) compared to \$24.1 million in 2005.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004. In 2005 the Obligated Group reported operating income of \$18.4 million, an increase of \$6.3 million (51.6%) over operating income of \$12.1 million in 2004. Total operating revenue increased \$21.1 million (5.5%), while total operating expenses grew \$14.8 million (4.0%). Operating income for VBMC and PHC increased 60.3% and 88.1% respectively, whereas operating income for NDH decreased 59.4% due to fewer discharges. Net patient service revenue increased \$21.0 million (5.7%) as a result of aggregate volume increases on both inpatient and outpatient services as well as increased rates from managed care payers.

Salaries and fees expense and employee benefits expense increased \$10.6 million (6.9%) and \$5.2 million (12.7%), respectively. The increases reflected an increased number of FTEs to service the greater inpatient and outpatient volume and higher wage and salary rates, particularly for nurses. Benefits expense increased primarily due to higher health insurance, workers compensation and pension expenses. Supplies expense increased \$4.6 million (7.4%) due to service expansion, cost of pharmaceuticals and the cost of implantable devices. Other expenses increased \$9.5 million (13.3%) due to higher physician fees and utilities and the expansion of corporate services. Interest expense and depreciation and amortization expense increased \$0.5 million (9.9%) and \$1.0 million (5.4%), respectively, both due to capital expenditures to support expanded operations and the related borrowings and capital leases associated with this expansion. The provision for bad debts decreased \$16.7 million (82.0%) due to policy changes for reporting of charity care allowances. Bad debts represented 0.9% of net patient service revenue in 2005 compared to 5.5% in 2004.

Investment income and other income increased \$0.9 million (17.9%) over 2004. The Obligated Group reported an excess of revenue over expenses of \$24.1 million in 2005, an increase of \$7.1 million (42.0%), compared to \$16.9 million in 2004.

Capital Expenditures/Future Plans

In 2004, 2005 and 2006, HQ incurred capital expenditures of approximately \$30 million, \$36 million and \$29 million respectively, for acquisition of plant, buildings and equipment. HQ has projected capital expenditures in its 2007 budget of approximately \$51 million, including approximately \$25 million for elements comprising the Project.

Selected Liquidity Indicators

The following table sets forth the Obligated Group's unrestricted cash and investments as of December 31, 2004, 2005 and 2006 together with certain financial ratios derived therefrom and from its audited financial statements as of and for the years then ended.

	2004	2005	2006
Unrestricted Cash and Investments (000's) ⁽¹⁾	\$89,103	\$98,730	\$119,859
Average Daily Operating Expenses (000's) ⁽²⁾	\$965	\$1,005	\$1,127
Days Cash on Hand (000's) ⁽³⁾	92	98	106
Maximum Annual Debt Service Requirement (000's) ⁽⁴⁾	\$13,061	\$13,061	\$13,061
Cushion Ratio ⁽⁵⁾	6.82	7.56	9.18
Outstanding Long Term Debt (net of current portion) (000's)	\$93,741	\$119,555	\$115,964
Unrestricted Net Assets (000's)	\$144,398	\$157,654	\$195,165
Cash to Debt ⁽⁶⁾	0.95	0.83	1.03
Debt to Capitalization ⁽⁷⁾	0.39	0.43	0.37

(1) Includes all cash and cash equivalents, investments, and Board designated investments that are not restricted by donors or other third parties.

(2) Annual expenses exclusive of depreciation and amortization divided by number of days in the year.

(3) Unrestricted cash and investments divided by average daily operating expenses.

(4) Maximum annual principal and interest requirements for the current or any future year on long-term indebtedness of the Obligated Group outstanding as of December 31, 2006. The interest rate for the Series 2004 Bonds and for the Series 2005 Bonds is assumed to be 4.0% and the interest rate for taxable debt bearing a variable rate of interest is assumed to be 6.0%.

(5) Unrestricted cash and investments divided by maximum annual debt service.

(6) Unrestricted cash and investments divided by long-term debt.

(7) Outstanding long-term debt divided by the sum of (a) outstanding long-term debt, plus (b) unrestricted net assets.

Source: HQ Records

Investment Policy

The funds of the Obligated Group, consisting of excess operating, plant replacement and long-term funds, are invested with the goal of achieving long-term capital appreciation rather than a focus on annual investment income for meeting its operating needs. HQ uses the joint Investment Committee of the HQ Board of Trustees to

establish portfolio guidelines, including asset allocation and performance standards, and to monitor investment results. Four professional investment managers manage the portfolio. An outside investment consultant is engaged to ensure that their reporting and comparative data are valid.

The following table sets forth the composition of the Obligated Group's cash and cash equivalent investments and Board designated and donor restricted funds as of December 31, 2004, 2005 and 2006:

	(In Thousands)		
	December 31,		
	2004	2005	2006
Cash and cash equivalents	\$11,945	\$24,698	\$12,290
US Treasury obligations	17,840	19,206	24,080
Corporate bonds	8,163	8,110	14,283
Equity securities	54,831	53,794	63,725
Other	<u>1,447</u>	<u>1,416</u>	<u>3,893</u>
Total	<u>\$94,226</u>	<u>\$107,223</u>	<u>\$118,271</u>

Source: HQ Records

Historical and Pro-Forma Capitalization

The following table sets forth the capitalization of the Obligated Group as of April 30, 2007 and as adjusted to include the Series 2007 Bonds.

	(In Thousands)	
	April 30, 2007	
	(unaudited)	
	<u>Actual</u>	<u>Pro-Forma</u>
Dormitory Authority of the State of New York, Vassar Brothers Hospital Insured Revenue Bonds, Series 1997, interest rates ranging from 5.25% to 5.5%, principal payments due in varying annual amounts to a final maturity date of 2025.	\$46,280	\$46,280
Dutchess County Industrial Development Agency ("Dutchess IDA") Civic Facility Revenue Bonds, Series 2000 (Vassar Brothers Hospital Civic Facility), interest rate of 6.5%, principal payments due in varying annual amounts to a final maturity date of 2030.*	13,018	-0-
Dutchess IDA Civic Facility Revenue Bonds, Series 2004 (Vassar Brothers Medical Center Facility), variable interest rate, principal payments due in varying annual amounts to a final maturity date of 2022	15,050	15,050
Dutchess IDA Civic Facility Revenue Bonds, Series 2005 (Vassar Brothers Medical Center Facility), variable interest rate, principal payments due in varying annual amounts to a final maturity date of 2034.	19,062	19,062
M&T Bank loan to VBMC, interest rate of 5.58%, principal payments due in varying annual amounts to a final maturity date of 2023.	2,506	2,506
PHC Taxable Bonds (Series 1999A), variable interest rate, principal payments due in varying annual amounts to a final maturity date of 2019.	3,510	3,510
Bank of New York loan to NDH, interest rate of 4.55%, principal payments due in varying annual amounts to a final maturity date of 2011.	2,396	2,396
Bank of New York loan to NDH, variable interest rate, principal payments due in varying annual amounts to a final maturity date of 2030*.	9,800	-0-

Bank of New York loan (guaranteed by the United States Department of Agriculture) to NDH, variable interest rate, principal payments due in varying annual amounts to a final maturity date of 2018.*	2,334	-0-
Series 2007 Bonds.	-0-	69,335
Other, interest rates ranging from 5.5% to 8.25% and maturity dates from 2015 to 2021	1,716	1,716
Capital lease obligations, varying rates of imputed interest from 5.41% to 10.5%, maturity dates from September 2007 through 2010.	<u>4,689</u>	<u>4,689</u>
Subtotal	\$120,361	\$164,544
Less: Current Portion	<u>6,621</u>	<u>6,105</u>
Long Term Debt	<u>\$113,740</u>	<u>\$158,439</u>

* To be refunded with proceeds of the Series 2007 Bonds.

Historical and Pro Forma Debt Service Coverage

The following table sets forth the Obligated Group's income available for debt service for the years ended December 31, 2004, 2005 and 2006, its historical coverage of the maximum annual debt service requirement on debt outstanding as of December 31, 2006, and pro-forma coverage of maximum annual debt service for the year ended December 31, 2006 assuming that the Series 2007 Bonds had been outstanding in such year at an assumed average interest rate of 5.05%. The Series 2004 and Series 2005 Bonds are assumed to bear interest at 4% and the Series 1999 Bonds and taxable indebtedness of NDH are assumed to bear interest at 6%.

	Obligated Group Service Coverage			
	(In Thousands)			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> <u>Pro-Forma</u>
Excess of Revenue over Expenses	\$16,946	\$24,061	\$28,880	\$28,880
Depreciation and Amortization	19,209	20,252	22,603	22,603
Interest	<u>5,254</u>	<u>5,775</u>	<u>6,808</u>	<u>6,808</u>
Income Available for Debt Service	\$41,409	\$50,088	\$58,291	\$58,291
Historical Maximum Annual Debt Service	\$13,061	\$13,061	\$13,061	\$15,396
Historical Maximum Annual Debt Service Coverage Ratio (x)	3.17	3.83	4.46	3.79

Sources of Patient Service Revenue

Payments are made to the Institutions on behalf of patients by the Federal government under the Medicare program, the State under the Medicaid program, certain commercial insurers, health maintenance organizations ("HMOs") and other managed care programs, third party administrators, and by patients on their own behalf.

The following table summarizes the percentage of total inpatient discharges by source of payment for VBMC, PHC, NDH and the Institutions in the aggregate for the three-year period ended December 31, 2004, 2005, and 2006.

	2004	2005	2006
VBMC			
Medicare	39%	40%	41%
Blue Cross	13	12	13
Commercial	8	8	8
Medicaid	14	12	12
HMO	24	22	20
Workers Compensation			0
/No Fault	1	1	
Other	<u>2</u>	<u>5</u>	<u>6</u>
Total	100%	100%	100%
PHC			
Medicare	40%	42%	40%
Blue Cross	15	15	17
Commercial	4	3	3
Medicaid	10	10	10
HMO	29	27	26
Workers Compensation			3
/No Fault	2	2	
Other	<u>0</u>	<u>1</u>	<u>1</u>
Total	100%	100%	100%
NDH			
Medicare	36%	36%	36%
Blue Cross	15	15	17
Commercial	6	5	5
Medicaid	8	6	5
HMO	33	35	33
Workers Compensation			1
/No Fault	1	1	
Other	<u>2</u>	<u>2</u>	<u>3</u>
Total	100%	100%	100%
AGGREGATE INSTITUTIONS			
Medicare	39%	40%	40%
Blue Cross	14	13	14
Commercial	7	6	7
Medicaid	12	11	11
HMO	26	25	23
Workers Compensation			1
/No Fault	1	1	
Other	<u>2</u>	<u>4</u>	<u>4</u>
Total	100%	100%	100%

Source: HQ Records

Reimbursement Methodologies

A brief synopsis of reimbursement methodologies applicable to the Institutions is as follows:

Medicare. Medicare is the commonly used name for health care reimbursement or payment programs governed by certain provisions of the Federal Social Security Act Amendments of 1965. Medicare Part A covers institutional health services, including hospital, home health, and nursing home care, and Medicare Part B covers certain physicians' services, medical supplies and durable medical equipment. The Medicare + Choice Program, also known as Medicare Part C, enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of risk-based plans. Medicare Part D provides outpatient prescription drug coverage to Medicare beneficiaries.

Medicare is administered by CMS, which is an agency of DHHS. DHHS' rule-making authority is substantial and the rules are extensive and complex. Courts give substantial deference to rules promulgated by DHHS. Non-governmental organizations or agencies (generally insurance companies), known as "intermediaries" or "carriers", contract with CMS to serve as Medicare's fiscal agent in specific states or regions. These intermediaries and carriers determine the appropriateness of and process claims for payment from Medicare to providers in these states or regions.

The Institutions are paid for services provided to the majority of Medicare inpatients under the Federal prospective payment system ("PPS") depending on the patient's diagnosis ("Diagnosis Related Group" or "DRG") without regard to each hospital's actual inpatient operating and capital costs. Under inpatient PPS, payments are based on a standard national amount adjusted, among other factors, for area wage differences. Currently, payments to the Institutions are adjusted for New York City Metropolitan Statistical Area ("MSA") wage levels but, effective October 1, 2007, this adjustment for VBMC and NDH will be paid based on the Bridgeport, CT MSA wage levels while PHC will continue to be paid based on New York City MSA wage levels. The Obligated Group estimates that this change will reduce its Medicare revenues by approximately \$6 million annually. Hospitals also receive payment for cases that exceed DRG-specific cost thresholds and a predetermined amount per discharge for Medicare inpatient-related capital costs. The standardized rates are updated annually (the "update factor") based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the "market basket"). Currently, the update factor equals the percentage increase in the market basket for hospitals that timely submit data to CMS on quality indicators as described below, but from time to time Congress has enacted legislation reducing these updates below the market basket.

PPS methodologies also apply to most inpatient services provided by rehabilitation and long-term care hospitals, to inpatient psychiatric services ("Psychiatric PPS") and to hospital outpatient services ("Outpatient PPS"). Psychiatric PPS is being phased in over a three-year period, commencing January 1, 2005, so that full payment under Psychiatric PPS will begin in the fourth year. Payments for Psychiatric PPS are now made on a per diem basis with adjustments for area wage differences, intensity of service and exceptionally high costs. The prospective payment system for inpatient services provided by rehabilitation and long term care hospitals pays these hospitals on a per case basis, with payments adjusted to reflect the level of care required by each patient, area wage differences and exceptionally high cost cases.

Under Outpatient PPS, most outpatient services are grouped into one of approximately 800 Ambulatory Patient Classifications and paid a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service (*e.g.*, visit, chest x-ray, surgical procedure). The payment for each service is comprised of a payment from the Medicare program and a coinsurance payment of the balance from the beneficiary. A limited number of services not covered by Outpatient PPS are based on fee schedules or other reimbursement methodologies. These services include ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA") introduced a prescription drug benefit under Medicare (Medicare Part D), created incentives for health care insurance companies to offer Medicare managed care plans known as Medicare Advantage and provided for a number of hospital-related reimbursement changes. Included among these reimbursement changes were standardization of payment for rural and urban hospitals, increases in Medicare disproportionate share payments (payments for providing care to a high level of Medicaid and disabled patients) for hospitals not located in urban centers; a decrease in the labor-related share of the wage index unless the decrease will result in lower payments, reclassification of MSAs (thereby revising wage indices across the country) and the introduction of a new technology add-on under certain

circumstances. The MMA also implemented a number of quality provisions. For 2005 through 2007, hospitals will receive their full market basket update only if they submit data to CMS on ten distinct hospital quality measures. If they do not submit the data, they will receive the update of market basket minus 0.4%. The Institutions are enrolled in this program, are reporting the necessary data and have received a full market basket update in 2005 and 2006.

Medicaid. Medicaid is designed to pay providers for care given to the financially indigent and others who receive Federal aid. Unlike Medicare, which is exclusively a Federal program, Medicaid is a partially Federally-funded state program. States obtain Federal funds for their Medicaid programs by obtaining the approval of CMS for a "state plan" which conforms to Title XIX of the Social Security Act and its implementing regulations. Within broad national guidelines which the Federal government provides, each of the states establishes its own eligibility standards, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state. After its state plan is approved, a state is entitled to Federal matching funds for Medicaid expenditures. The current Federal share is approximately 50% in New York State, and the State and the social services district of the patient's residence share the remainder of the costs.

States must make additional payments to qualified hospitals that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients. States may impose nominal deductibles, coinsurance, or co-payments on some Medicaid recipients for certain services. Emergency services and family planning services must be exempt from such co-payments. Certain Medicaid recipients must be excluded from this cost sharing: pregnant women, children under age 18, hospital or nursing home patients who are expected to contribute most of their income to institutional care and categorically needy persons enrolled in certain prepaid health programs, such as HMOs.

Payment for services rendered to Medicaid, workers' compensation and no-fault patients continues to employ a per discharge reimbursement methodology similar to PPS. The case payment rate consists of 55% of the total payment per case based on a group average and 45% of the total payment per case based on a hospital specific rate. Psychiatry, rehabilitation medicine and, when certain conditions are met, AIDS services are exempt services and are reimbursed on a per diem methodology. Payment rates are adjusted annually by applying an inflation factor to each hospital's historical operating cost base, less applicable penalties. Capital costs, including interest and principal or depreciation and amortization of financing expenses, but excluding certain Medicaid capital costs, are considered separately and in effect are passed through in reimbursement rates.

Pursuant to the New York Health Care Reform Act of 1996 ("NYHCRA"), Blue Cross plans, commercial carriers, self-insured plans and HMOs have been able to negotiate rates with hospitals. NYHCRA's current expiration date is March 31, 2008.

Under NYHCRA, mechanisms are established for the financing of public goods consisting of indigent care, health care initiatives and graduate medical education. Third party payers are encouraged through fiscal incentives to make payments directly to public good pools although they have the choice of paying providers directly on an encounter basis. NYHCRA specifies the distribution from the public good pools. The Indigent Care Pool is funded through an assessment charged to general hospitals and payments from Medicaid and other third party payers and other payers to reflect the need for financing losses resulting from bad debts and the cost of charity care. The assessment against a hospital is related to actual non-Medicaid and other third party payers inpatient revenues received by a hospital. Amounts received from the pool are determined by the hospital's bad debt and charity care needs as they relate to the total statewide bad debt and charity care needs. The Graduate Medical Education pools are funded and distributed on a regional basis based on receipts for each calendar year. Health care initiatives pay for special projects, particularly expansion of coverage of special need categories, including children.

Managed Care

Medicare Managed Care. Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. To this end, Medicare has increased the per capita reimbursement to payers, making this line of business more appealing to offer. Managed care products for the Medicare population are typically offered by commercial insurers and HMOs.

Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional Medicare fee-for-service system at any time. Enrollees have their health care managed and paid for by the applicable insurer, HMO or similar entity (the "managed care plan"). The Medicare program pays the plan a monthly per beneficiary amount for each Medicare enrollee; the payment amount generally includes either a per

diem or DRG payment, plus a risk sharing arrangement. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan and its participating hospitals, physicians and other providers seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial pressures are expected to contribute to reduced per patient revenues for these patients.

There has been minimal enrollment in Medicare managed care products in HQ's service area. Wellcare of New York, operated by Wellcare Health Plans, Inc. ("Wellcare"), has been enrolling members in Dutchess County since 2005. HQ has contracted with several plans including MVP Health Plan, Inc. ("MVP"), and Empire Blue Cross, an independently operated licensee of the Blue Cross Blue Shield Association ("Empire Blue Cross"), who began marketing this product in the HQ service area in 2007.

In 2006 Medicare managed care represented approximately 0.5% of HQ's total inpatient discharges.

Medicaid Managed Care. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid participants in managed care plans. Experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such plans. Enrollment of Medicaid patients in managed care plans, payments to managed care plans for care rendered to these patients, the financial risk assumed by the managed care plan and the resulting and potential financial and other risks to HQ are similar to those for Medicare managed care programs.

For the last several years, Wellcare had been the only Medicaid managed care plan with members in Dutchess and Ulster Counties, with CarePlus Health Plans being the only active plan in Putnam County. More recently MVP, Hudson Health Plan, GHI HMO Select, a subsidiary of Group Health Inc. ("GHI"), and Fidelis Care have begun offering Medicaid managed care plans in Dutchess and Ulster Counties. GHI also offers its plan in Putnam County.

As a result of the State's efforts and the increasing availability of Medicaid managed care plans, many eligible participants have enrolled in these plans, and membership is increasing quickly. The Dutchess and Ulster County Departments of Social Services are requiring mandatory participation in managed care plans for all Medicaid recipients enrolling or recertifying as of April 2007, unless they fall into one of several exempt categories. Putnam County will also move to mandatory participation later in the year.

The following table sets forth the number of Medicaid participants eligible to enroll in a managed care plan, the number actually enrolled and the penetration rate, as of January 2007 in Dutchess, Putnam and Ulster Counties.

<u>County</u>	<u>Eligible</u>	<u>Enrolled</u>	<u>Penetration</u>
Dutchess	14,960	7,086	47.4%
Putnam	2,264	604	26.7%
Ulster	13,678	6,199	44.7%

Source: New York State Department of Health Monthly Managed Care Reports.

While the ability to negotiate reimbursement rates often results in payments higher than those of traditional Medicaid, the increased reimbursement is offset by increases in administrative costs to meet the notification, authorization, and concurrent and retrospective review requirements of the payer. In 2006 Medicaid managed care represented approximately 4.1% of HQ's total discharges.

Traditional Managed Care and Commercial Insurance

Payments to hospitals on behalf of subscribers of HMOs and Preferred Provider Organizations ("PPOs") are generally based on contracts between the hospital and the HMO or PPO. These contracts provide for various reimbursement methodologies including per diem rates, per case rates and discounts from established charges for inpatient services. Outpatient reimbursement methodologies include per visit or per procedure rates, discounts from established charges, and payment based on the Medicare Physician Fee Schedule.

There are currently six major commercial HMOs operating in Dutchess, Putnam, and Ulster Counties: MVP; GHI; Oxford Health Plans (NY), Inc. ("Oxford"); Empire Blue Cross; Aetna Health, Inc. ("Aetna"); and

Capital District Physicians Health Plan ("CDPHP"). As of December 31, 2005, the most current data available, these six payers represented approximately 97% of the total HMO enrollment in the three counties. The following table sets forth the commercial HMO membership of each of these HMOs and of all other HMOs in Dutchess, Putnam and Ulster Counties, the three-county total, and the percentage that each HMO represents of the three-county total as of that date.

Commercial HMO Membership as of December 31, 2005

<u>Health Plan</u>	<u>Dutchess County</u>	<u>Putnam County</u>	<u>Ulster County</u>	<u>Three County Total</u>	<u>% of Total</u>
MVP	39,881	716	29,521	70,118	61.8%
GHI	4,674	563	7,085	12,322	10.8%
Oxford	2,084	3,530	163	5,777	5.1%
Empire Blue Cross	5,556	3,437	2,245	11,238	9.9%
Aetna	2,831	3,618	0	6,449	5.7%
CDPHP	1,766	16	2,639	4,421	3.9%
All Other	<u>2,163</u>	<u>918</u>	<u>116</u>	<u>3,197</u>	<u>2.8%</u>
Total	58,955	12,798	41,769	113,522	100.0%

Source: Hospital Association of New York Center for Managed Care Information, 2005

The above six HMOs accounted for approximately 34% of HQ's 2006 total discharges. Although there are separate contracts between VBMC, PHC and NDH and each health plan, HQ negotiates simultaneously with each plan on the hospitals' behalf to make the most of system benefits. These contracts provide payment for most inpatient services on a per diem basis, with case rates for obstetric, cardiac, and other high cost services. All of HQ's contracts with managed care organizations include provisions to negotiate rates for new technology and new services. Most also include additional reimbursement for implants, blood and blood products, and high cost drugs. To ensure maximum attention by HQ's management during the negotiation process, contract expiration dates between a health plan and the Institutions expire on the same date, but have been staggered as follows:

<u>Health Plan</u>	<u>Contract Expiration Date</u>
CDPHP	July 31, 2007*
Oxford	February 28, 2008
MVP	June 30, 2008
Empire Blue Cross	December 31, 2008
Aetna	June 30, 2009
GHI	August 31, 2009

* Negotiations for a new contract are in process. There has been no operational impact related to the expiration of the contract.

Commercial Insurance

Commercial insurers make direct payments to hospitals or reimburse their subscribers primarily on the basis of contracted rates, commonly discounted from established hospital charges for covered services.

Employees

As of April 30, 2007, HQ employed 3,240 FTEs. Non-union employees who work 36 hours per week receive benefits that include health insurance covering hospitalization, major medical expenses, prescription drugs and dental care, life insurance, a tuition reimbursement program, a defined benefit pension plan for certain employees of VBMC and PHC and a defined contribution plan for other employees. Employees may also participate in a voluntary tax-deferred annuity program.

HQ has collective bargaining agreements with The New York State Nurses Association that represents approximately 702 registered nurses employed at VBMC pursuant to a contract that expires April 30, 2009 and with Local 1199, National Health and Human Service Employees Union, which represents approximately 451 employees at PHC pursuant to a contract that expired May 15, 2007 whose renewal is under negotiation, and approximately 668 employees at VBMC pursuant to a contract that expires September 1, 2010.

Pension Plan

As of December 31, 2006 the fair value of the assets of the VBMC and PHC defined benefit pension plans was \$30.1 million less than the plans' benefit obligations, and the accumulated benefit obligation with respect to the plans was \$73.7 million, an amount that exceeded the assets of the plans by more than the actuarially determined accrued pension cost. HQ recorded an adjustment in 2006 reducing the pension liability by \$5.7 million.

Nursing

As of April 30, 2007, HQ employed 1,179 FTEs on its nursing staff, including registered nurses, licensed practical nurses, nurse supervisors, nurse practitioners, nurse's aides and technicians. Of the nursing staff, 738 FTEs were registered nurses. In 2006, the turnover rate for registered nurses was approximately 12% at VBMC, 11% at PHC and 21% at NDH. As of January 1, 2007, the nursing staff vacancy rate was 3.0% at VBMC, 13.2% at PHC and 4.2 % at NDH.

Licensure and Accreditation

All of the Institutions have received operating certificates from the New York State Department of Health and are accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") for three-year periods, expiring in December 2007 for PHC, June 2008 for NDH, and in March 2009 for VBMC.

Insurance

HQ maintains comprehensive all risk property insurance, general liability and hospital professional liability coverage. The property insurance is purchased from a commercial carrier and is subject to a \$25,000 deductible with various limits. The professional liability coverage is purchased on a claims-made basis from the VBH Insurance Co. captive and commercial carriers. The first layer of coverage is purchased from VBH Insurance and provides for \$500,000 each claim and \$1,000,000 aggregate. The second layer of coverage is provided by Physician Reciprocal Insurer, which is a commercial carrier, with limits of \$1,000,000 each claim and \$5,000,000 aggregate. The third layer is provided by VBH Insurance with limits of \$1,000,000 each claim and \$1,000,000 aggregate. The excess layer is provided by Arch Insurance Company ("Arch"), a commercial carrier, with additional coverage of \$5,000,000 each claim and \$5,000,000 aggregate and with umbrella coverage for numerous types of claims in addition to professional liability. The captive program is funded substantially in accordance with actuarial funding recommendations.

All medical staff members with admitting privileges are required to maintain professional liability insurance coverage from companies licensed in the State in the amounts of \$1,300,000 per occurrence and \$3,900,000 in the aggregate.

General liability coverage is purchased from Arch and includes commercial liability insurance under an umbrella liability policy. Limits are \$1,000,000 per occurrence and \$3,000,000 annual aggregate per hospital location. Additional general liability umbrella coverage is provided through the excess liability coverage mentioned above.

Litigation

HQ has no litigation, including medical malpractice litigation, or proceedings pending or, to its knowledge, threatened against it except: (i) litigation being defended by insurance companies on behalf of HQ the probable recoveries in which and the estimated costs and expenses of defense of which, in the opinion of counsel to HQ for such matters or of the applicable insurance carrier or insurance administrator, will be entirely within HQ's applicable insurance policy limits (subject to applicable deductibles); (ii) litigation, the probable recoveries in which and the estimated costs and expenses of defense of which, in the opinion of counsel to HQ for such matters, will not materially and adversely affect HQ's operations or financial condition; and (iii) litigation, the probable recoveries in which and the estimated costs and expenses of defense of which, after exhaustion of available insurance proceeds, if any, in the opinion of HQ management, will not materially and adversely affect HQ's operations or financial condition.

PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP

The following discussion of risks to holders of the Series 2007 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2007 Bonds, in addition to other risks described throughout this Official Statement.

The revenue and expenses of the members of the Obligated Group are affected by the changing healthcare environment. These changes are a result of efforts by the Federal and state governments, managed care organizations, private insurance companies and business coalitions to reduce and contain healthcare costs, including, but not limited to, the costs of inpatient and outpatient care, physician fees, capital expenditures and the costs of graduate medical education. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the members of the Obligated Group to an extent that cannot be determined at this time.

General

The Series 2007 Bonds are not a debt or liability of the State or any political subdivision thereof, but are special and limited obligations of the Authority payable solely from the Revenues which consist of payments payable by each Member of the Obligated Group, payments by the Obligated Group pursuant to the Series 2007 Obligations, the funds and accounts held by the Trustee pursuant to the Series Resolutions (except the Arbitrage Rebate Fund) and certain investment income thereon. The Authority has no taxing power. No representation or assurance can be made that revenues will be realized from the Obligated Group in amounts sufficient to provide funds for payment of debt service on the Series 2007 Bonds when due and to make other payments necessary to meet the obligations of the Obligated Group. Further, there is no assurance that the revenues of the Obligated Group can be increased sufficiently to match increased costs that may be incurred.

The receipt of future revenues by the Obligated Group is subject to, among other factors, Federal and state regulations and policies affecting the healthcare industry and the policies and practices of managed care providers, private insurers and other third party payors and private purchasers of healthcare services. The effect on each member of the Obligated Group of recently enacted statutes, regulatory changes and future changes in Federal, state and private policies cannot be determined at this time. Loss of established managed care contracts by certain members of the Obligated Group could also adversely affect the future revenues of the Obligated Group.

Future revenues and expenses of the Obligated Group may be affected by events and economic conditions, which may include an inability to control expenses in periods of inflation, as well as other conditions such as demand for healthcare services; the capability of the management of members of the Obligated Group; the receipt of grants and contributions; referring physicians' and self-referred patients' confidence in the members of the Obligated Group; and increased use of contracted discounted payment schedules with HMOs, PPOs and other payors. Other factors which may affect revenues and expenses include: the ability of the Obligated Group to provide services required by patients; the relationship of the Obligated Group with physicians; the success of the Obligated Group's strategic plans; the degree of cooperation among and competition with other hospitals in the Obligated Group's area; changes in levels of private philanthropy; malpractice claims and other litigation; economic and demographic developments in the United States and in the service areas in which facilities of the Obligated Group are located; changes in interest rates that affect the investment results; and changes in rates, costs, third-party payments (including, without limitation, Medicare and Medicaid program reimbursement) and governmental regulations concerning payment. All of the above referred to factors could affect the Institutions' ability to make payments pursuant to the respective Loan Agreements and the Obligated Group's ability to make payments under the Series 2007 Obligations. See "PART 7 – HEALTH QUEST OBLIGATED GROUP" and Appendix B hereto.

Legislative, Regulatory and Contractual Matters Affecting Revenue

The healthcare industry is heavily regulated by the Federal and state governments. A substantial portion of revenue comes from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries, and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In recent years, there have been frequent and significant changes in methods and standards used by government agencies to reimburse and regulate the operation of hospitals. No assurances can be given that further substantial changes will not occur in the future or that payments made under such programs will remain at levels

comparable to the present levels or be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Obligated Group cannot be predicted.

Legislation is periodically introduced in Congress and in the New York Legislature that could result in limitations on the Obligated Group's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the members of the Obligated Group. From time to time, legislative proposals are made at the Federal and state level to engage in broader reform of the healthcare industry, including proposals to promote competition in the healthcare industry, to contain healthcare costs, to provide national health insurance and to impose additional requirements and restrictions on healthcare insurers, providers and other healthcare entities. The effects of future reform efforts on the Obligated Group cannot be predicted.

State Budget

New York State's 2007 – 2008 budget extends NYHCRA through March 31, 2008. NYHCRA created a system of state-imposed assessments and surcharges on various categories of third party payors for healthcare services that fund annual state-operated pools for indigent care, healthcare initiatives, and professional education. Other funding for NYHCRA stems from conversion proceeds generated by the privatization of Empire Blue Cross and revenues from cigarette taxes. See "PART 7 - HEALTH QUEST OBLIGATED GROUP - Reimbursement Methodologies." Members of the Obligated Group receive significant payments from such pools, and no assurances can be given that substantial changes in these programs will not occur or that payments will remain at levels comparable to the present level whether NYHCRA is extended further or allowed to expire.

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the Legislature authorized the creation of a "Commission on Health Care Facilities in the Twenty-First Century" (commonly referred to as the "Berger Commission") charged with studying the State's hospital and nursing home systems and making recommendations for closure, resizing, conversion, consolidation and restructuring. In making recommendations, the Berger Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors as determined by the Commissioner of Health or the Berger Commission. In its final report released on November 28, 2006 (the "Final Report"), the Berger Commission's recommendations targeted nearly 50 hospitals for restructuring and nine hospitals for closure. If and when the recommendations are fully implemented, the Berger Commission anticipates a reduction of approximately 4,200 hospital beds and 3,000 nursing home beds Statewide, while creating home and community-based alternatives to nursing home placement. Federal and State funds are expected to be available to assist, in part, with the costs of implementing the recommendations, assuming that any conditions requisite to such financing are met. In accordance with procedures established in the legislation creating the Berger Commission, the Governor approved the Final Report and the Legislature did not exercise its right provided by those procedures to reject the Final Report in its entirety on or before December 31, 2006. Therefore, the recommendations set forth in the Final Report are to be implemented by the Commissioner of Health, with full implementation scheduled for June 2008. Several lawsuits have been filed, and a temporary restraining order issued, challenging the authority of the Berger Commission, which, if successful, could affect implementation of some or all of the recommendations set forth in the Final Report. None of the members of the Obligated Group or other affiliates of Health Quest were recommended for closure, reconfiguration or merger by the Berger Commission report.

Increased Costs and State-Regulated Reimbursement

In recent years, substantial cutbacks in personnel and other cost-cutting measures have been instituted at hospitals throughout the State. Generally, these cutbacks have been instituted to address the disparity between rising medical costs and reimbursement formulas, including those for Medicaid and other third-party payors. Rising health care costs have resulted from, among other factors, health care costs exceeding inflation, staff shortages, pharmaceutical costs and the highly technical nature of the industry. The Obligated Group has been affected by the impact of such rising costs, and there can be no assurance that the Obligated Group will not be similarly affected by the impact of additional unreimbursed costs in the future.

The State has adopted for Medicaid, workers' compensation and no-fault insurance an inpatient hospital reimbursement system similar to the Medicare system. The financial viability of all health care facilities in the State is dependent, in part, upon, among other things, the ability and willingness of the State Legislature and the State Department of Health to establish reimbursement rates under this hospital reimbursement system sufficient to reimburse the Institutions at appropriate levels to meet their obligations. In recent years, a number of proposals to

further limit or restrict the amounts provided for financing health care have been discussed and a number of related bills have been introduced in the State Legislature. In the future, similar proposals and bills, which could have an adverse impact on health care financing, may be adopted by the State Legislature.

Managed Care and Other Private Initiatives

Currently, the term “managed care” refers to all commercial relationships between payors and providers. The term covers the negotiated arrangement for prices and payment terms that a healthcare provider will accept from a payor on behalf of a covered individual. All prices and terms are carefully articulated in contracts between providers and payors. Prices and terms differ for each hospital and for each payor and, usually, for each product sold by each payor. For example, a payor may sell HMO, PPO, Medicare and Medicaid products to various populations. That payor will then have a unique price established with each individual hospital for every covered service offered for each product sold.

Typical payment methodologies that have been established include severity-adjusted case neutral rates; per diem rates for stays in a Medical/Surgical Unit, Intensive Care Unit, and Cardiac Care Unit; case rates for obstetric deliveries, open heart surgeries and other tertiary level services; discounts from full charges; and set fees for outpatient services. Management believes the Institutions, on a yearly contracting basis, have developed equitable pricing arrangements with most of the payors with which they contract. Some contracts contain provisions for advances and Periodic Interim Payments as well as other terms that are financially acceptable to its hospitals. However, these contracts have finite terms and are subject to renegotiation, and managed care payors are expected to continue to seek ways to reduce the utilization of healthcare services such as through the use of primary care physicians. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which healthcare services are delivered and paid for in the future. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting cash flows. The Obligated Group’s financial condition may be adversely affected by these trends.

Regulatory Reviews and Audits

The Obligated Group, like other health care institutions, is subject to regulatory review, audit and investigation of its governmental reimbursement. Based on the results of such reviews, the Obligated Group may be required to repay previously received reimbursement. One such audit is the Medicare Recovery Audit Contract Initiative. This review calls for a three-year recovery audit demonstration project in states with the highest per capita Medicare expenditure in order to test and ensure the accuracy of Medicare payments. The states under review for this demonstration project include New York, California and Florida. The review began in late 2005. The Obligated Group cannot determine at this time whether the review will result in a material repayment obligation.

An informal industry-wide inquiry was commenced by the New York State Attorney General regarding amounts recognized as reserves, however denominated, on the institutional cost report and/or financial statement of New York’s skilled nursing facilities and hospitals. The Obligated Group has responded to this request. It is too early to determine whether the inquiry will take the form of a formal investigation or otherwise have a material adverse impact on New York hospitals and skilled nursing facilities, including the Obligated Group.

Competition

Payments to the hospital industry have undergone rapid and fundamental change triggered by the deregulation of the acute care hospital reimbursement system and the requirement to negotiate all non-government contracts and prices. This may further increase competitive pressures on acute care hospitals, including the members of the Obligated Group. The Obligated Group faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar healthcare services.

There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Obligated Group will occur.

Management believes that insurers will encourage competition among hospitals and providers on the basis of price, payment terms and quality. Payors have used the threat of patient steerage, restrictive physician contracting, carve outs, and network exclusion to drive provider prices lower. This may lead to increased

competition among hospitals based on price where insurance companies attempt to steer patients to the hospitals that have the most favorable contracts.

Workforce Shortages

Workforce shortages are affecting healthcare organizations at the local, regional and national level, in part due to the fact that a smaller number of students are considering careers in nursing and the allied health professions than in the past. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Obligated Group's ability to control costs and its financial performance.

In order to recruit and retain professional and nursing staff to strengthen clinical services, the Obligated Group has offered, and in the future intends to offer, competitive salaries to both newly recruited individuals and existing staff. In some years such salaries have increased, and in the future may continue to increase, more than the rate of inflation. Such increases also have exceeded, and in the future may exceed, increases in the Obligated Group's rates of payment.

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Obligated Group.

Federal "Fraud and Abuse" Laws and Regulations

The Federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, in return for or to induce business that may be paid for, in whole or in part, under a Federal healthcare program including, but not limited to, the Medicare or Medicaid programs. Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of \$25,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of the Inspector General ("OIG"), the enforcement arm of DHHS, can also initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$50,000 for each act in violation of the Anti-Kickback Law or damages equal to three times the amount of prohibited remuneration may be imposed. The scope of prohibited payments in the Anti-Kickback Law is broad and includes many economic arrangements involving hospitals, physicians and other healthcare providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict due, in part, to government discretion in pursuing enforcement and the lack of significant case law.

Federal False Claims Act

The criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the Federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The civil False Claims Act ("civil FCA"), one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any Federal agency through actions taken by the United States Attorney's Office or the Department of Justice. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. Civil FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been

submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil FCA. Other civil FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance and anti-kickback or self-referral violations are subject to prosecutions as false claims. If a provider is faced with a civil FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates. Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

Management of the Obligated Group is not aware of any violations by members of the Obligated Group of the FCA. However, there can be no assurances that members of the Obligated Group will not be charged with, or found to have violated, the FCA and, if so, that any fines or other penalties would not have a material adverse effect on their operations or the operations of the Obligated Group.

Limitations on Certain Arrangements Imposed by Federal Ethics in Patient Referrals Act

The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits the referral of Medicare and Medicaid patients for certain “designated health services” to entities with which the referring physician (or an immediate family member of such physician) has a financial relationship. The statute also prohibits the entity furnishing the “designated health services” from billing the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services and supplies (not including nuclear medicine), durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), orthotic and prosthetic devices and supplies, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services (not including lithotripsy).

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare 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 healthcare provider.

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as “Stark”) is defined as either an ownership or investment interest in the entity or a compensation arrangement between the physician (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services. Many ordinary business practices and economically desirable arrangements with physicians would constitute “financial relationships” within the meaning of Stark.

The Stark provisions provide certain exceptions to these restrictions, but these exceptions are narrow and an arrangement must fully comply with an exception. If the relationship (which would include compensation arrangements such as employment and other professional services relationships, and ownership or investment interests) between a physician/practitioner and the hospital cannot be made to fit within the exceptions, the hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship.

Violations of Stark can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the False Claims Act. Enforcement actions for any such violations could have a material adverse impact on the financial condition of a health care provider, including the Obligated Group.

Regulation of Patient Transfer

Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”) in response to concerns regarding inappropriate hospital transfers of emergency patients

based on the patient's inability to pay for the services provided. EMTALA requires hospitals with emergency rooms, including the Institutions, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties of up to \$50,000 per violation. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Civil Monetary Penalty Act

The Federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other Federal health care programs. A hospital that participates in arrangements known as "gain sharing" by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

Exclusions from Medicare or Medicaid Participation

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who 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, felony 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. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a Federal, state or local government program.

Enforcement Activity

Enforcement activity against health care providers has increased, and enforcement authorities are adopting more aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals will be subject to an investigation, audit or inquiry regarding billing practices or false claims. Due to the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in enforcement action against the Obligated Group.

Enforcement authorities are sometimes 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 or similar payments or by threatening the possibility of a criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Obligated Group could experience materially adverse settlement costs, as well as materially adverse costs associated with the implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Obligated Group, regardless of the outcome, and could have material adverse consequences on the financial condition of the Obligated Group.

Increased Enforcement Affecting Academic Research

In addition to increasing enforcement of laws governing payment and reimbursement, the Federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at

hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring Federally funded research. In addition, the National Institutes of Health (“NIH”) and the United States Food and Drug Administration (“FDA”) significantly increased the number of facility inspections that these agencies perform. The FDA also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG, in its recent “Work Plans” has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the NIH and agencies of the U.S. Public Health Service. The Obligated Group receives payments for health care items and services under many of these grants and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies’ enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Obligated Group to sanctions as well as repayment obligations.

Department of Health Regulations

The members of the Obligated Group are subject to regulations of the New York State Department of Health. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Obligated Group’s ability to add services or beds and to modify existing services materially is also subject to Department of Health review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Obligated Group’s ability to make changes to its service offerings and respond to changes in the environment may be limited.

Other Governmental Regulation

The members of the Obligated Group are subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board, professional and industrial associations of staff and employees, applicable professional review organizations, JCAHO, the Environmental Protection Agency, the Internal Revenue Service (“IRS”) and other Federal, state and local governmental agencies, and by the various Federal, state and local agencies created by the National Health Planning and Resources Development Act and the Occupational Safety Health Act.

Renewal and continuation 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 activity or response by the Obligated Group. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Obligated Group’s scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

OIG Compliance Guidelines

In 1998, the OIG published Compliance Program Guidance for the hospital industry which it supplemented in 2005 with the publication of the Supplemental Compliance Program Guidance. These issuances (collectively, the “Guidances”) provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable Federal and state law and the program requirements of Federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. However, the presence of a compliance program is not an assurance that healthcare providers, such as the members of the Obligated Group, will not be investigated by one or more Federal or state agencies that enforce healthcare fraud and abuse laws or that they will not be required to make repayments to various healthcare insurers (including the Medicare and/or Medicaid programs).

The Federal Deficit Reduction Act of 2005 added specific requirements to be effective January 1, 2007. Those requirements include creating a Medicaid Compliance Plan, as well as educating staff, agents and contractors about state and Federal anti-fraud and abuse laws. Having a Medicaid Compliance Plan is a prerequisite to entitlement to receive Medicaid payments.

Not-for-Profit Status

As a non-profit tax-exempt organization, each member of the Obligated Group is subject to Federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the members of the Obligated Group conduct large-scale complex business transactions and are significant employers in their geographic areas. 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 health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for non-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 in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. These challenges and questions have come 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.

Internal Revenue Code Limitations

The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of healthcare facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Obligated Group's ability to finance its future capital needs and could have other adverse effects on the Obligated Group that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As tax-exempt organizations, the members of the Obligated Group are limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities, including members of the Obligated Group, and has issued detailed hospital audit guidelines 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. The IRS has also commenced intensive audits of select healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the members of the Obligated Group or assessment of significant tax liability could have a material adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Series 2007A Bonds and the Series 2007B Bonds.

Revocation of the tax-exempt status of the members of the Obligated Group under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to Federal income tax retroactively to the date of the issuance of the Series 2007A Bonds and the Series 2007B Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt healthcare providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the members of the Obligated Group.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without

reasonable cause, knowing it will involve “excess benefit.” “Excess benefit transactions” include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. “Disqualified persons” include “insiders” such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization's board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

The imposition of penalty excise tax in lieu of revocation based upon a finding that an exempt organization engaged in an excess benefit transaction is likely to result in negative publicity and other consequences that could have a material adverse effect on the operations, property, or assets of the organization.

Tax Audits

Taxing authorities have recently been conducting tax audits on non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. None of the Obligated Group members are currently under audit.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by Federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm arising out of allegedly anti-competitive behavior. Common areas of potential liability include joint action among providers with respect to payor contracting, medical staff credentialing, and issues relating to market share. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, the members of the Obligated Group, from time to time, may be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources is dependent on a myriad of factors that may change from time to time. If any provider with whom the Obligated Group is or becomes affiliated is determined to have violated the antitrust laws, the members of the Obligated Group may be subject to liability as a joint actor.

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the Federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive advantage in expanding into ancillary healthcare businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved. There can be no assurance that a third party reviewing the activities of the Obligated Group would find such activities to be in full compliance with the antitrust laws.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) established 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, securities, premiums, credits, property 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 the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including:

- standardized electronic transaction formats and code sets to allow standardized electronic transmission of healthcare claims and information;
- unique identifiers to support these standard transmissions;
- comprehensive privacy standards establishing a minimum threshold for determining when to allow access to or disclosure of personal health information; and
- security mechanisms to guard against unauthorized access to health information.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 or imprisonment if the information was obtained or used with the intent to sell, transfer, or use the information for commercial advantage, personal gain or malicious harm.

The Obligated Group has implemented HIPAA training and ongoing monitoring. Compliance with HIPAA has required changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in monitoring of ongoing compliance with the various regulations. The financial cost of compliance with the “administrative simplification” regulations is substantial. Failure to achieve compliance with the transactions and code set standards could result in substantial payment delays, which could, in turn, have significant negative cash flow implications for the Obligated Group.

Environmental Matters

Healthcare providers are subject to a wide variety of Federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As owners and operators of properties and facilities, the members of the Obligated Group may be subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated off, its property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental 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; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

Affiliation, Merger, Acquisition and Divestiture

As part of their ongoing planning and property management functions, the members of the Obligated Group review the use, compatibility and financial viability of many of their operations, and from time to time, may pursue changes in the use, or disposition, of their facilities. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the members of the Obligated Group, are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the members of the Obligated Group may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

Professional Liability Claims and General Liability Insurance

Although the number of malpractice lawsuits filed against physicians and hospitals has stabilized in recent years, the dollar amounts of patient damage recoveries still remain potentially significant. A number of insurance carriers have withdrawn from this segment of the insurance market citing underwriting losses, and premiums have increased sharply in the last several years. The effect of these developments has been to significantly increase the operating costs of hospitals, including the Obligated Group.

The Obligated Group currently carries malpractice, directors' and officers' liability and general liability insurance, which management of the Obligated Group considers adequate, but no assurance can be given that the Obligated Group will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Obligated Group or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a discussion of the insurance coverage of the Obligated Group, see "PART 7 - HEALTH QUEST OBLIGATED GROUP - Insurance" herein.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2007 Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Obligated Group's capabilities and the financial conditions and results of operations of the Obligated Group.

Enforceability of Lien on Gross Receipts

The Loan Agreements provide that the Obligated Group shall make payments to the Trustee sufficient to pay the Series 2007 Bonds and the interest thereon as the same become due. The obligation of the Obligated Group to make such payments is secured by the Series 2007 Obligations, which, in turn, are secured by, among other things, a security interest granted to the Master Trustee in the Gross Receipts of the Obligated Group. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS – Obligations under the Master Indenture – Security Interest in Gross Receipts." The lien on Gross Receipts may become subordinate to certain Permitted Liens under the Master Indenture. Gross Receipts paid by the members of the Obligated Group to other parties in the ordinary course might no longer be subject to the lien on the Master Indenture and might therefore be unavailable to the Master 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 institution 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, the Master 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 to meet expenses of the members of the Obligated Group before paying debt service on the Series 2007 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 Master Trustee by a member of the Obligated Group under certain circumstances. If any required payment is not made when due, the members of the Obligated Group must transfer or pay over immediately to the Master 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 a member of the Obligated Group be transferred to the Master 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 2007 Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Series 2007 Bonds. See "PART 1 – INTRODUCTION – Security for the 2007 Bonds."

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 security interest granted by a member and 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 or granting of security 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 member of 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 2007 Obligations) and may include nonpayment related defaults under documents such as the Loan Agreements, the Resolution or the Mortgages. The Master Indenture provides that upon an “Event of Default” thereunder, the Master Trustee may in its discretion, declare the principal of all (but not less than 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, and if applicable, subject to the terms of the Intercreditor Agreement. Consequently, upon the occurrence of an “Event of Default” under the Resolution with respect to the Series 2007 Bonds and an acceleration of the maturity of the Series 2007 Bonds, the Master Trustee may not be required to accelerate all Obligations Outstanding under the Master Indenture. See Appendix E hereto, “Summary of Certain Provisions of the Master Indenture and the 2007 Supplemental Indentures.”

Intercreditor Agreement

Pursuant to the provisions of the Intercreditor Agreement, the exercise of certain rights and remedies of the Authority and Trustee for the Series 2007 Bonds may be restricted or limited for certain periods. No assurance can be given that amounts realized by the Authority or the Trustee upon the exercise of certain remedies in accordance with the Intercreditor Agreement will be sufficient to pay the principal of and the interest on the Series 2007 Bonds as the same shall become due and payable. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Other Indebtedness and Intercreditor Agreement”.

Bankruptcy

The Series 2007 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2007 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreements, the Mortgages and 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 Loan Agreements, the Mortgages and 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 2007 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.

The rights and remedies of the holders of the Series 2007 Bonds are subject to various provisions of Title 11 of the United States Code (the “Bankruptcy Code”). If the Obligated Group were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Obligated Group and its property, including the commencement of foreclosure proceedings under the Mortgages. The Obligated Group would not be permitted or required to make payments of principal or interest under the Loan Agreements and the Obligations, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2007 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Obligated Group, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Master Trustee's continuing security interest in the Obligated Group's Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Master Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Obligated Group under the Obligations, the Master Indenture, the Mortgages, and the Loan Agreements, and may adversely affect the Master Trustee's or the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

The Obligated Group could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against the Obligated Group provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Resolution and the Master Indenture, as amended and supplemented, permit the members of the Obligated Group to incur additional indebtedness, including Additional Bonds. Such indebtedness would increase the Obligated Group's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2007 Bonds.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Obligated Group, or the market value of the Series 2007 Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.
- Increased unemployment or other economic conditions in the service area of the Obligated Group, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
- Efforts by insurers and governmental agencies to limit the cost of hospital and physician 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 attempts by third-party payors to control or restrict the operations of certain health care facilities.
- Reduced demand for the services of the Obligated Group that might result from decreases in population or innovations in technology.
- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Obligated Group, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Obligated Group's facilities.
- Adoption of a so-called "flat" Federal income tax, a reduction in the marginal rates of Federal income taxation or replacement of the Federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2007 Bonds and the level of charitable donations to the Obligated Group.
- Increases in cost and limitations in the availability of any insurance, such as fire, and/or business interruption, automobile and comprehensive general liability, that HQ generally carries;
- Developments affecting the Federal or state tax-exempt status of not-for-profit hospitals or of securities such as the Series 2007 Bonds; and

PART 9 - THE AUTHORITY

Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State University of New York, The City University of New York and Boards of Cooperative Educational Services ("BOCES"), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given the authority, among other things, to issue and sell negotiable bonds

and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the "Consolidation Act") succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the "Agency") and the Facilities Development Corporation (the "Corporation"), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other 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, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)

At June 30, 2007, the Authority had approximately \$33.6 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority's bonds and notes include both special obligations and general obligations of the Authority. The Authority's special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority's general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However, the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at June 30, 2007 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	\$1,975,416,000	\$752,200,000	\$ 0	\$752,200,000
State University of New York Educational and Athletic Facilities.....	11,351,092,999	4,656,433,960	0	4,656,433,960
Upstate Community Colleges of the State University of New York	1,366,010,000	575,980,000	0	575,980,000
Senior Colleges of the City University of New York.....	8,609,563,549	3,146,002,270	0	3,146,002,270
Community Colleges of the City University of New York.....	2,194,081,563	549,157,730	0	549,157,730
BOCES and School Districts	1,569,416,208	1,180,200,000	0	1,180,200,000
Judicial Facilities	2,161,277,717	745,382,717	0	745,382,717
New York State Departments of Health and Education and Other	3,182,915,000	2,001,240,000	0	1,988,005,000
Mental Health Services Facilities	5,682,130,000	3,720,620,000	0	3,719,825,100
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program.....	913,895,000	829,850,000	0	829,890,000
Totals Public Programs.....	<u>\$39,779,273,036</u>	<u>\$18,141,076,677</u>	<u>0</u>	<u>\$18,141,076,677</u>
Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	\$14,453,076,020	\$6,877,178,039	\$151,373,000	\$7,028,551,039
Voluntary Non-Profit Hospitals	12,032,779,309	7,404,650,000	0	7,404,650,000
Facilities for the Aged.....	1,960,585,000	1,065,765,000	0	1,065,765,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs.....	<u>\$28,541,440,329</u>	<u>\$15,347,593,039</u>	<u>\$151,373,000</u>	<u>\$15,498,966,039</u>
Grand Totals Bonds and Notes	<u>\$68,320,713,365</u>	<u>\$33,488,669,716</u>	<u>\$151,373,000</u>	<u>\$33,640,042,716</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At June 30, 2007, the Agency had approximately \$632 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency’s bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at June 30, 2007 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities.....	\$3,817,230,725	0
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program.....	\$ 226,230,000	3,930,000
Insured Mortgage Programs	6,625,079,927	592,999,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	34,635,000
Total Non-Public Programs	9,265,549,927	631,564,927
Total MCFFA Outstanding Debt.....	13,082,780,652	631,564,927

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. 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:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller’s responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen’s and Firemen’s Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer 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 is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of

the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. 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, 2007 and by law he continues to serve until a successor shall be chosen and qualified.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expires on March 31, 2008.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority by the Governor on June 23, 2006. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980's. Mr. Ruder is Vice Chairman of the New York State Board of Science, Technology and Academic Research (NYSTAR), and also serves on the board of the Adirondack Council, the Scarsdale United Way, the New York Metro Chapter of the Young Presidents' Organization and PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His current term expires on March 31, 2009.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. He is a member of the Board of Directors of Natural Health Trends Inc., a public company, where he chairs the Audit Committee. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expires on August 31, 2007.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

ROMAN B. HEDGES, Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges currently serves as the Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means where he was responsible for the preparation of studies of the New York State economy and revenues of local government, tax policy and revenue analyses, and for negotiating revenue and local government legislation for the Assembly. Dr. Hedges was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

KEVIN R. CARLISLE, Averill Park.

Mr. Carlisle was appointed as a Member of the Authority by the Temporary President of the Senate on January 29, 2007. After a career in public housing and business consulting, Mr. Carlisle retired in 2003 as Assistant Commissioner of the state Division of Housing and Community Renewal ("DHCR") and Vice President of the New York State Housing Trust Fund Corporation. He was responsible for capital development programs which financed approximately 4,000 units annually, with a total development cost of \$500 million. He conceived the state's Homes for Working Families Program, which received the 1999 Award for Program Excellence from the National Council of State Housing Finance Agencies. Similarly, Mr. Carlisle implemented the Rural Leveraging Partnership Program, which was cited as a national model by U.S. Rural Housing Services. He also served at DHCR as Director of Underwriting, Deputy Director of the Office of Rural Development, and designed the housing strategy that met the state's off-site commitment to induce the U.S. Army's 10th Mountain Division to locate at Fort Drum. Before he joined DHCR in 1982, Mr. Carlisle was a partner in Barrett Carlisle & Co., a real estate development and consulting firm, and served the City of Troy and the City of Cohoes in economic planning and real estate project management. Mr. Carlisle earned both a Bachelor's degree in Economics and a Master's degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

RICHARD P. MILLS, *Commissioner of Education of the State of New York, Albany; ex-officio.*

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

PAUL E. FRANCIS, *Budget Director for the State of New York, Westchester County; ex-officio.*

Mr. Francis was appointed Director of the Budget on January 1, 2007. As Director of the Budget, Mr. Francis heads the New York State Division of the Budget and serves as the chief fiscal policy advisor to the Governor. Mr. Francis 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, as well as pensions and employee benefits. Mr. Francis also currently serves as a Senior Advisor to the Governor. Prior to his appointment to Director of the Budget and Senior Advisor to the Governor, Mr. Francis served as policy director for Governor Spitzer's gubernatorial campaign and transition team. His private sector experience includes managing partner of the Cedar Street Group, a venture capital firm he founded in 2001; chief financial officer for Priceline.com from its formation in 1997 to 2000; chief financial officer for Ann Taylor stores from 1993 to 1997; and managing director at Merrill Lynch & Co., where he worked from 1986 to 1993. Mr. Francis is a graduate of Yale College and New York University Law School.

RICHARD F. DAINES, M.D., *Commissioner of Health, Albany; ex-officio.*

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke's-Roosevelt Hospital Center since 2002. Before joining St. Luke's-

Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

The principal staff of the Authority is as follows:

DAVID D. BROWN, IV is the Executive Director and chief administrative and operating officer of the Authority. Mr. Brown is responsible for the overall management of the Authority's administration and operations. He previously served as Chief of the Investment Protection Bureau in the Office of the New York State Attorney General, supervising investigations of the mutual fund and insurance industries. From 2000 to 2003, Mr. Brown served as Vice President and Associate General Counsel at Goldman, Sachs & Co., specializing in litigation involving equities, asset management and brokerage businesses. Prior to that, he held the position of Managing Director at Deutsche Bank, where he served as the senior U.S. Litigation Attorney, managing major litigations and customer disputes. From 1994 to 1998, Mr. Brown was Managing Director and Counsel and senior litigation attorney for Bankers Trust Corporation. He holds a Bachelor's degree from Harvard College and a Juris Doctor degree from Harvard Law School.

MICHAEL T. CORRIGAN is the Deputy Executive Director of the Authority, and assists the Executive Director 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's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

PORTIA LEE is the Managing Director of Public Finance. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements. 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. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

JAMES M. GRAY, R.A., is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. He has been with the Authority since 1986, and has held increasingly responsible positions within the Office of Construction, including Director of the State University of New York (SUNY) and Independent Institutions Construction Program. He began his public service career in 1977 in the New York State Office of General Services. He has been a registered architect in New York since 1983. Mr. Gray holds a Bachelor's degree in architecture from the New York Institute of Technology.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, 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 litigation.

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 has obtained the approval of the PACB for the issuance of the Series 2007 Bonds.

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 respecting the Project 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, 2007. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 10 - LEGALITY OF THE SERIES 2007 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2007 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 legislations 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 2007 Bonds.

PART 11 - NEGOTIABLE INSTRUMENTS

The Series 2007 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, in the Series 2007 Bonds.

PART 12 - TAX MATTERS

The Series 2007A Bonds and Series 2007B Bonds

Federal Income Taxes

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007A Bonds and Series 2007B Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007A Bonds and Series 2007B Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2007 Bonds. Pursuant to the Resolution, the Loan Agreements and the Tax Certificate, the Authority and the Institutions have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007A Bonds and Series 2007B Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the Institutions have made certain representations and certifications in the Resolution, the Loan Agreements and the Tax Certificate. Bond Counsel will also rely on the opinion of Iseman, Cunningham, Riester & Hyde, LLP as to all matters concerning the status of the Institutions as organizations described in Section 501(c)(3) of the Code and exempt from Federal income tax under Section 501(a) of the Code. Bond Counsel will not independently verify the accuracy of those representations and certifications or that opinion.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the Authority and the Institutions described above, interest on the Series 2007A Bonds and Series 2007B Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007A Bonds and Series 2007B Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Bond Counsel is also of the opinion that, by virtue of the Act, interest on the Series 2007 Bonds is exempt from personal income taxation imposed by the State or any political subdivision thereof, including The City of New York and the City of Yonkers. Bond counsel expresses no opinion as to other state or local tax consequences arising with respect to the Series 2007 Bonds nor as to the taxability of the Series 2007 Bonds or the income therefrom under the laws of any state other than New York.

Original Issue Discount

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2007A Bonds maturing July 1, 2012 through July 1, 2015, inclusive, and on July 1, 2017 and July 1, 2030 and the Series 2007B Bonds maturing July 1, 2037; (collectively the "Discount Series 2007A and B Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Series 2007A and B Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2007A Bonds and Series 2007B Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Series 2007A and B Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Series 2007A and B Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Series 2007A and B Bonds.

Original Issue Premium

The Series 2007A Bonds maturing on July 1, 2008 through July 1, 2010, inclusive, and on July 1, 2027 and the Series 2007B Bonds maturing on July 1, 2008 through July 1, 2017, inclusive, and on July 1, 2027 (collectively,

the “Series 2007A and Series 2007B Premium Bonds”) are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Series 2007A or Series 2007B Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Series 2007A or Series 2007B Premium Bond based on the purchaser’s yield to maturity (or, in the case of Series 2007A or Series 2007B Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Series 2007A or Series 2007B Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser’s adjusted basis in such Series 2007A or Series 2007B Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2007 Bonds. Owners of the Series 2007A and Series 2007B Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2007A Bonds and Series 2007B Bonds may result in other Federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2007A Bonds and Series 2007B Bonds.

Interest paid on tax-exempt obligations such as the Series 2007A Bonds and Series 2007B Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2007 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described under the caption “Tax Matters”. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2007A Bonds and Series 2007B Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the Federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2007A Bonds and Series 2007B Bonds for Federal or state income tax purposes, and thus on the value or marketability of the Series 2007A Bonds and Series 2007B Bonds. This could result from changes to Federal or state income tax rates, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2007A Bonds and Series 2007B Bonds from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Series 2007A Bonds and Series 2007B Bonds may occur. Prospective purchasers of the Series 2007A Bonds and Series 2007B Bonds should consult their own tax advisers regarding such matters.

On May 21, 2007, the U.S. Supreme Court agreed to hear Davis v. Kentucky Dep’t Of Revenue of The Finance and Admin. Cabinet, 197 S.W. 3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky’s providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of New York currently result in such differing treatment, by exempting interest on obligations of New York and its subdivisions and instrumentalities while taxing the interest on obligations issued by other states or their subdivisions or instrumentalities.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2007A Bonds and Series 2007B Bonds may affect the tax status of interest on the Series

2007A Bonds and Series 2007B Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2007A Bonds and Series 2007B Bonds, or the interest thereon, if any action is taken with respect to the Series 2007A Bonds and Series 2007B Bonds or the proceeds thereof upon the advice or approval of other counsel.

The Series 2007C Bonds (Federally Taxable)

The following is a summary of certain anticipated United States Federal income tax consequences of the purchase, ownership and disposition of the Series 2007C Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2007C Bonds held as capital assets and does not purport to address all aspects of Federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the Federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Bonds as a hedge against currency risks or as a position in a “straddle” for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the Series 2007C Bonds should consult their own tax advisors in determining the Federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2007C Bonds.

The advice set forth in this section was not intended or written by Bond Counsel to be used and cannot be used by an owner of the Series 2007C Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 2007C Bonds. The advice set forth herein is written to support the promotion or marketing of the Series 2007C Bonds. Each owner of the Series 2007C Bonds should seek advice based on its particular circumstances from an independent tax advisor.

Generally

In the opinion of Nixon Peabody LLP, Bond Counsel, interest on the Series 2007C Bonds is not excluded from gross income for Federal income tax purposes and so will be fully subject to Federal income taxation. Purchasers other than those who purchase Series 2007C Bonds in the initial offering at their principal amounts will be subject to Federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such bonds. In general, interest paid on the Series 2007C Bonds and recovery of accrued original issue and market discount, if any, will be treated as ordinary income to a bondholder and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Market Discount

Any owner who purchases a Series 2007C Bond at a price which includes market discount in excess of a prescribed de minimis amount (*i.e.*, at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2007C Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner of a Series 2007C Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such Series 2007C Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Series 2007C Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner’s gross income for the taxable year with respect to such Series 2007C Bond. The amount of such net interest expense deferred in a taxable year may not exceed the

amount of market discount accrued on the Series 2007C Bond for the days during the taxable year on which the owner held the Series 2007C Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2007C Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium

A purchaser of a Series 2007C Bond who purchases such Series 2007C Bond at a cost greater than its then principal amount will have amortizable bond premium. If the holder elects to amortize the premium under Section 171 of the Code (which election will apply to all bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any Series 2007C Bonds who acquire such Bonds at a premium should consult with their own tax advisors with respect to the determination and treatment of such premium for Federal income tax purposes and with respect to state and local tax consequences of owning such Series 2007C Bonds.

Sale or Redemption of Series 2007C Bonds

A bondowner's tax basis for a Series 2007C Bond is the price such owner pays for the Series 2007C Bond plus the amount of any market discount previously included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2007C Bond, measured by the difference between the amount realized and the Series 2007C Bond basis as so adjusted, will generally give rise to capital gain or loss if the Series 2007C Bond is held as a capital asset (except as discussed above under "Market Discount"). The legal defeasance of the Series 2007C Bonds may result in a deemed sale or exchange of such Bonds under certain circumstances; owners of such Bonds should consult their tax advisors as to the Federal income tax consequences of such an event.

Backup Withholding

A bondowner may, under certain circumstances, be subject to "backup withholding" with respect to interest on the Series 2007C Bonds. Currently, the rate of this withholding tax is 28%, although the rate is scheduled to be reduced over the next few years. This withholding generally applies if the owner of a Series 2007C Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Series 2007C Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2007C Bonds will be reported to the bondowners and to the IRS.

Nonresident Bondowners

Under the Code, interest with respect to Series 2007C Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United States withholding tax (or backup withholding) if the Authority (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Series 2007C Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with

a United States trade or business conducted by a Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA

The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2007C Bonds.

State Taxes

Bond Counsel is also of the opinion that interest on the 2007 Series C Bonds is exempt from personal income taxes of the State and its political subdivisions, including The City of New York and the City of Yonkers.

In all events, all investors should consult their own tax advisors in determining the Federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Series 2007C Bonds.

PART 13 - STATE NOT LIABLE ON THE SERIES 2007 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 2007 Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 14 - 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 15 - VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date their delivery, a portion of the proceeds of the Series 2007A Bonds will be used to purchase United States Treasury securities to be held in trust by the trustee for the Prior Bonds to provide for payment of the principal of and interest on the Prior Bonds until their call date of April 1, 2010 when the Prior Bonds then outstanding will be redeemed at a redemption price of 101%. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of VBMC relating to (a) the computation of anticipated receipts of principal and interest on the United States Treasury securities to pay the regularly scheduled debt service on such Prior Bonds until their call date or maturity date and to redeem such Prior Bonds on their call date or maturity date, and (b) the computation of yields on the Series 2007A Bonds and the United States Treasury securities, will be verified by Causey, Demgen & Moore, Inc., certified public accountants (the “Verifier”). Such computations are based solely upon assumptions and information supplied by or on behalf of VBMC. The Verifier has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, the Verifier has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

In the event that the securities and amounts held by the Trustee are restructured at any time prior to the redemption of the Prior Bonds, the Letter of Instructions requires that the Verifier, or its successor or assigns, will provide a new mathematical report containing the information set forth above with respect to any such restructuring.

PART 16 - RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P"), are expected to assign their ratings of "Aaa" and "AAA", respectively, to the Series 2007 Bonds reflecting the issuance of the Policy. Moody's and S&P have also assigned ratings of "A3" and "A", respectively without regard to the issuance of the Policy. Such ratings reflect only the respective views of Moody's and S&P and do not constitute a recommendation to buy, sell or hold the Series 2007 Bonds. Generally, rating agencies base their ratings on information and material furnished by the Authority and the Obligated Group and on investigations, studies and assumptions made by the rating agencies. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from the respective rating agencies at: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, telephone: (212) 553-0300; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone: (212) 438-2124. There is no assurance that any rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such revision or withdrawal of such rating may have an effect on the market price of the Series 2007 Bonds.

PART 17 - LEGAL MATTERS

Certain legal matters incidental to the offering of the Series 2007 Bonds by the Authority are subject to the approval of Nixon Peabody LLP, New York, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2007 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the Obligated Group by Iseman, Cunningham, Riester & Hyde, LLP, Albany, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance, offering or delivery of the Series 2007 Bonds or questioning or affecting the validity of the Series 2007 Bonds or the proceedings and authority under which the Series 2007 Bonds are to be issued and offered.

PART 18 - UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2007 Bonds from the Authority at a purchase price of \$69,097,908.95 (reflecting an underwriters' discount of \$542,212.50 and a net original issue premium of \$305,121.45), and to make a public offering of the Series 2007 Bonds at prices that are not in excess of the public offering prices or less than the yields indicated on the cover of this Official Statement. The Underwriters will be obligated to purchase all of such Series 2007 Bonds if any are purchased.

The Series 2007 Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

PART 19 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the SEC, the members of the Obligated Group will undertake, pursuant to the Agreement to Provide Continuing Disclosure dated as of the date of delivery of the Series 2007 Bonds (the "Continuing Disclosure Agreement"), for the benefit of the holders of the Series 2007 Bonds to provide to the Disclosure Dissemination Agent, with a copy to the Authority and the Trustee, on or before one hundred fifty (150) days after the fiscal year of the Obligated Group, commencing with the fiscal year ending December 31, 2007, for filing by the Disclosure Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository (each a "Repository"), and, if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, financial and operating information of the type hereinafter described in this Official Statement as "Annual Financial Information," together with the Obligated Group's audited financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards.

If, and only if, and to the extent that it receives the Annual Financial Information and audited financial statements described above from the Obligated Group, the Disclosure Dissemination Agent will undertake for the benefit of the holders of the Series 2007 Bonds, on behalf of the Authority, to provide such information and financial statements, as promptly as practicable but no later than three (3) days after receipt of the information from the Obligated Group, to each such Repository and, if and when established, to the State Information Depository. In addition, the Disclosure Dissemination Agent has undertaken, for the benefit of the holders of the Series 2007 Bonds, to provide to each such Repository or the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Information Depository, if any, in a timely manner, the Notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission and described below (the "Notices").

The Annual Financial Information means annual information concerning the Obligated Group, consisting of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in "PART 7 - HEALTH QUEST AND THE OBLIGATED GROUP" herein relating to the following: (i) utilization statistics of the type set forth under the heading "Utilization"; (ii) revenue and expense data of the type set forth under the heading "Summary Statements of Operations" to the extent not set forth in the audited financial statements; (iii) data of the type set forth under the heading "Selected Liquidity Indicators"; and (iv) sources of patient service revenue of the type set forth in the table under the heading "Sources of Patient Services Revenue", (2) together with such narrative explanation, as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Obligated Group. To the extent that other entities become members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The Notices include notices of any of the following events with respect to the Series 2007 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status (Federal or State) of the Series 2007 Bonds; (7) modifications to the rights of holders of the Series 2007 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2007 Bonds; (11) rating changes; and (12) failure to provide the Annual Financial Information as required by the Continuing Disclosure Agreement.

The sole and exclusive remedy for breach or default by the Obligated Group or the Disclosure Dissemination Agent under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of the Obligated Group and/or the Disclosure Dissemination Agent, and no person, including any holder of the Series 2007 Bonds, may recover monetary damages thereunder under any circumstances. The Disclosure Dissemination Agent or the Obligated Group may be compelled to comply with their obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required under the Continuing Disclosure Agreement, by an owner of Outstanding Series 2007 Bonds or by the Trustee on behalf of the owners of Outstanding Series 2007 Bonds, or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the owners of Outstanding Series 2007 Bonds; provided, however, that the Trustee shall not be required to take any enforcement action challenging the adequacy of the information provided except at the direction of the owners of not less than 25% in aggregate principal amount of the Series 2007 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution or the Loan Agreements. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without the consent of the holders of the Series 2007 Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement are on file at the principal office of the Authority.

PART 20 - MISCELLANEOUS

References in this Official Statement to the Act, the Revenue Bond Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages, the Intercreditor Agreement, the Master Indenture, the 2007 Supplemental Indentures and the Series 2007 Obligations do not purport to be complete. Refer to the Act, the Revenue Bond Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages, the Master Indenture, the 2007 Supplemental Indentures, the Intercreditor Agreement and the Series 2007 Obligations for full and complete details of their provisions. Copies of the Revenue Bond Resolution, the Series Resolutions, the Loan Agreements, the 2007 Mortgages, the Master Indenture, 2007 Supplemental Indentures, the Intercreditor Agreement and the Series 2007 Obligations are on file with the Authority and the Trustee.

The members of the Obligated Group pursuant to the Master Indenture have agreed to furnish, or cause to be furnished, no later than sixty (60) days subsequent to the last day of each of the first three quarters in each fiscal year to the Disclosure Dissemination Agent, each Bondholder who has so requested, and certain other parties, the following information: (a) the unaudited combined financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, and as of the end of the prior Fiscal Year, the statement of operations, changes in net assets and cash flows for the quarter and for the year-to-date and the comparable prior year periods; (b) utilization statistics of each Member of the Obligated Group for such quarter, for the year-to-date and for the applicable prior year periods, including certified beds, aggregate discharges, patient days, average length of stay, average percentage of occupancy (based on certified beds), emergency room visits, ambulatory surgery procedures and outpatient clinic visits; and (c) discharges of the Institutions by major payor mix for the year-to-date. In addition, the Obligated Group has agreed to furnish, or cause to be furnished, to each of the parties identified in clauses (1) and (2) above, the audited financial statements of the Obligated Group, within one hundred fifty (150) days after the completion of the Obligated Group's fiscal year. To the extent that other entities become members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The agreements of the Authority with the holders of the Series 2007 Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2007 Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2007 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 Obligated Group and the Master Indenture was supplied by the Obligated Group. 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 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.

Other than with respect to the information concerning the Bond Insurer under the caption "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Bond Insurance" and in Appendix G, none of the information in this Official Statement has been supplied or verified by the Bond Insurer. The Bond Insurer makes no representation or warranty, express or implied, as to the accuracy or completeness of any other information set forth herein, the validity of the Series 2007 Bonds or the tax-exempt status of interest thereon.

"Appendix A - Certain Definitions," "Appendix C - Summary of Certain Provisions of the Loan Agreements," "Appendix D - Summary of Certain Provisions of the Resolution" and "Appendix F - Proposed Form of Approving Opinion of Bond Counsel", have been prepared by Nixon Peabody LLP, New York, New York, Bond Counsel. "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and 2007 Supplemental Indentures" has been prepared by Iseman, Cunningham, Riester & Hyde, LLP, special counsel to the Institution. "Appendix G - Specimen Assured Guaranty Insurance Policy" and the information under Part 2 under the heading "Bond Insurance" was provided by Assured Guaranty.

The consolidated financial statements of Health Quest Systems, Inc. and Subsidiaries as of December 31, 2006 and 2005 and for the years then ended included in Appendix B have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing therein.

The members of the Obligated Group have reviewed certain parts of this Official Statement describing the Institutions, the Representative, the Obligated Group and the Master Indenture, including but not limited to “PART 1 - INTRODUCTION”, “PART 4 - PLAN OF FINANCING”, “PART 7 - HEALTH QUEST AND THE OBLIGATED GROUP”, “PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP”, and “Appendix B - Consolidated Financial Statements of Health Quest Systems, Inc. and Subsidiaries as of December 31, 2006 and 2005.” The members of the Obligated Group shall certify as of the date hereof and as of the date of delivery of the Series 2007 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.

The members of the Obligated Group have agreed to indemnify the Authority, the Underwriters 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.

Appendix A
Certain Definitions

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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” means the annual fee for the general administrative expenses and supervisory expenses of the Authority in the amount or percentage stated 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 an Applicable Series Resolution authorizing an Applicable 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 Applicable 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 such each Institution, (vi) with respect to any Institution or Trustee, the respective Institutions or Trustee identified in the Applicable Series Resolution, (vii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable 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 and Obligation issued under the Master Indenture for the purpose of securing a particular 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, the Managing Director of Construction, Managing Director of Portfolio Management, 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.

“Bond” or “Bonds” means any of the bonds of the Authority authorized pursuant to the Resolution and issued 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.

“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.

“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.

“Bond Year” means, unless otherwise stated in the Applicable Series Resolution, a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

“Business Day” shall mean any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

“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.

“Continuing Disclosure Agreement” means the Agreement to Provide Continuing Disclosure, dated the date of issuance of the Series 2007 Bonds, by and among the Authority, the Institution, Health Quest Systems, Inc. and the Trustee.

“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.

“Cost” or “Costs of Issuance” means the items of expense incurred in connection with the authorization, sale and issuance 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 interest rate exchange agreement or other hedge instrument, costs and expenses of refunding of other bonds or notes of the Authority with proceeds of such Series including termination fees for any interest rate exchange agreement in connection with such refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

“Cost” or “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 Reserve Fund Facility relating to such Project(s).

“Credit Facility” 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 guarantee 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 thereafter 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 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 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.

“Debt Service Reserve Fund Requirement” means, unless otherwise specified in an Applicable Series Resolution or an Applicable Bond Series Certificate, as of any particular date of computation, an amount equal to the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Bonds of a Series payable during such year, excluding interest accrued thereon prior to July 1 of the next preceding year and (ii) the principal and the Sinking Fund Installments of such Bonds except that if, upon the issuance of a Series of Bonds, such amount would require a deposit of moneys therein, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Series of Bonds, the Debt Service Reserve Fund Requirement shall mean the maximum amount permitted under the Code to be deposited therein from the proceeds of such Series of Bonds, as certified by an Authorized Officer of the Authority.

“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 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 direct obligations of the United States of America 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 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 nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; provided, however, that (1) 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 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;

“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 nationally recognized statistical 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.

“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 wholly comprised of any of the foregoing obligations.

“Fitch” means Fitch IBCA, Inc., its successors and assigns, and, if such corporation 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 Authority by notice to the Bond Trustee, which designated agency is acceptable to the Credit Facility Issuer.

“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 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 any Mortgaged Property, 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, Mortgaged Property or any part of either 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, the interest on which is tax-exempt, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters’ fees and other expenses of issuing 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 at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code.

“Institution” means with respect to any Applicable Series of Bonds or any portion thereof, the not-for-profit hospital corporation, nursing home corporation 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.

“Loan Agreement or Loan Agreements” means the Loan Agreement(s), 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 Obligated Group and the Master Trustee dated as of September 1, 2007, or such other date, as may be amended and supplemented from time to time.

“Master Trustee” means The Bank of New York, and any successor or assigns under the Master Indenture.

“Maximum Interest Rate” means, with respect to any particular 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.

“Minimum Interest Rate” means, with respect to any Particular 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, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

“Mortgage or Mortgages” means the Mortgage(s), dated the date of delivery of the Series 2007 Bonds, granted to the Master Trustee to secure the Institution’s Obligation(s) under the Master Indenture with respect to the Bonds.

“Mortgaged Property” means the real property, fixtures, personal property and other property interests described in and mortgaged pursuant to the Mortgages.

“Obligated Group” means the Health Quest Systems, Inc. Obligated Group of which Health Quest Systems, Inc., Vassar Brothers Hospital, Putnam Hospital Center and Northern Dutchess Hospital are currently the members; 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.

“Obligation” means each Obligation issued pursuant to the Master Indenture and any Supplemental Indenture to secure a Series of Bonds issued under the Resolution or other indebtedness of any Institution.

“Official Statement” means an official statement or other offering document relating to and in connection with the sale of Bonds, as amended or supplemented.

“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 authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Applicable 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.

“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 nationally

recognized statistical rating service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and (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 nationally recognized statistical rating service in the highest rating category.

“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 nationally recognized statistical rating service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; and (vi) Investment Agreements that are fully collateralized by Permitted Collateral.

“Project or Projects” 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 Payments” means any payments made by a Facility Provider pursuant to its Reserve Fund Facility on deposit in the Applicable Debt Service Reserve Fund.

“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 nationally recognized statistical 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 nationally recognized statistical 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 the Resolution as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or Applicable Credit Facility Issuer;

(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 nationally recognized statistical 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 nationally recognized statistical 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 Applicable Credit Facility Issuer;

(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 nationally recognized statistical 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 nationally recognized statistical 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 the Resolution as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or Applicable Credit Facility Issuer;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, the Student Loan Marketing 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 moneys held under the Resolution purchased from such corporation, are insured by a Credit Facility Issuer that meets the applicable rating requirements set forth above.

“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 a Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteen (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, 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 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.

“Repository” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the United States Securities and Exchange Commission for the purposes referred to in its Rule 15c2-12 under the Securities Exchange Act of 1934.

“Reserve Fund Facility” means a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Fund authorized to be delivered to the Trustee pursuant to the Resolution.

“Resolution” means the Health Quest Systems, Inc. Obligated Group Revenue Bond Resolution, adopted June 27, 2007, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions thereof;

“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 and any Supplemental 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 pledged and assigned by the Resolution to the Applicable Trustee by the Authority and pursuant to the Loan Agreement and the Obligation 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, except as may be provided in a Series Resolution, (i) cash, (ii) Government Obligations, (iii) Federal Agency Obligations, (iv) Exempt Obligations, (v) interest-bearing time deposits, certificates of deposit or other similar investment arrangements, provided that all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement shall be continuously and fully insured by the Federal Deposit Insurance Corporation, or (v) Investment Agreements.

“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.

“Series 2007A Resolution” means the Series 2007A Resolution adopted with respect to the Series 2007A Bonds (as defined in the Series 2007A Resolution), or any other resolution of the Authority authorizing the issuance of a Series of Bonds pursuant to Article 2 of the Resolution with respect to the Series 2007A Bonds, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

“Series 2007A Supplemental Indenture” means Supplemental Indenture for Obligation No. 1, issued pursuant to the Master Indenture authorizing the issuance by the Obligated Group of such Obligation No. 1.

“Series 2007B Resolution” means the Series 2007B Resolution adopted with respect to the Series 2007B Bonds (as defined in the Series 2007B Resolution), or any other resolution of the Authority authorizing the issuance of a Series of Bonds pursuant to Article 2 of the Resolution with respect to the Series 2007B Bonds, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

“Series 2007B Supplemental Indenture” means the Supplemental Indenture for Obligation No. 2 pursuant to the Master Indenture authorizing the issuance by the Obligated Group of such Obligation No. 2.

“Series 2007C Resolution” means the Series 2007C Resolution adopted with respect to the Series 2007C Project (as defined in the Series 2007C Resolution), or any other resolution of the Authority authorizing the issuance of a Series of Bonds pursuant to Article 2 of the Resolution with respect to the Series 2007C Project, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

“Series 2007C Supplemental Indenture” means the Supplemental Indenture for Obligation No. 3 pursuant to the Master Indenture authorizing the issuance by the Obligated Group of such Obligation No. 3.

“Sinking Fund Installment” means, with respect to any Series of Bonds, as of any date of calculation and with respect to any Bonds of such Series, 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.

“State” means the State of New York.

“Substitute Credit Facility” means any municipal bond insurance policy, a letter of credit issued by a Credit Facility Issuer or similar insurance or guarantee constituting a Credit Facility within the meaning of the Resolution issued and delivered to the Trustee in connection with a particular Series of Bonds upon the expiration or earlier termination of the then existing Credit Facility relating to such Series of Bonds to replace 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 2007A Bonds and the Series 2007B 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.

“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.

“Trustee” means The Bank of New York or any other bank or trust company appointed as Trustee for an Applicable Series of the Bonds pursuant to the Resolution or any Applicable Series Resolution or any Applicable Bond Series Certificate delivered under the Resolution and having the duties, responsibilities and rights provided for in the Resolution 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.

Appendix B

**Health Quest System, Inc. and Subsidiaries Consolidated Financial
Statements and Consolidating Information as of December 31,
2006 and 2005**

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Health Quest Systems, Inc. and Subsidiaries

**Consolidated Financial Statements and
Consolidating Information
December 31, 2006 and 2005**

Health Quest Systems, Inc. and Subsidiaries
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December 31, 2006 and 2005

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Report of Independent Auditors

To the Board of Trustees of
Health Quest Systems, Inc and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the consolidated financial position of Health Quest Systems, Inc. and its Subsidiaries (the “Company”) at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, in 2005, the Company applied the provisions of FASB Interpretation No. 47, and changed its method of reporting conditional asset retirement obligations.

PricewaterhouseCoopers LLP

April 13, 2007

Health Quest Systems, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2006 and 2005

(in thousands)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 22,438	\$ 20,067
Restricted cash	342	1,908
Investments	113,635	89,700
Assets whose use is limited and required for current liabilities		
Externally restricted	2,470	2,384
Investments held by captive	21,513	18,043
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$19,327 and \$24,350 in 2006 and 2005, respectively	68,848	64,671
Supplies and prepaid expenses	9,677	8,796
Other current assets	4,526	3,420
Estimated third-party payor adjustments	143	193
Total current assets	243,592	209,182
Assets whose use is limited		
Externally restricted	14,543	22,956
Long-term investments	18,890	17,070
Property, plant and equipment, less accumulated depreciation and amortization	210,509	204,466
Intangible assets, less accumulated amortization	3,171	3,425
Other non-current assets	31,135	29,585
Total assets	\$ 521,840	\$ 486,684
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 7,134	\$ 9,271
Current portion of postretirement benefits	8,793	8,327
Accounts payable and accrued expenses	55,525	51,818
Estimated third-party payor adjustments	11,714	13,498
Estimated insurance loss reserve payable	14,189	12,902
Total current liabilities	97,355	95,816
Long-term debt, net of current portion	125,236	129,267
Postretirement benefit obligations	2,677	9,377
Estimated third-party payor adjustments and other liabilities	44,745	45,622
Total liabilities	270,013	280,082
Net assets		
Unrestricted	224,830	186,097
Temporarily restricted	21,609	15,245
Permanently restricted	5,388	5,260
Total net assets	251,827	206,602
Total liabilities and net assets	\$ 521,840	\$ 486,684

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

Health Quest Systems, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2006 and 2005

(in thousands)

	2006	2005
Operating revenue		
Net patient service revenue	\$ 481,545	\$ 429,599
Other revenue	15,887	18,107
Net assets released from restrictions used for operations	121	179
Total operating revenue	<u>497,553</u>	<u>447,885</u>
Operating expenses		
Salaries and fees	220,574	200,732
Employee benefits	63,512	54,540
Supplies	75,923	66,327
Other expenses	78,768	74,515
Provision for bad debts, net	10,814	7,949
Interest	7,584	6,554
Depreciation and amortization	23,647	21,344
Total operating expenses	<u>480,822</u>	<u>431,961</u>
Operating income	16,731	15,924
Investment income and other	9,630	6,964
Excess of revenue over expenses	<u>26,361</u>	<u>22,888</u>
Change in net unrealized gains and losses	4,175	(1,763)
Change in additional minimum pension liability	5,690	(1,363)
Net assets released from restrictions for capital expenditures	1,897	3,716
Grant income for capital	610	543
Increase in unrestricted net assets before cumulative effect of a change in accounting principle	<u>38,733</u>	<u>24,021</u>
Cumulative effect of a change in accounting principle	<u>-</u>	<u>(1,938)</u>
Increase in unrestricted net assets after cumulative effect of a change in accounting principle	<u>\$ 38,733</u>	<u>\$ 22,083</u>

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

Health Quest Systems, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2006 and 2005

(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
December 31, 2004	\$ 164,014	\$ 15,151	\$ 5,241	\$ 184,406
Change in net assets				
Excess of revenue over expenses	22,888			22,888
Change in net unrealized gains and losses	(1,763)			(1,763)
Change in additional minimum pension liability	(1,363)			(1,363)
Grant income for capital	543			543
Contributions		3,989	19	4,008
Net assets released from restrictions used for operations and capital expenditures	3,716	(3,895)		(179)
Change in net assets before cumulative effect of a change in accounting principle	24,021	94	19	24,134
Cumulative effect of a change in accounting principle	(1,938)			(1,938)
Total change in net assets after cumulative effect of a change in accounting principle	22,083	94	19	22,196
December 31, 2005	186,097	15,245	5,260	206,602
Change in net assets				
Excess of revenue over expenses	26,361			26,361
Change in net unrealized gains and losses	4,175			4,175
Change in additional minimum pension liability	5,690			5,690
Grant income for capital	610			610
Contributions		8,382	128	8,510
Net assets released from restrictions used for operations and capital expenditures	1,897	(2,018)		(121)
Total change in net assets	38,733	6,364	128	45,225
December 31, 2006	\$ 224,830	\$ 21,609	\$ 5,388	\$ 251,827

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

Health Quest Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2006 and 2005

(in thousands)

	2006	2005
Cash flows from operating activities		
Increase in net assets	\$ 45,225	\$ 22,196
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	23,647	21,343
Provision for bad debts	10,794	7,949
Allowance for uncollectible other assets	(1,244)	(362)
Cumulative effect of a change in accounting principle	-	1,938
Restricted contributions	(4,074)	(2,079)
Change in additional minimum pension liability	(5,690)	1,362
Change in net realized and unrealized gains and losses on investments	(9,734)	(1,689)
Gain on discontinued operations	-	(208)
Gain on sale of property, plant and equipment	-	(417)
Changes in operating assets and liabilities		
Patient accounts receivable	(14,971)	(13,482)
Supplies and prepaid expenses	(881)	(2,585)
Other current assets	38	149
Other non-current assets	(1,886)	(2,077)
Accounts payable and accrued expenses	3,707	4,146
Estimated third-party payor adjustments and other liabilities	(2,611)	4,983
Postretirement benefit obligations	(544)	(598)
Estimated insurance loss reserve payable	1,287	782
Net cash provided by operating activities	<u>43,063</u>	<u>41,351</u>
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(29,000)	(36,033)
Restricted cash	1,566	(1,908)
Increase in investments and assets whose use is limited, net	<u>(11,164)</u>	<u>(13,595)</u>
Net cash used in investing activities	<u>(38,598)</u>	<u>(51,536)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	2,720	30,969
Deferred financing costs	-	(2,101)
Book overdraft	-	(3,129)
Repayments of long-term debt	(8,888)	(13,103)
Proceeds from restricted contributions	<u>4,074</u>	<u>2,079</u>
Net cash (used in) provided by financing activities	<u>(2,094)</u>	<u>14,715</u>
Net increase in cash and cash equivalents	2,371	4,530
Cash and cash equivalents		
Beginning of year	<u>20,067</u>	<u>15,537</u>
End of year	<u>\$ 22,438</u>	<u>\$ 20,067</u>
Supplemental information and non-cash transactions		
Cash paid for interest	\$ 7,582	\$ 6,348
Capital lease obligations incurred	\$ -	\$ 7,339

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

Health Quest Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(in thousands)

1. Organization

Health Quest Systems, Inc. (the “Company” or “Health Quest”) is a not-for-profit corporation that is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

A summary of subsidiaries, in which the Company is the sole member, is as follows:

Vassar Brothers Medical Center (“VBMC”) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. VBMC provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley.

The Foundation for Vassar Brothers Medical Center (the “Foundation for VBMC”) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation for VBMC’s principal activity is the solicitation, receipt, holding, investment and administration of contributions on behalf of VBMC and other Section 501(c)(3) entities affiliated with VBMC.

VBH Insurance Co. Ltd. (the “VBH Insurance”), is a captive insurer incorporated under the laws of Barbados. The captive insurer, licensed under the Exempt Insurance Act, Cap. 308A of the laws of Barbados, provides various levels of medical malpractice insurance and other coverages to the Company and its affiliates.

Northern Dutchess Hospital (“NDH”) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. NDH provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley.

NDH Foundation’s principal activity is the solicitation, receipt, holding, investment and administration of contributions on behalf of NDH, Northern Dutchess Residential Health Care Facility, Inc. and other community organizations. NDH Foundation actively solicits contributions from the public through direct mailings, fund-raising programs and other activities. NDH Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Northern Dutchess Residential Health Care Facility, Inc. (the “Nursing Home”) is a not-for-profit corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Nursing Home operates and maintains a residential healthcare facility for the care and treatment of persons who require medical care and related services.

Riverside Diversified Services, Inc. (“RDSI”) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. RDSI is the beneficial owner of various physician practices that provide a full range of hospital and outpatient services for residents of the Mid-Hudson Valley.

Health Quest Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(in thousands)

Alamo Ambulance Service, Inc. ("Alamo") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Alamo was established to own, equip, operate and maintain an ambulance service to provide transport and emergency medical services to sick, disabled, or injured persons, generally within Dutchess, Orange, Ulster and Putnam Counties, New York.

Hudson Valley Home Care, Inc. (Licensed) and Hudson Valley Home Care, Inc. (Certified) ("HVHC") are not-for-profit corporations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HVHC was formed to operate a home health care services business, serving residents of the Mid-Hudson Valley.

Wells Manor Housing Development Fund Corporation ("Wells Manor") is a private foundation incorporated as a 501(c)(3) organization and is exempt from Federal income tax under Section 509(a) of the Internal Revenue Code. Wells Manor operates an apartment complex of 75 units under Section 202 of the National Housing Act of 1959 and Section 8 of the National Housing Act of 1937, regulated by the U.S. Department of Housing and Urban Development.

Riverside Management Services, Inc. ("RMSI") was incorporated under Section 402 of the Business Corporation Law of the State of New York and is engaged in several activities, including operating and maintaining a physician office building; and ownership of Hillside Renovations, Inc. (currently dormant), a renovation and construction company, and Riverside Ambulance, which was created in 1992 to maintain a note receivable and payable related to the purchase of Alamo.

Putnam Hospital Center ("PHC") is a not-for-profit acute care community hospital located in Carmel, New York. PHC provides a full range of inpatient and outpatient services including acute care, psychiatric, emergency, homecare and renal dialysis. PHC qualifies as a Section 501(c)(3) tax exempt organization under the provisions of the Internal Revenue Code.

Putnam Hospital Center Foundation, Inc. ("PHC Foundation"), is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and was organized under the laws of the State of New York as a not-for-profit corporation on September 23, 1985. Operations did not commence until August 1, 1995. The Foundation's principal activity is the solicitation, receipt, holding, investment, and administration of contributions on behalf of the Putnam Hospital Center. The Foundation actively solicits contributions from the public through direct mailings, fund-raising programs and other activities.

Craig House Center, Inc. and Craig House Realty, Inc. ("Craig House"), located in Beacon, New York, (prior to terminating operations and closing the facilities in October 2000) was a 61-bed psychiatric hospital that provided inpatient psychiatric health care services to residents within its geographic location. The property and assets were sold in 2003. As of December 31, 2005, the Craig House was dissolved.

Community Care Givers, Inc. (the "Agency") is a for-profit licensed home care agency established on July 21, 1999. The Agency provides needed home care services to private payers and hospice patients throughout the community. The Agency ceased operations in 2000 and was dissolved effective December 31, 2005.

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2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported period. The most significant estimates relate to accounts receivable allowances, amounts due from or due to third party payors and self-insurance reserves. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets whose use is limited.

Restricted Cash

In October 2005, the PHC terminated its agreement with DaVita, Inc. for renal dialysis services. As part of the termination agreement, the PHC agreed to set aside all cash received for renal dialysis services provided prior to the termination of the agreement into a separate cash account. The funds are to be used to pay any costs associated with the program, including Medicare cost report settlements.

Inventories

The Company values its inventories, included in supplies and prepaid expenses, at the lower of cost or market using the FIFO (first-in, first-out) method.

Investments

The Company has determined that all investments reported in the consolidated balance sheets are considered other than trading securities. Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Long-Term Investments

Long-term investments include donor-restricted endowment gifts, other restricted funds and accumulated investment income on those funds.

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Assets Whose Use is Limited

Assets whose use is limited includes externally controlled funds under bond indenture agreements and investments held by the Company's insurance captive. Amounts required to meet current liabilities of the Company have been classified as current assets in the consolidated balance sheets at December 31, 2006 and 2005.

Property, Plant and Equipment

Property, plant and equipment, including certain revenue producing equipment purchases are carried at cost and those acquired by gifts and bequests are carried at appraised or fair market value established at date of contribution. Depreciation is provided on the straight-line method over the estimated useful lives of the assets:

Land improvement	20 years
Building and Building improvement	40 years
Major moveable and equipment	3 – 15 years

Equipment under capital leases is recorded at present value at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of assets recorded under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred.

Cost of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. These costs are amortized over the life of the related capital assets constructed.

Deferred Financing Costs

Deferred financing costs (approximately \$3,919 and \$4,152 at December 31, 2006 and 2005, respectively, included in other assets in the accompanying consolidated balance sheets) represent costs incurred to obtain financing for construction and renovation projects at VBMC, PHC and NDH. These costs are amortized over the life of the related debt. Amortization expense was approximately \$234 and \$166 for the years ended December 31, 2006 and 2005.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or

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purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Charity Care

The Company provides a significant amount of partially or totally uncompensated patient care to patients who are unable to compensate the Company for their treatment either through third-party coverage or their own resources. Patients who meet certain criteria under the Company's charity care policy are provided care without charge or at amounts less than established rates. Because charity care amounts are not expected to be paid, they are not reported as revenue.

Performance Indicator

The consolidated statements of operations include excess of revenue over expenses, which is the performance indicator. The Company differentiates its operating activities through the use of operating income as an intermediate measure of operations. For the purposes of display, certain investment income and other transactions, which management does not consider to be components of the Company's operating activities, are excluded from operating income and reported as non-operating revenues in the consolidated statements of operations. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include change in net unrealized gains and losses, net assets released from restrictions used for capital expenditures and change in additional minimum pension liability.

Reclassification

The presentation of restricted cash in the 2005 consolidated statement of cash flows has been changed to be reflected as an investment activity compared to a financing activity in the 2005 consolidated statement of cash flows.

3. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts

The Company has agreements with third-party payers that provide for payments to the Company at amounts different from its established rates (i.e., gross charges). Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances that represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient accounts receivable are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Company has implemented a monthly standardized approach to estimate and

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review the collectibility of receivables based on the payer classification and the period from which the receivables have been outstanding. Past due balances over 90 days from the date of billing and over a specified amount are considered delinquent and are reviewed for collectibility. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payer reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, the Company assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates. The Company believes that the collectibility of its receivables is directly linked to the quality of its billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services it provides. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to bad debt expense.

A summary of the payment arrangements with major third-party payers follows:

- *Medicare*: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined inpatient and outpatient outlier services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Company is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicare fiscal intermediary.
- *Non-Medicare Payments*: The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payers are billed at hospitals established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Adjustments to current and prior years' rates for these payers will continue to be made in the future.

The Company has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Additionally, certain payers' payment rates for various years have been appealed by the Company. If the appeals are successful, additional income applicable to those years will be realized.

There are various proposals at the Federal and State levels that could, among other things, reduce payment rates and increase managed care penetration, including Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 8%, respectively, of the Company's net patient service revenue for the year ended 2006, and 48% and 8%, respectively, of the Company's net patient service revenue, for the year ended 2005.

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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 will change by a material amount in the near term. The 2006 and 2005 net patient service revenue increased approximately \$3,727 and \$1,993, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

NDH's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2004. PHC's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2003. VBMC's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2002.

On February 19, 2004, the Secretary of Health and Human Services confirmed that hospitals can provide discounts for uninsured patients, which allowed the Company to implement a discount policy in accordance with state law. The Company's goal was to create a financial aid program that is consistent with the mission, values, and capacity of the Company, while considering an individual's ability to contribute to his or her care.

Effective June 2004, the Company implemented a discount policy and began providing discounts to additional uninsured patients. Historically, these patients were charged for services at the Hospital's standard gross charges. Prior to the implementation of the discount policy, a significant portion of the gross charges were written down through the allowance for uncollectible accounts. Under the new policy, the discount offered to uninsured patients is reflected as a reduction to net patient service revenue at the time the uninsured billings are recorded.

Federal and state law requires that hospitals provide emergency services regardless of a patient's ability to pay. Uninsured patients seen in the emergency department, including patients subsequently admitted for inpatient services, often do not provide information necessary to allow the Company to qualify such patients for charity care. Uncollectible amounts due from such uninsured patients represent the substantial portion of the provision for bad debts reflected in the accompanying consolidated statements of operations. Charity care and uncompensated care is as follows for the years ended December 31:

	2006	2005
Charity care, at cost	\$ 10,704	\$ 10,537
Uncompensated care reported as provision for bad debts, net	<u>10,814</u>	<u>7,949</u>
Total uncompensated care provided	<u>\$ 21,518</u>	<u>18,486</u>

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The Company grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer arrangements. The mix of receivables (net of contractual allowances and advances from certain third-parties) from patients and third-party payers at December 31, 2006 and 2005 is as follows:

	2006	2005
Medicare	21%	25%
Medicaid	8%	13%
Blue Cross	11%	10%
Managed care and other	45%	37%
Patients	15%	15%
	<u>100%</u>	<u>100%</u>

4. Conditional Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which is effective for the Company as of and for the year ended December 31, 2005. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations". FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the Company determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of the adoption of this Interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

Upon initial application of FIN 47, the Company recognized \$1,938 as the cumulative effect of a change in accounting principle in the consolidated statement of operations. As of December 31, 2006 and 2005, \$2,391 and \$2,013, respectively, of conditional asset retirement obligations are included within other liabilities in the consolidated balance sheets.

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The following table illustrates the effect on excess of revenues over expenses as if this Interpretation had been applied at December 31, 2005:

Excess of revenues over expenses, as reported	\$ 22,888
Less: Total depreciation and interest accretion costs	(80)
Pro forma excess of revenues over expenses	<u>\$ 22,808</u>

5. New Authoritative Pronouncement

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("SFAS 158"), which requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets of a not-for-profit organization. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS 158 are effective for not-for-profit organizations for fiscal years ending after June 15, 2007, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. By the time of adoption at December 31, 2007, plan performance and actuarial assumptions could have a significant impact on the financial statements. Management is currently evaluating the effect of the adoption of SFAS 158. However, the Company does not believe the decrease to unrestricted net assets will have a significant impact on the Company's credit or debt ratios or financing covenants.

6. Promises to Give

Unconditional promises to give that are expected to be collected in more than one year are discounted to the net present value of their estimated future cash flows. The discount rate at December 31, 2006 and 2005 was 3% to 4%.

The composition of unconditional promises to give, included in other assets in the accompanying consolidated balance sheets, at December 31, 2006 and 2005 is as follows:

	2006	2005
Pledges due to less than one year	\$ 3,316	\$ 2,147
Pledges due in one to five years	10,968	6,005
Pledges due in more than five years	536	1,991
	<u>14,820</u>	<u>10,143</u>
Unamortized discount	1,002	864
	<u>13,818</u>	<u>9,279</u>
Allowance for uncollected pledges	918	767
	<u>\$ 12,900</u>	<u>\$ 8,512</u>

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7. Concentration of Credit Risk

The Company routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

At December 31, 2006 and 2005, the Company had cash balances in a financial institution that exceeded Federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

8. Investments

Current Investments

Current investments, stated at fair value at December 31, 2006 and 2005, consist of the following:

	2006	2005
Cash and cash equivalents	\$ 15,865	\$ 18,533
Corporate bonds	13,973	8,354
Equity securities	61,305	51,535
U.S. Treasury obligations	22,492	11,278
	<u>\$ 113,635</u>	<u>\$ 89,700</u>

Assets Whose Use is Limited

The composition of assets whose use is limited, which are stated at fair value at December 31, 2006 and 2005, consists of the following:

	2006	2005
Externally restricted by bond indenture agreements		
Cash and cash equivalents	\$ 4,017	\$ 14,462
Corporate bonds	1,416	-
Guaranteed insurance annuity contracts	3,893	1,416
Equity securities	722	1,042
U.S. Treasury obligations	6,965	8,420
	<u>17,013</u>	<u>25,340</u>
Less: Current portion	2,470	2,384
	<u>\$ 14,543</u>	<u>\$ 22,956</u>
Externally restricted through captive insurer		
Equities	\$ 8,941	\$ 8,809
Corporate bonds	11,030	3,492
U.S. Treasury obligations	-	4,534
Mutual funds	1,542	1,208
	<u>\$ 21,513</u>	<u>\$ 18,043</u>

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Long-Term Investments

Long-term investments, stated at fair value at December 31, 2006 and 2005, consist of the following:

	2006	2005
Cash and cash equivalents	\$ 423	\$ 383
Corporate bonds	2,470	1,871
Equity securities	12,598	12,373
U.S. Treasury obligations	3,399	2,443
	<u>\$ 18,890</u>	<u>\$ 17,070</u>

Investment income for the years ended December 31, 2006 and 2005 consists of the following:

	2006	2005
Interest and dividend income	\$ 4,634	\$ 2,887
Net realized gains on sale of securities	5,559	3,651
Other	(563)	(197)
Investment income	<u>\$ 9,630</u>	<u>\$ 6,341</u>

9. Property, Plant and Equipment

Property, plant and equipment, at cost, and accumulated depreciation and amortization at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Land	\$ 2,192	\$ 2,357
Land improvements	5,396	5,195
Buildings and fixed equipment	245,293	234,818
Major movable equipment	197,166	179,952
	<u>450,047</u>	<u>422,322</u>
Less: Accumulated depreciation and amortization	244,336	222,121
	<u>205,711</u>	<u>200,201</u>
Construction in progress	4,798	4,265
Net property, plant and equipment	<u>\$ 210,509</u>	<u>\$ 204,466</u>

Depreciation and amortization expense for the years ended December 31, 2006 and 2005 was \$23,647 and \$21,344, respectively.

Included in other assets at December 31, 2006 and 2005 is approximately \$46 and \$146, respectively, of amounts to be drawn to finance capital assets to be acquired through capital lease obligations. The obligations are reflected in long-term debt and the amounts available to be drawn will be spent when the assets are acquired.

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The capital leases and related amortization, which are included with property, plant and equipment at December 31, 2006 and 2005 are as follows:

	2006	2005
Assets recorded under capital leases	\$ 39,803	\$ 39,702
Less: Accumulated amortization	<u>31,430</u>	<u>27,756</u>
	<u>\$ 8,373</u>	<u>\$ 11,946</u>

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10. Long-term Debt

A summary of long-term debt and capital lease obligations at December 31, 2006 and 2005 is as follows:

	2006	2005
VBMC's Insured Revenue Bonds, Series 1997, varying interest rates from 5.25% to 5.50% at December 31, 2006 due in varying semi-annual amounts until 2025, collateralized by gross receipts, balances in assets whose use is limited (externally restricted) and a security interest in fixtures, furnishings and equipment associated with the renovation and construction project	\$ 46,280	\$ 48,260
VBMC's Civic Facility Bonds, Series 2000, interest rate of 6.5%, principal payments due in varying annual payments until 2030, collateralized by a lien facility mortgage and security interest in the facility	13,014	13,229
Vassar Brothers Medical Center Civic Facility Bonds Series 2004, short term adjusted rate (3.42% at December 31, 2006) principal payments due in varying annual payments until 2022, collateralized by a lien facility mortgage	15,700	16,325
Vassar Brothers Medical Center Civic Facility Bonds Series 2005, short term adjusted rate (3.42% at December 31, 2006) principal payments due in varying annual payments until 2034, collateralized by a lien facility mortgage	19,525	19,975
VBMC's M&T bank loan, interest rate of 5.58% principle payments due in varying annual payments until 2023, a perfected first mortgage and assignment of all leases and rents related on all furnitures, fixtures, equipment and leasehold improvements	2,554	2,631
PHC's Bank of New York 2.62% Bond (Series 1999A), due 2019; collateralized by certain Hospital property	3,510	3,680
PHC's promissory notes payable to Comprehensive Support Services, monthly principal installments until July 2015, interest rate of 8.25%	1,115	1,254
PHC's promissory note payable to Hudson United Bank, monthly installments due until June 30, 2005, interest rate of prime + .50% (7.25% at December 31, 2005), collateralized by all of Putnam Hospital Center Foundation, Inc.'s interest in depository accounts held at Mahopac National Bank	-	2
PHC's 6% mortgage note, monthly installments due until January 2015	36	39
PHC's 6% mortgage note, monthly installments due until April 2021, collateralized by the Romolan building located on the PHC's property	336	351
NDH's Stissing National Bank loan at 5.5% due in monthly installments until March 2019, collateralized by certain NDH property	279	290
NDH's Bank of New York (USDA guaranteed) loan at 4.55% due in monthly installments until December 2011, collateralized by pledges receivable held by NDH Foundation	3,086	3,086
NDH's Bank of New York construction loan (a)	9,498	6,778
NDH's Bank of New York (USDA guaranteed) loan at 3-month LIBOR rate plus .9% (5.36% at December 31, 2006), quarterly installments due until July 2018 collateralized by certain hospital properties	2,369	2,507
Nursing Home mortgage loan, due in monthly installments until April 2034 interest at 7.85%, collateralized primarily by the constructed building and improvement and insured by HUD	6,342	6,403
Alamo loan with The Bank of New York, interest rate based on LIBOR plus 1.85% (6.38% at December 31, 2006) maturing March 1, 2009	721	1,042
Wells Manor's mortgage note payable in monthly installments through 2027, interest at 9.25%, collateralized by the Wells Manor project and insured by HUD	2,649	2,697
Other	-	178
Capital lease obligations, at varying rates of imputed interest from 5.41% to 10.50%, collateralized by leased equipment	5,356	9,811
	<u>132,370</u>	<u>138,538</u>
Less: Current portion	7,134	9,271
Long-term debt	<u>\$ 125,236</u>	<u>\$ 129,267</u>

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(a) In June 2005, NDH received a \$9.8 million construction loan from The Bank of New York. NDH has drawn down \$9,498 and \$6,778 as of December 31, 2006 and 2005, respectively. During the construction period, NDH makes quarterly interest payments at the 3-month LIBOR rate plus .9% (5.36% at December 31, 2006). Upon completion of the construction project, the maturity date will extend to 2028. At which time, quarterly principal repayments will begin.

Scheduled principal payments on all long-term debt for the next five years and thereafter, including capital lease obligations, are as follows:

Year	Long-term Debt	Capital Lease Obligations	Total
2007	\$ 5,087	\$ 2,324	\$ 7,411
2008	5,157	1,728	6,885
2009	5,389	1,544	6,933
2010	5,558	250	5,808
2011	5,705	-	5,705
Thereafter	100,118	-	100,118
	<u>127,014</u>	<u>5,846</u>	<u>132,860</u>
Less: Amount representing interest on obligations under capital leases	-	490	490
	<u>127,014</u>	<u>5,356</u>	<u>132,370</u>
Less: Current portion	5,087	2,047	7,134
Long-term debt	<u>\$ 121,927</u>	<u>\$ 3,309</u>	<u>\$ 125,236</u>

Under the terms of the hospitals' debt agreements, the hospitals are required to maintain certain deposits with trustees. Such deposits are included with assets whose use is limited. These debt agreements also place limits on the incurrence of additional borrowing and require that the hospitals satisfy certain measures of financial requirements (i.e. day's cash on hand, debt service coverage, fixed charge coverage, current ratio, minimum net assets) as long as the debt remains outstanding. As of December 31, 2006, NDH did not meet the current ratio requirement. NDH received a waiver from The Bank of New York and the United States Department of Agriculture ("USDA") dated April 6, 2007 which indicates that the Bank of New York and the USDA waives its rights to accelerate the mortgage loan based on the aforesaid covenant violation through December 31, 2007. All other debt covenants were met.

VBMC has a \$3 million unsecured line of credit with The Bank of New York. As of December 31, 2006 and 2005, VBMC has not utilized the line.

VBMC has letters of credit with The Bank of New York totaling \$896. VBMC has a \$746 letter of credit for workers compensation insurance and a \$150 letter of credit for malpractice insurance.

PHC has a \$3,761 letter of credit with The Bank of New York, issued in conjunction with the Series 1999 Bonds.

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NDH has a \$500 unsecured line of credit with The Bank of New York payable on demand. The outstanding balance at December 31, 2005 is \$75. As of December 31, 2006 NDH has not utilized the line.

11. Benefit Plans

Vassar Brothers Medical Center

VBMC maintains a noncontributory defined benefit plan (the “Vassar Brothers Plan”) covering employees of VBMC who are part of the collective bargaining unit with New York State Nurses Association (“NYSNA”) who have completed 5 years service and attained 21 years of age. Contributions to the Vassar Brothers Plan are based on actuarial valuations. Benefits under the Vassar Brothers Plan are based on years of service and compensation. VBMC’s policy is to contribute amounts sufficient to meet funding requirements under the Employee Retirement Income Security Act of 1974.

VBMC sponsors a health care plan that provides postretirement medical benefits to its non-union retired employees. Non-union employees hired prior to January 1, 1993, retiring from VBMC on or after attaining age 60 who have rendered at least 20 year of service, are entitled to postretirement health care coverage. VBMC funds postretirement benefit costs on a cash basis.

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(in thousands)

The measurement date for the two plans is December 31. The following tables provide a reconciliation of the changes in each of the plan's benefit obligations and fair value of assets for the years ended December 31, 2006 and 2005 and a statement of the funded status of the plans as of December 31, 2006 and 2005:

	Noncontributory Defined Benefit Plan		Postretirement Medical Benefits Plan	
	2006	2005	2006	2005
Changes in benefit obligation				
Benefit obligation, at beginning of period	\$ (42,582)	\$ (38,764)	\$ (493)	\$ (914)
Service cost	(2,957)	(2,509)	(11)	(10)
Interest cost	(2,450)	(2,131)	(26)	(28)
Actuarial (loss) gain	1,623	(1,471)	18	435
Changes in assumptions	-	1,748	23	(23)
Benefits paid	632	545	12	47
Benefit obligation, at end of period	<u>(45,734)</u>	<u>(42,582)</u>	<u>(477)</u>	<u>(493)</u>
Changes in plan assets				
Fair value of plan assets, at beginning of period	23,763	20,695	-	-
Actual return on plan assets	2,498	714	-	-
Contributions	3,224	2,900	12	47
Benefit payments	(632)	(545)	(12)	(47)
Fair value of plan assets, at end of period	<u>28,853</u>	<u>23,764</u>	<u>-</u>	<u>-</u>
Funded status	(16,881)	(18,818)	(477)	(493)
Additional minimum pension liability	-	(2,236)	-	-
Unrecognized net actuarial loss	12,654	16,042	(311)	(293)
Unrecognized prior service cost	-	-	-	(35)
Noncontributory and postretirement benefit obligation	<u>\$ (4,227)</u>	<u>\$ (5,012)</u>	<u>\$ (788)</u>	<u>\$ (821)</u>

As of December 31, 2006 and 2005, the accumulated benefit obligation with respect to the defined benefit plan is \$30,826 and \$28,777, respectively, and exceeded the plan's assets by more than the actuarially-determined accrued pension cost. VBMC recorded an adjustment to the minimum pension liability as of December 31, 2006 and 2005 of \$2,236 and \$571, respectively, which is reported as changes in unrestricted net assets on the consolidated statements of operations.

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The following table provides the components of the net periodic benefit cost (income) for the VBMC Defined Benefit and Postretirement Medical plans (together the "VBMC Plans") for the years ended December 31, 2006 and 2005:

	Noncontributory Defined Benefit Plan		Postretirement Medical Benefits Plan	
	2006	2005	2006	2005
Service cost	\$ 2,957	\$ 2,509	\$ 11	\$ 10
Interest cost	2,450	2,131	26	28
Expected return on plan assets	(1,961)	(1,746)	-	-
Deferral of unrecognized gain	-	-	(22)	(23)
Amortization of transition asset	-	-	(35)	(135)
Amortization of prior service cost	-	(1)	-	-
Amortization of net loss	1,227	1,047	-	-
Net periodic benefit cost (income)	<u>\$ 4,673</u>	<u>\$ 3,940</u>	<u>\$ (20)</u>	<u>\$ (120)</u>

The calculation of the VBMC plans' funded status and amounts recognized in the balance sheets as of the end of the years were based upon actuarial assumptions as follows:

	Noncontributory Defined Benefit Plan		Postretirement Medical Benefits Plan	
	2006	2005	2006	2005
Discount rate	6.00 %	5.60 %	6.00 %	5.60 %
Average rate of salary increases	5.50 %	5.50 %	-	-

The calculation of the net benefit costs for the years ended were based upon actuarial assumptions as follows:

	Noncontributory Defined Benefit Plan		Postretirement Medical Benefits Plan	
	2006	2005	2006	2005
Discount rate	5.60 %	5.75 %	5.60 %	6.00 %
Expected return on plan assets	8.00 %	8.00 %	-	-
Average rate of salary increases	5.50 %	5.50 %	-	-

The overall expected long-term rate-of-return-on-assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant

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additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently-available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Additional actuarial assumptions used in determining the defined benefit and postretirement medical benefit obligations and the respective net benefit costs as of and for the years ended December 31, 2006 and 2005 include mortality assumptions based on the RP-2000 Combined Mortality Table and turnover assumptions based on the historical experience of VBMC with respect to age and gender.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical benefits plan; however, because VBMC has frozen its employer subsidy at 1993 amounts, no future trend is used in the valuations for 2006 and 2005.

Contributions

Annual contributions are determined by VBMC based upon calculations prepared by the Vassar Brother's Plan actuary. Expected contributions to the defined benefit pension plan and postretirement medical benefits plan for fiscal year 2007 are approximately \$3,000.

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plan:

Year	Noncontributory Defined Benefit Plan Payments	Postretiremen Medical Benefi Plan Payment:
2007	\$ 880	\$ 23
2008	971	23
2009	1,104	25
2010	1,243	26
2011	1,454	27
2012-2016	12,058	164

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Plan Assets

No postretirement medical benefits plan assets were held for investment as of December 31, 2006 and 2005. Defined benefit plan assets are held in a trust fund. The weighted-average asset allocation at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	Noncontributory Defined Benefit Plan	
	2006	2005
Cash and Cash Equivalents	2%	2%
Corporate Stocks	48%	49%
Corporate Fixed Income	19%	18%
Closed End Fixed Income	19%	20%
Other	12%	11%
	<u>100%</u>	<u>100%</u>

Objective

The plan's investment objectives seek a positive long-term total rate of return after inflation to meet VBMC's current and future plan obligations. The asset allocations for the plan combine tested theory and informed market judgments to balance investment risks with the need for high returns. The target allocation of plan investment is approximately 60% equity and 40% fixed income securities.

Certain employees of VBMC, who have completed two years of service, participate in a defined contribution retirement plan whereby contributions are made on an annual basis equal to 6% of the employees' qualifying salary. Costs related to this plan were approximately \$1,181 and \$1,061 for the years ended December 31, 2006 and 2005, respectively.

Putnam Hospital Center

PHC maintains a noncontributory defined benefit plan (the "Putnam Plan") covering substantially all employees who have completed 5 years of service and attained 21 years of age. The Putnam Plan provides benefits based on the participants' year of service and compensation. PHC's policy is to fund amounts intended to provide for benefits attributed to service to date and those expected to be earned in the future.

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The funded status of the Putnam Plan and the accrued benefits cost is as follows for the year ended December 31, 2005 and 2004:

	2006	2005
Changes in benefit obligation		
Benefit obligation, at beginning of period	\$ (49,901)	\$ (42,597)
Service cost	(2,178)	(1,908)
Interest cost	(2,732)	(2,570)
Actuarial loss	4,020	(3,849)
Benefits paid and expected expenses	1,139	1,023
Benefit obligation at end of period	<u>(49,652)</u>	<u>(49,901)</u>
Changes in plan assets		
Fair value of plan assets, at beginning of period	29,387	24,974
Actual return on plan assets	2,958	817
Contributions	5,224	4,741
Benefits paid and actual expenses	(1,139)	(1,146)
Fair value of plan assets at end of period	<u>36,430</u>	<u>29,386</u>
Funded status, at beginning of period	(13,221)	(20,515)
Intangible asset	(1,264)	(1,424)
Additional minimum pension liability	(5,324)	(8,778)
Unrecognized net actuarial loss	12,089	17,422
Unrecognized prior service cost	1,264	1,424
Noncontributory benefit obligation	<u>\$ (6,456)</u>	<u>\$ (11,871)</u>

At December 31, 2006 and 2005, the accumulated benefit obligation is \$42,886 and \$41,257, respectively and exceeded the plan's assets by more than the actuarially determined accrued pension cost. PHC recorded an adjustment to the minimum pension liability as of December 31, 2006 and 2005 of \$3,454 and \$(1,934), respectively, which is reported as changes in unrestricted net assets on the consolidated statements of operations.

The following table provides the components of the net periodic benefit cost for the Putnam Plan for the years ended December 31, 2006 and 2005:

	2006	2005
Service cost	\$ 2,178	\$ 2,031
Interest cost	2,732	2,570
Expected return on assets	(2,516)	(2,135)
Amortization of prior service cost	870	804
Amortization of loss from earlier periods	160	194
Net periodic benefit cost	<u>\$ 3,424</u>	<u>\$ 3,464</u>

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The calculation of the Putnam Plan's funded status and amounts recognized in the balance sheets as of December 31, 2006 and 2005 were based upon the actuarial assumptions as follows:

	2006	2005
Discount rate	6.00 %	5.60 %
Average rate of salary increases	3.00 %	3.00 %

The calculation of the net periodic benefit cost for the years ended December 31, 2006 and 2005 were based upon actuarial assumptions as follows:

	2006	2005
Discount rate	5.60 %	5.75 %
Expected return on plan assets	8.00 %	8.00 %
Average rate of salary increases	3.00 %	3.00 %

The overall expected long-term rate-of-return-on assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return, (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently-available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Additional actuarial assumptions used in determining the defined benefit obligation and the net benefit cost as of and for the years ended December 31, 2006 and 2005 include mortality assumptions based on the RP-2000 Combined Mortality Table and turnover assumptions based on the historical experience of PHC with respect to age and gender.

Contributions

Annual contributions are determined by PHC based upon calculations prepared by Putnam's Plan actuary. Expected contribution to the plan for fiscal year 2007 is \$5.8 million.

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Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plan as follows:

Year	Pension Benefits
2007	1,191
2008	1,285
2009	1,376
2010	1,658
2011	1,791
2012-2016	13,319

Plan Assets

PHC's weighted-average asset allocation at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	Plan Assets at December 31,	
	2006	2005
Cash & Cash Equivalents	3%	4%
Government Securities	20%	16%
Corporate Bonds	17%	16%
Corporate Stocks	37%	38%
Registered Investment Co.	9%	8%
MetLife Assets	14%	18%
	<u>100%</u>	<u>100%</u>

Objective

The Putnam Plan's investment objectives seek a positive long-term total rate of return after inflation to meet PHC's current and future obligations. The asset allocations for the plan combines tested theory and informed market judgment to balance investment risks with the need for higher returns. The target allocation is approximately 60% equity and 40% fixed income securities.

NDH

NDH maintains a defined contribution plan covering all full-time employees who have completed two years of service. NDH's pension contribution is 6% of eligible payroll for 2006 and 2005. Pension expense for the years ended December 31, 2006 and 2005 was \$734 and \$677, respectively.

Health Quest

Health Quest maintains a defined contribution plan covering all full-time employees who have completed two years of service. Health Quest's pension contribution is 6% of eligible payroll for 2006 and 2005. Pension expense for the years ended December 31, 2006 and 2005 was \$1,544 and \$1,510, respectively.

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12. Malpractice Insurance

VBMC purchases primary coverage from a commercial insurer on a claims-made basis. The purchased primary coverage includes a deductible for each incident and in the aggregate. These deductibles, along with excess professional liability coverage are covered through an arrangement with an affiliated captive insurance company.

During 1988, Health Quest (then known as VBH Corporation) established a captive insurance company to provide and augment the professional liability coverage VBMC. The captive insurer provides coverage for the deductibles for the policy years beginning August 1, 1985 and coverage in excess of the purchased amounts for the policy years beginning August 1, 1986. In addition, since 1990, VBMC has purchased tail coverage from the captive insurer.

VBMC accrues premiums payable to the captive insurance company based on the estimated ultimate cost of losses payable by the captive insurance company at a discount rate of 5%. At December 31, 2006 and 2005, the captive insurance company has reported net assets in excess of the outstanding losses, which were determined by an independent actuary.

On November 7, 1998, PHC purchased commercial insurance for medical malpractice coverage under an occurrence basis policy. From December 1, 1988 until November 7, 1998, PHC was self-insured. Prior to December 1, 1988, PHC was commercially insured.

In addition, PHC purchased tail coverage for claims asserted subsequent to November 7, 1998 for occurrences during the period December 1, 1988 through November 7, 1998. PHC continues to self-insure for claims asserted during the period December 1, 1988 through November 7, 1998. While the outcome of these cases cannot be determined at this time, management believes that any loss will not have a material adverse effect on the accompanying financial statements. PHC has recorded approximately \$1.3 million and \$1.7 million at December 31, 2006 and 2005, respectively, in other liabilities in the consolidated balance sheets.

All other subsidiaries providing healthcare services purchase primary and excess coverage from a commercial insurer on a claims made basis. The purchased primary coverage includes a deductible for each incident and in the aggregate.

Beginning August 1, 2005, PHC and NDH purchased insurance on a claims-made basis through VBH Insurance. VBH Insurance provides a secondary excess layer of coverage for deductibles, excess and tail coverage.

VBH Insurance loss reserves comprise estimates for known reported losses and loss expenses plus a provision for losses incurred but not reported. Losses are valued by an independent actuary retained by VBH Insurance and are based on the loss experience of the insured. In management's opinion recorded reserves are adequate to cover the ultimate net cost of losses incurred to date however, the provision is based on estimates and may ultimately be settled for a significantly greater or lesser amount. The actuarially determined estimated loss reserve payable at December 31, 2006 and 2005 was \$14,189 and \$12,901, respectively.

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13. Workers' Compensation Insurance

The Company is self-insured for workers' compensation claim losses and expenses effective April 1, 2006. Included in liabilities at December 31, 2006 are accruals of \$1,612 for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. This liability has been discounted by 4% at December 31, 2006.

14. Medical Benefits

Effective January 1, 2006, the Company provides employee health and welfare benefits under a self insured program and maintains stop loss coverage for individual claims in excess of \$150 for fiscal 2006. For fiscal year ended December 31, 2006, employee health and welfare benefit costs were \$15,533.

15. Functional Expenses

The Company provides health care services to residents within their geographic areas including general acute care with a full range of inpatient and outpatient services. Expenses related to providing these services for the year ended December 31, 2005 and 2004 are as follows:

	2006	2005
Health care services	\$ 359,655	\$ 342,540
General and administrative	<u>121,167</u>	<u>89,421</u>
	<u>\$ 480,822</u>	<u>\$ 431,961</u>

16. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31, 2006 and 2005 are for the following purposes:

	2006	2005
Capital asset acquisition	\$ 18,201	\$ 13,482
Health care services	3,270	1,603
Health education	<u>138</u>	<u>160</u>
	<u>\$ 21,609</u>	<u>\$ 15,245</u>

Permanently restricted net assets are restricted at December 31, 2006 and 2005 to:

	2006	2005
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as nonoperating income)	<u>\$ 5,388</u>	<u>\$ 5,260</u>

Health Quest Systems, Inc. and Subsidiaries

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(in thousands)

17. Commitments and Contingencies

The Company is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Company's future financial position or results of operations.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions. At this time, the Company is not aware nor have they been notified of any pending regulatory inquiries.

The Company leases various equipment and facilities under operating leases. Total rent expense in 2006 and 2005 for all operating leases was approximately \$4,160 and \$3,301, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2006, that have initial or remaining lease terms in excess of one year.

Year	Amount
2007	\$ 3,027
2008	2,989
2009	2,907
2010	2,335
2011	2,125
Thereafter	34,085

18. Fair Value of Financial Instruments

The estimated fair value amounts of the Company's financial instruments have been determined by the Company using appropriate market information and valuation methodologies. Considerable judgment is required to develop the estimates of fair value, thus, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value.

Investments and Long-Term Investments

Fair values, which are the amounts reported in the consolidated balance sheets, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

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Assets Whose Use is Limited

These assets consist primarily of cash, short-term investments and interest receivable. The carrying amounts reported in the consolidated balance sheets approximate fair value.

Accounts Payable and Accrued Expenses

The carrying amounts reported in the consolidated balance sheets for accounts payable and accrued expenses approximate their fair value.

Estimated Third-Party Payor Settlements

The carrying amounts reported in the consolidated balance sheets for estimated third-party payor settlements approximate their fair value.

Long-Term Debt

Fair values of the Company's revenue notes are based on current traded value. The fair value of the Company's remaining long-term debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2006 and 2005, are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 22,438	\$ 22,438	\$ 20,066	\$ 20,066
Investments	113,635	113,635	89,700	89,700
Assets whose use is limited	38,526	38,526	43,382	43,382
Long-term investments	18,890	18,890	17,070	17,070
Accounts payable and accrued expenses	55,525	55,525	51,810	51,810
Estimated third-party payor settlements	34,940	34,940	40,598	40,598
Debt	132,370	135,125	138,537	141,860

19. Subsequent Events

On January 11, 2007, Putnam Hospital Center, obtained a \$10,000 line of credit commitment letter from Manufacturers and Traders Trust Company ("M&T Bank"). The proceeds are to be used as bridge financing, collateralized by the pledges receivable of Putnam Hospital Center Foundation and guaranteed by Vassar Brother Medical Center. The term of the line of credit is two years.

Report of Independent Auditors on Accompanying Consolidating Information

The Board of Trustees of
Health Quest Systems, Inc. and Subsidiaries

The report on our audits of the consolidated financial statements of Health Quest Systems, Inc. and Subsidiaries as of December 31, 2006 and 2005 and for the years then ended appears on page 1 of this document. The audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 13, 2007

Health Quest Systems, Inc. and Subsidiaries
 Consolidating Balance Sheets
 As of December 31, 2006

	Health Quest	VBMC	Foundation for VBMC	VBH Insurance	PHC	PHC Foundation	NDH	NDH Foundation	NDRHCF	RDSI	Alamo	HVIC	Wells Manor	RMSI	Total	Total Eliminations	Consolidated
Assets																	
Cash and cash equivalents	\$ 309	\$ 8,813	\$ 285	\$ 1,471	\$ 5,321	\$ 1,255	\$ 2,513	\$ 399	\$ 644	\$ 893	\$ 354	\$ 166	\$ 13	\$ 2	\$ 22,438	\$ 342	\$ 22,438
Investments		70,044	13,283		17,023	4,750	5,370				3,165				113,655		113,655
Assets whose use is limited and restricted for current liabilities																	
Externally restricted		2,095							54		321				2,470		2,470
Investments held by captiv		44,139		21,513	13,779		5,020		1,237	3,016	908	749			21,513		21,513
Patient accounts receivable, net	417	5,441	2		2,173		1,101		42	446	9	13	33		68,848		68,848
Supplies and prepaid expenses	53	760	1,070	894		1,342		911		137	104		28		9,677		9,677
Other current assets							143								5,299		5,299
Estimated third-party payor adjustments					2,414		921								143		143
Due to foundation, current					946		101								3,343		3,343
Due to affiliates, current portion	7,242	3,262	9		946	101				464	18				12,042	(12,042)	-
Total current assets	8,021	134,554	14,649	23,878	41,998	7,448	9,698	6,680	1,977	4,956	4,879	928	74	2	259,742	(16,150)	243,592
Interest in Foundation					8,979		5,743								14,722	(14,722)	-
Assets whose use is limited									3,923		401				14,543		14,543
Externally restricted		10,219													18,890		18,890
Long-term investment		18,890															
Property, plant and equipment, less accumulated depreciation and amortization	467	143,636	8		28,473		31,792	30	3,188	263	672	201	1,779		210,509		210,509
Intangibles, less accumulated amortization		3,696			1,264						1,907				3,171		3,171
Due from affiliates, net of current	1,054	15,785	3,885		735	4,013	2,668	1,810	19	298			175		4,750	(4,750)	-
Other non-current assets	1,797						49,901	8,520	9,107	5,517	7,859	1,129	2,028	2	31,135		31,135
Total assets	\$ 11,339	\$ 326,780	\$ 18,492	\$ 23,878	\$ 81,449	\$ 11,461	\$ 49,901	\$ 8,520	\$ 9,107	\$ 5,517	\$ 7,859	\$ 1,129	\$ 2,028	\$ 2	\$ 557,462	\$ (35,622)	\$ 521,840
Liabilities and net assets																	
Current liabilities																	
Due to affiliates, net of long-term debt		3,912					1,208		66		321		53		7,134		7,134
Current portion of postretirement expenses		3,000			5,793										8,793		8,793
Accounts payable and accrued expenses	7,352	24,055	38	1,202	12,605		5,369		747	3,239	609	323	140		55,679	(154)	55,525
Estimated third-party payor adjustments		8,208			2,777		89		264		300	76			11,714		11,714
Estimated insurance loss reserve payable				14,189											14,189		14,189
Due to affiliates, current portion	474	1,774	70		2,656	67	4,111	584	407	934	2,170	472			15,749	(13,749)	2,000
Total current liabilities	7,826	40,949	108	15,421	25,405	67	10,777	584	1,484	4,173	3,400	871	193		111,258	(13,903)	97,355
Long-term debt, net of current portion		94,208			6,617		15,139		6,276		401		2,595		125,236		125,236
Postretirement benefit obligations		2,014			663										2,677		2,677
Estimated third-party payor adjustments and other liabilities	3,514	31,843	76	787	6,158		2,265			102					44,745		44,745
Due to affiliates, net of current portion		402			370		285								3,987	(3,987)	-
Total liabilities	11,340	169,416	184	16,208	39,213	67	28,464	584	7,760	4,275	3,801	871	2,788	2,932	287,903	(17,890)	270,013
Net assets																	
Unrestricted	(1)	147,708	14,164	7,670	32,787	1,844	14,670	726	1,216	1,242	4,058	258	(760)	(2,930)	222,652	2,178	224,830
Temporarily restricted		7,465	3,696		8,620	8,721	5,272	6,785	131						40,690	(19,081)	21,609
Permanently restricted		2,911	448		829	829	1,495	425							6,217	(829)	5,388
Total net assets	(1)	157,644	18,308	7,670	42,236	11,394	21,437	7,936	1,347	1,242	4,058	258	(760)	(2,930)	269,559	(17,752)	251,807
Total liabilities and net assets	\$ 11,339	\$ 326,780	\$ 18,492	\$ 23,878	\$ 81,449	\$ 11,461	\$ 49,901	\$ 8,520	\$ 9,107	\$ 5,517	\$ 7,859	\$ 1,129	\$ 2,028	\$ 2	\$ 557,462	\$ (35,622)	\$ 521,840

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

Health Quest Systems, Inc. and Subsidiaries
Consolidating Balance Sheets
As of December 31, 2005

(In thousands)

	Health Quest	VBMC	Foundation for VBMC	YBH Insurance	PHC	PHC Foundation	NDH	NDH Foundation	NDRHCF	RDSI	Alamo	HVHC	Wells Manor	RMSI	Total	Total Eliminations	Consolidated
ASSETS																	
Current assets																	
Cash and cash equivalents	\$ 50	\$ 8,440	\$ 1,183	\$ 351	\$ 5,447	\$ 990	\$ 1,137	\$ 658	\$ 467	\$ 720	\$ 315	\$ 277	\$ 7	\$ 25	\$ 20,067	\$ 20,067	\$ 20,067
Restricted cash		56,718	10,522		12,948	3,142		3,927			2,443				1,908	1,908	1,908
Investments															89,700		89,700
Assets whose use is limited and required for current liabilities																	
Intangible assets, net		1,980		18,043					83		321				2,384		2,384
Investment in HealthQuest															18,043		18,043
Intangible assets held by captive															64,671		64,671
Patent accounts receivable, net		39,500			13,816		4,686		922	3,043	1,885	729			64,671		64,671
Supplies and prepaid expenses	1,794	4,052	1		1,609	144	548		31	493	63	61			8,796		8,796
Other current assets	8	778	482	2,528		590		911		388	110	35		19	5,849	(2,429)	3,420
Estimated third-party payor adjustments							193								193		193
Interest in Foundation, current							915								2,267	(2,267)	-
Due from affiliates, current portion	3,296	2,475	81		1,352	31	339			1,260	157				7,770	(7,770)	-
Total current assets	5,148	114,033	12,269	20,022	37,211	4,897	7,818	5,496	1,503	5,904	5,294	1,067	42	44	221,648	(12,466)	209,182
Interest in Foundation							5,278								11,670	(11,670)	-
Assets whose use is limited																	
Externally restricted		18,568							3,667		721				22,956		22,956
Long-term investments		17,010	60												17,070		17,070
Property, plant and equipment, less accumulated depreciation and amortization	1,117	141,927	11		26,525		28,799	22	3,241	63	724	171	1,852	14	204,466		204,466
Intangibles, less accumulated amortization		263			1,424						2,001				3,425		3,425
Due from affiliates, net of current	1,391	17,536	1,473		800	2,978	3,086	2,077	20	5,967	8,740	224		58	29,585	(263)	29,585
Other non-current assets																	
Total assets	\$ 7,656	\$ 309,337	\$ 13,813	\$ 20,022	\$ 72,352	\$ 7,875	\$ 44,981	\$ 7,595	\$ 8,431	\$ 5,967	\$ 8,740	\$ 1,238	\$ 2,118	\$ 58	\$ 511,083	\$ (24,399)	\$ 486,684
LIABILITIES AND NET ASSETS																	
Current liabilities																	
Current portion of long-term debt	\$	\$ 5,402			\$ 1,992		\$ 1,344		\$ 61		\$ 321		\$ 49	\$ 102	\$ 9,271		9,271
Current portion of postretirement expenses		3,227			5,100										8,327		8,327
Accounts payable and accrued expenses	5,228	24,660	31	15	10,887		6,057	15	969	3,608	646	286	140	26	52,568	(750)	51,818
Estimated third-party payor adjustments		7,352			5,467				304		300	75			13,498		13,498
Estimated insurance loss reserve																	
Due to affiliates, current portion	2,429	1,111	327	12,902	1,476	131	2,127	475	127	778	1,505	82		1	13,902	(10,754)	12,902
Total current liabilities	7,657	41,752	358	13,102	24,922	131	9,528	490	1,461	4,386	2,772	443	189	129	107,320	(11,304)	95,816
Long-term debt, net of current portion		98,187			8,198		13,170		6,342		721		2,649		129,267		129,267
Postretirement benefit obligations		2,607			6,770										9,377		9,377
Estimated third-party payor adjustments and other liabilities		34,003	60	1,138	7,408		3,013								45,622		45,622
Due to affiliates, net of current portion																	
Total liabilities	7,657	176,549	418	14,240	47,298	131	25,711	490	7,803	4,386	3,495	443	2,838	3,061	294,518	(14,436)	280,082
Net assets																	
Unrestricted	(1)	125,667	12,947	6,682	18,986	1,577	13,001	491	450	1,581	5,247	795	(720)	(3,003)	183,700	2,397	186,097
Temporarily restricted					5,242	5,341	4,774	6,314	178						26,779	(11,534)	15,245
Permanently restricted		2,191	448		826	826	1,495	300							6,086	(826)	5,260
Total net assets	(1)	132,888	13,395	6,682	25,054	7,744	19,270	7,105	628	1,581	5,247	795	(720)	(3,003)	216,565	(9,963)	206,602
Total liabilities and net assets	\$ 7,656	\$ 309,337	\$ 13,813	\$ 20,022	\$ 72,352	\$ 7,875	\$ 44,981	\$ 7,595	\$ 8,431	\$ 5,967	\$ 8,740	\$ 1,238	\$ 2,118	\$ 58	\$ 511,083	\$ (24,399)	\$ 486,684

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

Health Quest Systems, Inc. and Subsidiaries
 Consolidating Statements of Operations
 For the year ended December 31, 2006

Health Quest	YBMC	Foundation for YBMC	YBH Insurance	PHC Foundation	PHC Foundation	NDH	NDH Foundation	NDRHCF	RDSI	Alamo	HVHC	Wells Manor	RMSI	Total	Eliminations	Consolidated
Operating Revenue																
Net patient service revenue	\$ 279,026		\$ 1,708	\$ 114,363	\$ 822	\$ 46,574	\$ 530	\$ 8,413	\$ 20,202	\$ 8,455	\$ 4,512		\$ 26	\$ 481,545	\$	\$ 481,545
Other revenue	8,564	1,660	1,708	3,454	822	1,250	530	31	14,507	1,559	44	720	26	64,221	(48,334)	15,887
Net assets released from restrictions used for operations	121													121		121
Operating Expenses																
Total operating revenue	29,346	287,711	1,708	117,817	822	47,824	530	8,444	34,709	10,014	4,556	720	26	545,887	(48,334)	497,553
Salaries and fees	16,673	107,458	338	43,224		16,870	130	3,740	22,573	6,228	3,337			220,571		220,571
Employee benefits	4,095	32,094	61	13,901		5,624	34	1,335	3,464	2,072	832			63,512		63,512
Supplies	381	48,797	13	18,124		8,175	4	169	29	154	77			75,923		75,923
Other expenses	8,058	66,831	400	25,657	533	10,730	260	2,961	5,390	2,735	804	423	(6)	127,173	(48,382)	78,791
Provision for bad debts		1,438		3,504		942			3,569	1,352	(11)			10,794		10,794
Interest		5,126		622		1,060				46		247	3	7,584		7,584
Depreciation and amortization	139	15,265	6	4,484		2,734	11	389	41	409	65	90	14	23,647		23,647
Total operating expenses	29,346	277,009	818	109,516	533	46,135	439	9,074	35,066	12,996	5,104	760	11	529,204	(48,382)	480,822
Investment income (loss) and other		10,702		8,300	289	1,689	91	(630)	(357)	(2,982)	(548)	(40)	15	16,683		16,683
Contributions and grants		6,576		1,345		99		81	0	269	11			9,630		9,630
Gain on discontinued operations																
Gain on disposal																
Excess (deficiency) of revenue over expenses		17,278	842	9,644	289	1,788	91	(549)	(351)	(2,713)	(537)	(40)	15	26,313	48	26,361
Change in net unrealized gains (losses)		2,907	375	194	(22)		144			145				4,175		4,175
Additional minimum pension liability		2,236		3,454										5,690		5,690
Net assets released from restrictions for capital expenditures		780		454		616		47						1,897		1,897
Grant income for capital		346		62		202								610		610
Investment in VBH Insurance																
Change in interest in foundation														267		267
Transfers of equity		(11,506)		(274)		(937)		1,268	12	1,379			58			
Increase (decrease) in unrestricted net assets before cumulative effect		22,041	1,217	13,800	267	1,669	235	766	(339)	(1,189)	(537)	(40)	73	38,952	(219)	38,733
Cumulative effect of a change in accounting principle																
Increase (decrease) in unrestricted net assets after cumulative effect	\$ -	\$ 22,041	\$ 1,217	\$ 13,800	\$ 267	\$ 1,669	\$ 235	\$ 766	\$ (339)	\$ (1,189)	\$ (537)	\$ (40)	\$ 73	\$ 38,952	\$ (219)	\$ 38,733

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

Health Quest Systems, Inc. and Subsidiaries
Consolidating Statements of Operations
For the year ended December 31, 2005

Health Quest	YBMC	Foundation for YBMC	YBH Insurance	PHC	BHC Foundation	Craig House	Community Care Centers	NDH	NDH Foundation	NBRHCF	RDSI	Alamo	HVHC	Wells Manor	RMSI	Total	Eliminations	Consolidated
	\$ 24,401	\$ 246,021	\$ 1,313	\$ 104,764	\$ 972	\$ -	\$ -	\$ 39,016	\$ 481	\$ 8,222	\$ 16,801	\$ 9,264	\$ 5,511	\$ 700	\$ 29	\$ 429,599	\$ (39,960)	\$ 429,599
Net patient service revenue	8,506	1,663	1,313	3,832	972	-	-	1,301	481	17	13,208	1,416	128	700	29	58,067	(39,960)	18,107
Other revenue	146			33												179		179
Net assets released from restrictions used for operations	24,401	254,673	1,663	108,629	972	-	-	40,317	481	8,239	30,109	10,680	5,639	700	29	487,845	(39,960)	447,885
Operating Revenue																		
Total operating revenue	13,920	98,024	326	39,997	15,847	-	-	15,847	135	3,544	19,833	6,363	3,493	700	29	201,482	(750)	200,732
Salaries and fees	3,490	26,126	53	13,432	4,322	-	-	4,322	35	1,169	3,132	2,008	773	700	29	54,540		54,540
Employee benefits	379	42,836	6	17,285	5,490	-	-	5,490	4	3,190	4,171	150	67	425	17	66,327		66,327
Supplies	6,529	55,062	437	25,947	11,287	-	-	11,287	312	3,190	4,171	2,737	725	425	17	113,576	(50,061)	74,515
Other expenses	-	2,591	-	816	233	-	-	233	325	248	2,483	1,295	186	251	11	7,949		7,949
Provision for bad debts	-	4,803	-	623	349	-	-	349	485	364	83	471	53	88	15	6,554		6,554
Interest	73	14,348	6	3,762	2,081	-	-	2,081	364	284	83	471	53	88	15	21,344		21,344
Depreciation and amortization	24,391	243,790	828	101,962	513	-	-	39,619	486	9,077	29,754	13,024	5,297	764	43	471,772	(39,811)	431,961
Total operating expenses	10	10,883	835	6,667	459	-	-	698	(5)	(838)	355	(2,344)	342	(64)	(14)	16,073	(149)	15,924
Operating income (loss)	10	10,883	835	6,667	459	-	-	698	(5)	(838)	355	(2,344)	342	(64)	(14)	16,073	(149)	15,924
Investment income (loss) and other								290	278	50	172	185	9			9,598	(2,634)	6,964
Contributions and grants																		
Gain on disposal																		
Excess (deficiency) of revenue over expenses	10	15,140	835	7,339	459	2,733	108	988	273	(788)	527	(2,159)	351	(64)	(14)	25,671	(2,783)	22,888
Change in net unrealized gains (losses)		(1,241)	(178)	88	9				(46)			(58)				(1,783)		(1,783)
Additional minimum pension liability		571		(1,934)												(1,363)		(1,363)
Net assets released from restrictions for capital expenditures		2,536		917				263			3					3,716		3,716
Grant income for capital								540								543		543
Investment in YBH Insurance																		
Change in interest in foundation																		
Other		(2,403)		(489)				(513)		654	221	2,286			144	468	(468)	-
Transfers of equity																		
Increase (decrease) in unrestricted net assets before	10	14,603	657	6,389	468	2,733	108	1,278	227	(134)	751	169	351	(64)	(130)	27,272	(3,251)	24,021
Cumulative effect of change in accounting principle		(801)		(834)				(303)								(1,938)		(1,938)
Increase (decrease) in unrestricted net assets after cumulative effect	10	13,802	657	5,555	468	2,733	108	975	227	(134)	751	169	351	(64)	(130)	25,334	(3,251)	22,083

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

Appendix C

**Summary of Certain Provisions of
the Loan Agreements**

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Loan Agreements pertaining to the Series 2007 Bonds and the 2007 Projects. Such summary does not purport to be complete and reference is made to each Loan Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

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 thereunder by the Institution shall have been made or provision made for the payments thereof; provided, however, that the Loan Agreement provision with respect to arbitrage and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred under 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 to the Loan Agreement.

(Section 38)

Construction of Projects

1. The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and under the Loan Agreement, the Institution shall complete the acquisition, design, construction, reconstruction, rehabilitation 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 the Institution shall complete the refinancing or defeasance of such outstanding bonds or other indebtedness. Subject to the conditions thereof, the Authority will, to the extent of moneys available in the applicable Construction Fund, cause the Institution to be reimbursed for, or pay, any 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.

2. (a) 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 provided in the Loan Agreement, 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 parts 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.

(b) 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, 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 following:

(1) a list of invoices, whether paid or unpaid, including, with respect to each invoice, the name of the vendor, a brief description of the goods or services, the amount of the invoice, a description of the building or buildings to which such payment relates, and, if such invoice has been paid, the date paid, the check number and the amount of the payment;

(2) copies of architect's certification(s), if any, relating to the invoices referenced in subsection (b)(1) above;

(3) a reconciliation of the approved budget with funds already disbursed together with funds requested for disbursement currently; all enclosed with

(4) a certificate executed by two (2) Authorized Officers of the Institution certifying, with respect to items 1, 2 and 3 above, that:

(A) The enclosed architect's certification(s) is (are) a true and correct copy of the architect's certification(s) received by the Institution for the work to which it relates;

(B) The enclosed reconciliation of the approved budget with funds already disbursed together with funds requested for disbursement currently is true and correct;

(C) Expenses or monies for which payment is requisitioned in the amount of \$_____ have been incurred or expended for items which constitute Costs of the Project, as that term is defined in the Resolution, which Project has not been modified except as permitted by the Loan Agreement;

(D) Each amount for which payment is sought has not been the basis of any prior disbursement from the Construction Fund;

- (E) The payments being requisitioned are within the project budget submitted to and approved by the Authority in accordance with the provisions of the Loan Agreement, and to the best of the Authorized Officers' knowledge, the Project can be completed within budget;
- (F) The Institution has complied with all provisions of the Loan Agreement and the Tax Certificate, including, but not limited to those related to the use of the Project and certain prohibitions against use for sectarian religious instruction or religious worship and certain non tax-exempt purposes; and.
- (G) The Institution will retain all original documentation related to expenditures for items which constitute Costs of the Project for at least seven (7) years after completion of the Project for inspection at any time by the Authority, the Department of Health, or any representative of the Authority or the Department of Health.

3. 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 the same first to such payment before using any part thereof for any other purposes.

4. The Institution shall permit the Authority, the Applicable Credit Facility Issuer, if any, the Department of Health and their authorized representatives, at any time, 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 Applicable Credit Facility Issuer, if any, the Department of Health 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.

5. An Authorized Officer of the Authority, in his sole and absolute discretion, may waive, from time to time, any of the conditions set forth in this summarized section other than conditions relating to the rights and authority of the Department of Health. 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 Applicable Trustee and shall be made in accordance with the Resolution only upon receipt by the Applicable Trustee of the documents required by the Resolution to be executed and delivered in connection with such disbursements.

6. A Project shall be deemed to be complete upon delivery to the Authority and the Applicable Trustee 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 Applicable Trustee and the Institution 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 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, 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 the Resolution.

7. 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 thereof relating to the construction of Projects shall apply to such Project.

(Section 5)

Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments

1. 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 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:

(a) On or before the date of delivery of the Series 2007 Bonds, payment of the Authority Fee and payment of the Department of Health fee;

(b) 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;

(c) On the tenth (10th) day of each month commencing on the tenth (10th) day of the sixth (6th) month immediately preceding the date on which such interest becomes due, one-sixth (1/6) of the interest coming due on all Bonds issued by the Authority for the benefit of the Institution as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, on the immediately succeeding interest payment date for such Bonds; provided, however, that, if there are less than six (6) such payment dates prior to the first such interest payment date on the Bonds of a Series, on each payment date prior to such interest payment date the Institution shall pay with respect to such Bonds an amount equal to the interest coming due on such Bonds on such interest payment date multiplied by a fraction, the numerator

of which is one (1) and the denominator of which is the number of payment dates prior to the first interest payment date on the Bonds of such Series;

(d) On the tenth (10th) day of each month commencing on the tenth (10th) day of the twelfth month immediately preceding the July on which the principal or a Sinking Fund Installment of Bonds becomes due, one-twelfth (1/12) of the principal and Sinking Fund Installments on the Bonds issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, coming due on such July; provided, however, that, if there are less than twelve (12) such payment dates prior to the July on which principal or Sinking Fund Installments come due on Bonds of a Series, on each payment date prior to such July the Institution shall pay with respect to such Bonds an amount equal to the principal and Sinking Fund Installments of such Bonds coming due on such July multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates prior to such July;

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof.

(f) On December 10 of each Bond Year, 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, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, and on June 10 of each Bond Year 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 2007 Bonds, on December 10, 2007, 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 2007 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 calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(g) 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 (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to subdivision 5 below and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) 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 Obligations in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorneys 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 issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached

to the Loan Agreement and made a part thereof, or the financing or construction of a Project or Projects for the benefit of the Institution;

(h) On the date a Series of Bonds, other than the Series 2007 Bonds, is issued, an amount equal to the Authority Fee for such Series of Bonds;

(i) 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;

(j) 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;

(k) 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

(l) On or before October 10, 2007 and on or before the tenth day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee as described in the regulations of the Commissioner of Health.

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 (d) of subdivision 1 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 directs the Institution, and the Institution agrees, to make the payments required by paragraphs (c), (d), (e), (i), and (k) of subdivision 1 above directly to the Applicable Trustees for deposit and application in accordance with the Resolution, the payments required by paragraph (b) of subdivision 1 above directly to the Applicable 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 paragraphs (a), (f), (g) and (h) of subdivision 1 above directly to the Authority, the payments required by paragraph (j) of subdivision 1 above to or upon the order of the Authority and the payments required by paragraph (l) of subdivision 1 above, directly to the Commissioner of Health. In the event that the payments required to be made directly to the Applicable Trustee pursuant to the preceding sentence are less than the total amount required to be paid to the Applicable 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 (c), (d), (e), (i) and (k) of subdivision 1 above bears to the total amount then due and payable for all Series of Bonds, pursuant to such paragraphs of the Loan Agreement.

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 to the Loan Agreement 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 Applicable Trustee pursuant to the Obligation relating to the Applicable Series 2007 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.

2. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in subdivision 1 above), all moneys paid by the Institution to the Applicable Trustee pursuant to the Loan Agreement or otherwise held by the Applicable 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 Applicable 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 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 subdivision 2 above), (i) all moneys paid by the Institution to the Applicable Trustee pursuant to paragraphs (c), (d), (e), (i), and (k) of subdivision 1 above (other than moneys received by the Applicable Trustee pursuant to the Resolution which shall be retained and applied by the Applicable Trustee for its own account) shall be received by the Applicable 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 Applicable Trustee of any moneys (other than moneys described in clause (i) of subdivision 2 above) 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 Applicable 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.

3. 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 Applicable Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete a Project(s) or the completion thereof with defects, failure of the Institution to occupy or use a Project(s), 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 Applicable 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(s), beyond the extent of moneys available in the Applicable Construction Fund established for such Project(s).

The Loan Agreement and the obligations of the Institution to make payments under the Loan Agreement are general obligations of the Institution.

4. 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 to the Loan Agreement. 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.

5. The Authority shall have the right in its sole discretion to make on behalf of the Institution any payment required pursuant to this summarized 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 pursuant to 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.

6. 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 Applicable 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 Applicable Trustee for the payment of Bonds in accordance with the Resolution. Upon any voluntary payment by the Institution or upon any deposit in a Debt Service Fund made pursuant to subdivision 2 above, the Authority agrees to direct the Applicable Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the Applicable Trustee irrevocable instructions in accordance with 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 the Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Applicable 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 the Resolution.

(Section 9)

Reserve Fund

1. Except to the extent a deposit is made to the Applicable Debt Service Reserve Fund upon the issuance of a Series of Bonds from the proceeds of the sale of such Bonds, simultaneously with the issuance of a Series of Bonds the Institution shall deliver to the Applicable Trustee for deposit in the Applicable Debt Service Reserve Fund, moneys, Government Obligations, Federal Agency Obligations or Exempt Obligations the value of which is at least equal to its share of the Applicable Debt Service Reserve Fund Requirement. The Institution agrees that it will at all times provide funds to the Applicable Trustee sufficient to maintain on deposit in the Applicable Debt Service Reserve Fund an amount at least equal to its share of the Applicable Debt Service Reserve Fund Requirement; provided, however, that the Institution shall be required to deliver moneys, Government Obligations, Federal Agency Obligations or Exempt Obligations to the Applicable Trustee for deposit in the Applicable Debt Service Reserve Fund as a result of a deficiency in such fund only upon receipt of the notice required by the Resolution.

Notwithstanding the foregoing, the Institution may deliver to the Applicable Trustee for deposit to the Applicable Debt Service Reserve Fund, letters of credit, surety bonds, or insurance policies for all or any part of the Debt Service Reserve Fund Requirement in accordance with and to the extent permitted by the Resolution.

2. The delivery to the Applicable Trustee of Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities from time to time made by the Institution pursuant to the Loan Agreement shall constitute a pledge thereof, and shall create a security interest therein, for the benefit of the Authority to secure performance of the Institution's obligations under the Loan Agreement and for the benefit of the Applicable Trustee to secure the performance of the obligations of the Authority under the Resolution. The Institution authorizes the Authority pursuant to the Resolution to pledge such Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities to secure payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Bonds, whether at maturity, upon acceleration or otherwise, and the fees and expenses of the Applicable Trustee, and to make provision for and give directions with respect to the custody, reinvestment and disposition thereof in any manner not inconsistent with the terms of the Loan Agreement and of the Resolution.

3. All Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities deposited with the Applicable Trustee pursuant to the Loan Agreement for deposit to a Debt Service Reserve Fund shall be fully negotiable (subject to provisions for registration thereof) and the principal thereof and the interest, dividends or other income payable

with respect thereto shall be payable to bearer or to the registered owner. All Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities in registered form shall be registered in the name of the Applicable Trustee (in its fiduciary capacity) or its nominee. Record ownership of all Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities shall be transferred promptly following their delivery to the Applicable Trustee into the name of the Applicable Trustee (in its fiduciary capacity) or its nominee. Pursuant to the Loan Agreement, the Institution appoints the Applicable Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

4. Pursuant to the Loan Agreement, the Institution agrees that upon each delivery to the Applicable Trustee of Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities, whether initially or upon later delivery or substitution, the Institution shall deliver to the Authority and the Applicable Trustee a certificate of an Authorized Officer of the Institution to the effect that the Institution warrants and represents that the Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities delivered by the Institution (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition of such Government Obligations, Federal Agency Obligations, Exempt Obligations or other Securities as contemplated by the Loan Agreement or by the Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Institution duly had and taken.

(Section 10)

Consent to Pledge and Assignment by the Authority; Covenants, Representations, and Warranties

1. The Institution consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Applicable Trustee of the Authority's rights to receive the payments required to be made pursuant to paragraphs (c), (d), (e), (i) and (k) of subdivision 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" 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 pursuant to subdivision 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above 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 Applicable Trustee. The Institution further agrees that the Authority may pledge and assign to the Applicable 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 Applicable Trustee authorized by the Loan Agreement, the Applicable 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 by any pledge and assignment, 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 under the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan Agreement.

2. The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its charter and by-laws or resolutions duly adopted pursuant thereto to enter into the Loan Agreement, to incur the indebtedness contemplated thereby and to pledge, grant a security interest in and assign to the Authority and the Applicable Trustee for the benefit of the Holders of the Bonds, the Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to subdivision 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above in the manner and to the extent provided therein and in the Resolution. The Institution further covenants, warrants and represents that except with respect to additional Bonds, any and all pledges, security interests in and assignments made or to be made pursuant to Loan Agreement 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 to the Loan Agreement, 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 subdivision 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above 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 thereof, and the consummation of the transaction therein contemplated and compliance with the provisions thereof, 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 Applicable Trustee pursuant to subdivision 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter 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)

Maintenance of Corporate Existence

The Institution covenants that 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 Authority and 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; 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 and the Credit Facility Issuer 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 and the Credit Facility Issuer 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)

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 Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 13)

Arbitrage

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 2007 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 Regulatory Agreement, which is incorporated in the Loan Agreement as if set forth fully therein. 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 as identified in the Resolution. The Institution shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirements.

(Section 31)

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 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

1. As used in the Loan Agreement the term "Event of Default" shall mean:

(a) the Institution shall (i) default in the timely payment of any amount payable pursuant to the provisions of the Loan Agreement summarized under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" above (other than pursuant to subdivisions (1)(a) and (1)(l) thereof) or in the delivery of Securities or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement or with the Resolution, and such default continues for a period in excess of seven (7) days or (ii) default in the payment of any amount payable pursuant to

subdivisions (l)(a) and (1)(l) under the heading “Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments” above;

(b) the Institution defaults in the due and punctual performance of any other covenant contained in the Loan Agreement 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 Applicable 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;

(c) 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 Applicable Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Obligated Group shall be in default under the Master Indenture, and such default continues beyond any applicable grace period;

(e) the Institution shall (i) be generally not paying its debts 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;

(f) 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;

(g) the charter of the Institution shall be suspended or revoked;

(h) 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;

(i) 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;

(j) 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;

(k) 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;

(l) a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Bonds shall be rendered against the Institution and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged, or (ii) the Institution shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within forty-five (45) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal; or

(m) the receipt of written notification by the Trustee from an Applicable Credit Facility Issuer, if any, of the occurrence and continuance of an event of default under an Applicable Reimbursement Agreement, if any, 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 in accordance with the terms of the Intercreditor Agreement.

2. 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:

(a) declare all sums payable by the Institution under the Loan Agreement or under the Obligations relating to the Applicable Bonds immediately due and payable;

(b) direct the Applicable 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;

(c) withhold any or all further performance under the Loan Agreement;

(d) 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 Applicable Obligation, as provided in the Master Indenture;

(e) permit, direct or request the Applicable 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 therefrom or from the Resolution;

(f) 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 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 the Loan Agreement, (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 the Loan Agreement 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 the Loan Agreement during the term of the Loan Agreement, the Institution 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

(g) 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.

3. All rights and remedies given or granted under the Loan Agreement 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.

4. 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 the Loan Agreement 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.

5. 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 the Master Indenture.

(Section 26)

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Appendix D

Summary of Certain Provisions of the Resolution

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Resolution. Such summary does not purport to be complete and reference is made to the Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

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 an 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 an Applicable Series, and the pledge and assignment made therein 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 a Series over any other Bonds of such Series except as expressly provided in the Resolution or permitted by the Resolution or by the Applicable Series Resolution.

(Section 1.03)

Pledge of Revenues

The proceeds from the sale of an Applicable Series of Bonds, the Revenues and all funds authorized under 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, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Applicable 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, all in accordance with the provisions of the Resolution and the Applicable Series Resolution. The pledge made pursuant to 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 pursuant to 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 pursuant to the Resolution and pursuant to the Applicable Series Resolution which are pledged pursuant to 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 pursuant to 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 pursuant to the Resolution, 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; and
Credit Facility Repayment 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 pursuant to 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.

(Section 5.02)

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 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 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.

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 subdivision 5 under the heading “Enforcement of Obligations, Deposit of Revenues and Allocation Thereof” below, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the 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 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. Except as otherwise provided in the Applicable Series Resolution authorizing a Series of Bonds or the Applicable Bond Series Certificate, 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, the Applicable Facility Provider, if any, for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to the Applicable Facility Provider, if any in connection with such Series of Bonds;

Second: Upon the direction of an Authorized Officer of the Authority, to the Applicable Arbitrage Rebate Fund in the amount set forth in such direction;

Third: To the Applicable Debt Service Reserve Fund, such amount, if any, necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Fourth: 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 pursuant to 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 paragraph Fourth of subdivision 2 above.

3. After making the payments required by subdivision 1 above, the balance, if any, of the Revenues then remaining shall, upon the 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 pursuant to the Resolution. The Trustee shall notify the Authority and the Institution promptly after making the payments required by subdivision 1 above, 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 the applicable Series Resolution or Applicable Bond Series Certificate, pay, from the Applicable Debt Service Fund, 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 provision of the Resolution summarized below under the heading “Application of Moneys in Certain Funds for Retirement of Bonds”.

The amounts paid out pursuant to this summarized 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 and each member of the Obligated Group of a withdrawal from the Applicable Debt Service Reserve Fund.

3. Notwithstanding the provisions of subdivision 1 above of the Resolution, 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 the Institution(s) and delivered to the Trustee in accordance with the Loan Agreement(s) shall be canceled upon receipt thereof by the 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 Applicable Outstanding Bonds of a Series payable on or prior to the next succeeding principal payment date, the interest on such Applicable Outstanding Bonds payable on the earlier of 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 then bear interest plus one

percent (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 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 4 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.

(Section 5.06)

Debt Service Reserve Fund

1. (a) The Applicable Trustee of a Series of Bonds shall deposit to the credit of the Applicable Debt Service Reserve Fund such proceeds of the sale of Bonds, if any, as shall be prescribed in the Applicable Series Resolution or the Applicable Bond Series Certificate, and any Revenues, moneys, Government Obligations and Exempt Obligations as, by the provisions of the Loan Agreement(s), are delivered to the Trustee by the Applicable Institution(s) for the purposes of the Applicable Debt Service Reserve Fund.

(b) In lieu of or in substitution for moneys, Government Obligations, Federal Agency Obligations or Exempt Obligations, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Applicable Debt Service Reserve Requirement; provided (i) that any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of such insurance company or association is rated in the highest rating category accorded by a nationally recognized insurance rating agency or (B) obligations insured by a surety bond or an insurance policy issued by such company or association are rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in the highest rating category at the time such surety bond or insurance policy is issued by Moody’s and S&P or, if Outstanding Bonds of a Series are not rated by both Moody’s and S&P, by whichever of said rating services that then rates such Outstanding Bonds and (ii) that any letter of credit shall be issued by 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 provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law, or 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, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating

by symbols such as “+” or “-” or numerical notation, in at least the second highest rating category by Moody’s and S&P or, if such Outstanding Bonds are not rated by Moody’s and S&P, by whichever of said rating services that then rates such Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of a Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to an Applicable Credit Facility Issuer to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority, and (iii) in the event such Reserve Fund Facility is a letter of credit, an opinion of counsel acceptable to the Trustee substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority or the Institution thereunder or under any applicable provisions of the Debtor and Creditor Law of the State and (iv) the written consent of all Applicable Credit Facility Issuers, if any.

Notwithstanding the foregoing, if at any time after a Reserve Fund Facility has been deposited with the Trustee the unsecured or uncollateralized long term debt of the Facility Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Facility Provider is reduced below the ratings required by the second preceding paragraph, the Authority shall, unless at the time such ratings are reduced such Facility Provider is the Credit Facility Issuer of all Outstanding Bonds of the Applicable Series, either (i) replace or cause to be replaced said Reserve Fund Facility with another Reserve Fund Facility which satisfies the requirements of the second preceding paragraph or (ii) deposit or cause to be deposited in the Applicable Debt Service Reserve Fund an amount of moneys, Government Obligations, Federal Agency Obligations or Exempt Obligations which meet the requirements of the Resolution which is equal to the value of the Reserve Fund Facility of such Facility Provider, such deposits to be, as nearly as practicable, in ten (10) equal semi-annual installments commencing on the earlier of the January 1 or July 1 next succeeding the reduction in said ratings.

Each such surety bond, insurance policy or letter of credit shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Applicable Debt Service Reserve Fund and such withdrawal cannot be made without obtaining payment under such Reserve Fund Facility.

For the purposes of the Resolution, in computing the amount on deposit in the Applicable Debt Service Reserve Fund, a Reserve Fund Facility shall be valued at the amount available to be paid thereunder on the date of computation; provided that, if the unsecured or uncollateralized long term debt of such Facility Provider, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Facility Provider has been reduced below the ratings required by the Resolution, said Reserve Fund Facility shall be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of

which is the aggregate number of interest payment dates which has elapsed since such ratings were reduced and the denominator of which is ten.

2. Moneys held for the credit of the Applicable Debt Service Reserve Fund shall be withdrawn by the Trustee and deposited to the credit of the Applicable Debt Service Fund at the times and in the amounts required to comply with the provisions of the Resolution; provided that no payment under an Applicable Reserve Fund Facility shall be sought unless and until moneys are not available in the Applicable Debt Service Reserve Fund and the amount required to be withdrawn from the Applicable Debt Service Reserve Fund pursuant to this subdivision cannot be withdrawn therefrom without obtaining payment under such Reserve Fund Facility; provided further, that, if more than one Reserve Fund Facility is held for the credit of the Applicable Debt Service Reserve Fund at the time moneys are to be withdrawn therefrom, the Trustee shall obtain payment under each such Reserve Fund Facility, pro rata, based upon the respective amounts then available to be paid thereunder. The Trustee shall provide notification as set forth in the Resolution of any withdrawal of moneys from the Debt Service Reserve Fund or payment of a Reserve Fund Facility immediately upon such withdrawal or payment.

With respect to any demand for payment under any Reserve Fund Facility, the Trustee shall make such demand for payment in accordance with the terms of such Reserve Fund Facility at the earliest time provided therein to assure the availability of moneys on the interest payment date for which such moneys are required.

3. (a) Moneys and investments held for the credit of an Applicable Debt Service Reserve Fund in excess of the Applicable Debt Service Reserve Fund Requirement, upon direction of an Authorized Officer of the Authority, shall be withdrawn by the Trustee and (i) deposited in the Applicable Arbitrage Rebate Fund, the Applicable Debt Service Fund or the Applicable Construction Fund, (ii) paid to the Applicable Institution(s) or (iii) applied by the Authority to pay the principal or Redemption Price of and interest on bonds of the Authority issued in connection with the Applicable Institution pursuant to resolutions other than the Resolution, in accordance with such direction; provided, however, with respect to Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes, that no such amount shall be withdrawn and deposited, paid or applied unless in the opinion of Bond Counsel such deposit, payment or application will not adversely affect the exclusion of interest on any such Bonds from gross income for federal income tax purposes.

(b) Notwithstanding the provisions of the Resolution, if, upon a Bond having been deemed to have been paid in accordance with the Resolution or redeemed prior to maturity from the proceeds of Bonds, bonds, notes or other obligations issued for such purpose, the moneys and investments held for the credit of the Applicable Debt Service Reserve Fund will exceed the Applicable Debt Service Reserve Fund Requirement, then the Trustee shall, simultaneously with such redemption or a deposit made in accordance with the Resolution, withdraw all or any portion of such excess from the Applicable Debt Service Reserve Fund upon the direction of an Authorized Officer of the Authority and either (i) apply such amount to the payment of the principal or Redemption Price of and interest on such Bond in accordance with the irrevocable instructions of the Authority or (ii) fund any reserve for the payment of the principal and sinking fund installments of or interest on the bonds, notes or other obligations, if any, issued to provide for payment of such Bond if, in the opinion of Bond Counsel, application of such moneys to the

use authorized in this clause (ii) will not adversely affect the exclusion of interest on any Applicable Bonds from gross income for federal income tax purposes, or (iii) pay such amount to the Authority for deposit to the Applicable Construction Fund if, in the opinion of Bond Counsel, application of such moneys to the payment of Costs of the Project(s) will not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes; provided that after such withdrawal the amount remaining in the Applicable Debt Service Reserve Fund shall not be less than the Applicable Debt Service Reserve Fund Requirement.

4. If upon a valuation, the moneys, investments and Reserve Fund Facilities held for the credit of an Applicable Debt Service Reserve Fund for an Applicable Series of Bonds are less than the Applicable Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority and the Applicable Institution of such deficiency and such Institution shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys, Government Obligations, Federal Agency Obligations, Exempt Obligations or Reserve Fund Facilities the value of which is sufficient to increase the amount in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. If the Applicable Institution has not made timely payment, the Trustee shall immediately notify the Authority, the Obligated Group Representative and the Master Trustee of such non-payment and shall seek payment under the Applicable Obligation in accordance with the terms thereof.

(Section 5.07)

Arbitrage Rebate Fund

The Applicable 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 Institution(s) 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, upon the computation of assets of an Applicable Debt Service Fund and the Debt Service Reserve Fund pursuant to the Resolution, the amounts held in the appropriate accounts in the Applicable Debt Service Fund relating to a Series of Bonds and the Applicable Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds be redeemable, the Trustee shall so notify the Authority and the Applicable Institution(s). Upon receipt of such notice, the Authority shall request the Trustee to redeem all such Outstanding Bonds unless the Applicable Institution objects in writing within five (5) Business Days of receiving notice of such request. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by the Applicable Series Resolution as provided in the Resolution.

(Section 5.09)

Investment of Funds Held by the Trustee

1. Money held under the Resolution by the Trustee of a Series of Bonds in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under the Resolution, any other Permitted Investment; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes thereof; 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 the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

2. 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.

3. 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.

4. 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 to the Resolution and the proceeds thereof may be reinvested as provided in the Resolution. Except as otherwise provided under the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution 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 the Resolution. 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.

5. 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 to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

(Section 6.02)

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)

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 summarized section and of the 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.

1. 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 for the issuance of a Series of Bonds) 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 or 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 summarized 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 Series Resolution authorizing such Refunding Bonds.

2. 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 created by the Resolution and pursuant to any Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of any Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to any Applicable Series Resolution.

(Section 2.05)

Tax Exemptions: 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 summarized section or of the Code.

(Section 7.11)

Events of Default

An event of default shall exist under the Resolution and under an Applicable Series Resolution (called “event of default”) if:

- (a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments 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 with respect to such tax exemption 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 summarized section of the Resolution immediately above, other than an event of default specified in paragraph (c) of the summarized section of the Resolution immediately above, then and in every such case the Trustee may, and, upon the written request of (i) the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) 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 twenty-five per centum (25%) in principal amount of the Applicable Bonds not then due by their terms and then Outstanding, or the Holders of not less than twenty-five per centum (25%) 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 summarized 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 this summarized section) 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 twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, or of the Holders of not less than twenty-five per centum (25%) 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 specified in paragraph (c) of the summarized section of the Resolution above under the heading “Events of Default”, upon the written request of the Applicable Holders of not less than twenty-five per centum (25%) 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 with respect to compensation of the Trustee), to protect and enforce its rights and the rights of the Bondholders or of such Applicable Facility Provider, 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 Applicable Series Resolution, 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 twenty-five per centum (25%) 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 summarized section of the Resolution above under the heading "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 the Holders of not less than twenty-five per centum (25%) 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 summarized section of the Resolution above under the heading "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 declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy thereunder or under the Resolution. 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)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time, with prior written notice to the Applicable Credit Facility Issuer, 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; or

(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 with the Resolution 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 in any material respect.

(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 in accordance with and subject to the provisions of Article 10 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)

Amendment of Loan Agreements and Master Indenture

The Authority may not amend, change, modify, alter or terminate a Loan Agreement or consent to the amendment, change, modification, alteration or termination of the Master Indenture or an Applicable Supplemental Indenture, in either case 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, with the prior written consent of the Applicable Credit Facility Issuer, or (b) 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, with the prior written consent of the Applicable Credit Facility Issuer; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any 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 summarized 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 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.

Notwithstanding any provision of this summarized section to the contrary, the Authority may consent to the waiver, amendment or removal of any covenant which, pursuant to the Master Indenture, may be waived by the Authority without the consent of the Holders of the Bonds or the Trustee. 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 Projects or which may be added to or adjacent to the 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 the Resolution to the contrary, if an Applicable Loan Agreement or the Master Indenture or an Applicable Supplemental Indenture expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement or the Master Indenture or an Applicable Supplemental Indenture, such consent shall be required to be obtained as provided in the Loan Agreement or the Master Indenture. 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 summarized 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 such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular 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 Authority and all Holders of Bonds.

For all purposes of this summarized 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)

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 Applicable Trustee in the Applicable Loan Agreement(s), and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable 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 Applicable Institution(s) and shall turn over to the Applicable Institution(s) or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable 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 Applicable 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 subdivision 1 above. 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 subdivision 1 above 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 4 of the Resolution, notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, 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, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds 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 summarized 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 summarized section. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with this summarized section in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to this summarized 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 the 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 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(s) for fees and expenses of the Authority or pursuant to any indemnity; and, then, 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(s).

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 moneys, or Defeasance securities and moneys, 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 moneys 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 to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement. 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 any Applicable Paying Agent at such date, shall at the written request of the Authority, be repaid by the Trustee or the Applicable 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 the Applicable 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.

4. 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.

5. Prior to any defeasance of a Series of Bonds becoming effective under the Resolution, each Applicable Credit Facility Issuer shall have received (a) the final official statement delivered in connection with the refunding of such Series of Bonds, if any, (b) a copy of the accountants' verification report, (c) a copy of the escrow deposit agreement or letter of instructions in form and substance acceptable to such Applicable Credit Facility Issuer, and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to such Applicable Credit Facility Issuer, to the effect that such Bonds have been paid within the meaning and with the effect expressed in the Resolution and the Applicable Series Resolution, and that the covenants, agreements and other obligations of the Authority to the Holders of such Bonds have been discharged and satisfied.

(Section 12.01)

Appendix E

**Summary of Certain Provisions of the
Master Trust Indenture and 2007 Supplemental Indentures**

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**SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST
INDENTURE AND THE 2007 SUPPLEMENTAL INDENTURES**

The Master Trust Indenture, as modified by the 2007 Supplemental Indentures, and the 2007 Supplemental Indentures contain terms and conditions relating to the issuance and sale of Obligations under it, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Master Trust Indenture, as modified by the 2007 Supplemental Indentures, and the 2007 Supplemental Indentures, to which reference is made, copies of which are available from the Authority or the Trustee. In addition to the other terms defined in this Official Statement, this summary uses various terms defined in the Master Trust Indenture and the 2007 Supplemental Indentures and such terms as used in the Master Trust Indenture and the 2007 Supplemental Indentures will have the meanings ascribed to them below.

MASTER TRUST INDENTURE

Definitions

Additional Indebtedness means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of Obligation Nos. 1 through 7 under this Master Indenture or incurred by a new Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

Affiliate means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which directly or indirectly controls, is controlled by or is under common control with a Member, including 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 Statement means, as to any Member of the Obligated Group, financial statements for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants. Audited Financial Statements of the Obligated Group shall also consist of, in an additional information section, unaudited combining financial statements for the same twelve-month period from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not already included have been added.

Authorized Representative shall mean, with respect to a Member, including the Obligated Group Representative, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer, or any other person or persons designated an Authorized Representative of such Member by an Officer's Certificate of such Member, signed by the Chairperson of its Governing Body or its chief executive officer or its chief financial officer and filed with the Master Trustee.

Balloon Long-Term Indebtedness means Long-Term Indebtedness other than a Demand Obligation twenty-five percent (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.

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.

Capital Addition means any addition, improvement or extraordinary repair to or replacement of any Property of a Member of the Obligated Group, whether real, personal or mixed, the cost of which is properly capitalized under generally accepted accounting principles.

Capitalization Ratio means, the ratio of Long-Term Indebtedness, including the current portion of Long-Term Indebtedness, over the sum of Long-Term Indebtedness, including the current portion, plus unrestricted net assets, as set forth in the most recent Audited Financial Statements.

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

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 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 (i) the Master Trustee, and (ii) so long as any Related Bonds are Outstanding, the Related Bond Issuer and the Related Credit Facility Issuer.

Covered Obligation means Obligation Nos. 1 through 7 and any other Obligation issued pursuant to a Supplement which provides that the Obligation shall be secured by a Mortgage.

Credit Facility means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement, surety bond or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness or Related Bonds to provide credit or liquidity support for such Indebtedness or Related Bonds.

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 Refunded 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.

Days Cash On Hand means the quotient produced by dividing the sum of unrestricted cash, investments and board designated funds by operating expenses minus depreciation and amortization, and then multiplying the quotient by 365.

Defeasance Obligations means, unless modified by the terms of a particular Supplement, (i) noncallable, nonprepayable Government Obligations, (ii) 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, (iii) Defeased Municipal Obligations, and (iv) 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.

Defeased Municipal Obligations means obligations of state or local government municipal bond issuers rated the highest rating by Moody's, S&P, or Fitch, respectively, provision for the payment of the principal of and interest on which shall have been made by irrevocable deposit with a trustee or escrow agent of (i) noncallable, nonprepayable Government Obligations or (ii) 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, the maturing principal of and interest on such Government Obligations or evidences of

ownership, when due and payable, shall provide sufficient money to pay, on the due dates thereof, the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

Defeased Obligations means Obligations issued under a Supplement that have been discharged, or provision for the discharge of which have been made, pursuant to the terms of such Supplement.

Demand Obligation means any Indebtedness the payment of all or a portion of which is subject to the demand of the holder thereof.

Derivative Agreement means, without limitation,

- (i) 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;
- (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;
- (iii) any contract to exchange cash flows or payments or series of payments;
- (iv) 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
- (v) any other type of contract or arrangement that the Obligated Group or 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.

Derivative Period means the period during which a Derivative Agreement is in effect.

Disclosure Dissemination Agent means Digital Assurance Certification, LLC, and any other person, firm, association or corporation designated as the disclosure dissemination agent in an agreement to provide continuing disclosure for Related Bonds pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934.

Escrowed Interest means amounts of interest on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the “Escrowed Interest Deposit”) which Escrowed Interest Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Interest.

Escrowed Principal means amounts of principal on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the “Escrowed Principal Deposit”) which Escrowed Principal Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Principal.

Event of Default means any one or more of those events set forth in Section 4.01 of this Master Indenture.

Excluded Property means any real Property that is not deemed Health Care Facilities of the Obligated Group.

Fiscal Year means the fiscal year of each Member of the Obligated Group, which shall be the period 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.

Governing Body means, when used with respect to any Member of the Obligated 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 Obligated Group are exercised.

Government Obligations mean (i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (ii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United State of America, (iv) stripped securities where the principal-only and interest-only strips of non-callable obligations are issued by the United States Treasury Department or interest portions of REFCORP securities stripped by the Federal Reserve Bank of New York, (v) 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; or (vi) a share or interest in a mutual fund, partnership or other fund wholly comprised of cash or any of the foregoing obligations.

Governmental Restrictions means federal, state or other applicable governmental laws or regulations, affecting any Member of the Obligated Group and its Health Care Facilities including but not limited to (i) Articles 28 and 28-B of the Public Health Law, and (ii) those placing restrictions and limitations on the (a) fees and charges to be fixed,

charged and collected by any Member of the Obligated Group or (b) 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, 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*, 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 under a Related Loan Agreement; (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, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, health-care-insurance receivables 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 derived from the Excluded Property which constitutes real 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.

Gross Receipts Revenue Fund means the fund established pursuant to Section 4.03 hereof.

Guaranty means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness hereunder. For the purposes of this Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to twenty percent (20%) of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty shall have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Requirement), provided that if there shall have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, one hundred percent (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. Any Guaranty that is an obligation of more than one Member of the Obligated Group shall be counted only once for purposes of any test herein.

Health Care Facilities means the Property 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. 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.

Historic Audit Period means the period of twelve (12) full consecutive months that have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate being provided for which there are Audited Financial Statements available.

Holder means an owner of any Obligation issued in other than bearer form.

Income Available for Debt Service means, with respect to the Obligated Group, as to any period of twelve (12) consecutive calendar months, its excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (i) no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) unrealized gains and losses on investments of a Member of the Obligated Group or (c) losses resulting from any reappraisal, revaluation or write-down of assets for such period, including without limitation the other-than-temporary impairment of assets or the change in value of any Derivative Agreement, and (ii) revenues shall not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

Indebtedness means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by any Member of the Obligated Group, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

Insurance Consultant means a firm or Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations and which is selected by the Obligated Group Representative and is not unacceptable to the Master Trustee; provided

that, except with respect to the review of self-insurance programs or any captive insurance company, the term “Insurance Consultant” shall include qualified in house risk management officers employed by any Member of the Obligated Group or an Affiliate.

Lien means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated 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 any period of time the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

Long-Term Debt Service Requirement means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, but in so doing taking into account:

(i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof (a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to [x] the rate borne by such Indebtedness on the date calculated, or [y] if Variable Rate Indebtedness, at an interest rate determined in accordance with the definition thereof, except that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit, a standby bond purchase agreement, or surety bond issued by, or an irrevocable line of credit with, a financial institution rated at least “A” by Moody’s, Fitch or S&P, or insured by an insurance policy issued by any insurance company rated at least “A” by Alfred M. Best Company or its successors in Best’s Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the Member of the Obligated Group which issued such Indebtedness, be treated as if such principal payments or deposits were due as specified in any loan or reimbursement agreement issued in connection with such letter of credit, standby bond purchase agreement, surety bond, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, standby bond purchase agreement, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

(ii) (A) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate

which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), (B) with respect to new Variable Rate Indebtedness (and the incurrence thereof) of proposed tax-exempt debt, the interest rate for such Indebtedness for the initial calculation period should be equal to the average rate for the most recent ten (10) years (or such lesser period of which data are available but not less than five (5) years) of the Securities Industry and Financial Markets Association (“SIFMA”) Tax Exempt Index of maturities most closely corresponding to, but within seven (7) days of, the interest rate period applicable to or proposed for the Variable Rate Indebtedness at the time such calculation is made or any successor or similar index chosen by the Obligated Group Representative; provided that such successor or similar index shall be reasonably acceptable to all Related Bond Issuers and all Related Credit Facility Issuers, and in the event that there is no SIFMA Tax-Exempt Index or no acceptable substitute index, the assumed rate will be the Bond Buyer 25 Revenue Bond Index; and (C) with respect to new Variable Rate Indebtedness (and the incurrence thereof) of proposed taxable debt, the interest rate for such Indebtedness for the initial calculation period shall be equal to one hundred and twenty percent (120%) of the prime rate of the Master Trustee for the most recent twenty-four (24) month period.

(iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement;

(iv) with respect to any guaranties, the principal and interest relating to the Indebtedness which is guaranteed shall be included in accordance with the Definition of “Guaranty” in Section 1.01 hereof;

(v) with respect to Indebtedness for which a Member of the Obligated Group shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness (as evidenced by a certificate filed with the Master Trustee specifying that the Derivative Agreement relates to all or a portion of such Indebtedness, which certificate may be provided at the time of or after the issuance of such Indebtedness), the principal or notional amount of such Derivative Agreement shall be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms, and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement, and subtracting (z) the amount of interest payable to the Member of the Obligated Group by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement; provided that any interest

bearing a variable rate of interest on either the underlying Indebtedness or under the Derivative Agreement shall be calculated in accordance with the requirements for Variable Rate Indebtedness set forth in clause (ii) hereof and *provided, further*, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed;

(vi) with respect to a Derivative Agreement that has not been certified as relating to underlying Indebtedness which has been entered into by any Member of the Obligated Group and which is secured by an Obligation, the principal or notional amount of such Derivative Agreement shall be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, shall be calculated by taking (y) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (z) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement provided that any interest bearing a Variable Rate of interest on either the underlying Indebtedness or under the Derivative Agreement shall be calculated in accordance with the requirements for Variable Rate Indebtedness set forth in clause (ii) hereof and *provided, further*, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed; and

(vii) with respect to Escrowed Interest and Escrowed Principal, such Escrowed Interest and Escrowed Principal shall be excluded from the determination of Long-Term Debt Service Requirement; and 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 in connection with the calculation of Long-Term Debt Service Requirement.

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) having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including without duplication:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) leases which are required to be 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, longer than one year;

(iii) installment sale or conditional sale contracts having an original term in excess of one year;

(iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and

(v) the current portion of Long-Term Indebtedness.

Maximum Annual Debt Service means the highest Long-Term Debt Service Requirement for the current or any succeeding Fiscal Year.

Member of the Obligated Group or *Member* means Health Quest Systems, Inc., Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center, Putnam Hospital Center, and Northern Dutchess Hospital and any other Person becoming a Member of the Obligated Group pursuant to Section 3.11 hereof.

Mortgage means a Mortgage by and between a Member and the Master Trustee which secures one or more Covered Obligations.

Mortgaged Property means any and all Property, whether real, personal or mixed, and all rights and interest in and to the Property, which is subject to the liens and security interests created under a Mortgage.

Non-Recourse Indebtedness means any Indebtedness incurred to finance the purchase of Property secured exclusively by a Lien on such Property or the revenues or net revenues produced by such Property or both, the liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

Obligation means the evidence of particular Indebtedness issued under this Master Indenture as a joint and several obligation of each Member of the Obligated Group or a Derivative Agreement which is authenticated as an Obligation pursuant to Section 2.07 hereof.

Officer's Certificate means a certificate signed by the Authorized Representative of a Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer's Certificate presented pursuant to this Master Indenture shall identify the section or subsection of this Master Indenture pursuant to which it is being delivered, and shall incorporate by reference and use in all appropriate instances all terms defined in, this Master Indenture.

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 Obligated Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities, unimproved real property and other Property held for investment purposes.

Operating Expense means the sum of total expenses, minus depreciation, amortization and other non-cash expenses, for the applicable Fiscal Year or twelve-month period for which such calculation is to be made, all as determined in accordance with generally accepted accounting principles.

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 each 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.

Outstanding means, as of any date of determination, subject to the provisions of Section 8.02 hereof, (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 or no longer outstanding under the documents pursuant to which such Indebtedness was incurred;

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 Obligated Group which is property, plant and equipment under generally accepted accounting principles.

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, including without limitation, the Authority and the DCIDA.

Related Bonds means the revenue bonds or other obligations issued by a Member or 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, pursuant to a Related Bond Indenture, the proceeds of which were or are loaned or otherwise made available to a Member of the Obligated Group and which are secured by an Obligation executed, authenticated and delivered to or for the order of such Related Bond Issuer.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture.

Related Credit Facility Issuer means the Credit Facility Issuer with respect to any issue of Related Bonds.

Related Loan Agreement means any loan agreement, lease agreement, sublease agreement, or any similar instrument relating to the loan or other provision of proceeds of Related Bonds to a Member of the Obligated Group.

Short-Term Indebtedness means all Indebtedness that is not Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group.

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 means an indenture supplemental to, and authorized and executed pursuant to the terms of, this Master 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.

Total Operating Revenues means, with respect to the Obligated Group, as to any period of time, total operating revenues less all deductions from revenues, as determined in accordance with generally accepted accounting principles consistently applied.

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 the payment thereof by such person, including specifically, but without limitation, the forgiveness of any debt.

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 1.01)

Amount of Indebtedness

Subject to the terms, limitations and conditions established in this Master 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 as limited by the provisions hereof, including Section 3.06, or of any Supplement. Any Member of the Obligated Group proposing to incur Indebtedness, whether evidenced by Obligations issued or by evidences of indebtedness issued or guaranties entered into pursuant to documents other than this Master Indenture, shall, at least fifteen (15) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness, including in such notice the amount of Indebtedness to be incurred and the Subsection of Section 3.06 hereof under which it will be incurred, to any Related Credit Facility Issuer, any Related Bond Issuer for so long as Related Bonds of such Related Bond Issuer are Outstanding, and to the Master Trustee and any Member of the Obligated Group proposing to incur such Indebtedness shall obtain the written consent of the Obligated Group Representative, which consent shall be evidenced by a resolution of the Obligated Group Representative's Governing Body filed with the Master Trustee. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation issued hereunder.

(Section 2.01)

Security; Restrictions on Encumbering Property; Payment of Principal and Interest

(a) Any Obligation issued pursuant to this Master Indenture shall be a general obligation of each Member of the Obligated Group. To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by each Member of the Obligated Group of its other obligations hereunder, each Member of the Obligated Group hereby pledges, assigns and grants to the Master Trustee a security interest in its Gross Receipts. Upon receipt, all such security 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.

If any Event of Default shall have occurred, any Gross Receipts then on deposit in any fund or account of a Member of the Obligated Group (unless such account has been pledged as security as permitted in this Master Indenture), and any Gross Receipts thereafter received, shall immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to Section 4.03 hereof. Upon receipt, all such Gross Receipts shall be held by the Master Trustee 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. Prior to the receipt of a request from the Master Trustee pursuant to Section 4.03(b) of this Master Indenture, any Member of the Obligated Group may transfer, or pledge as security, all or any part of its Gross Receipts free of such security interest, as permitted pursuant to the provisions of this Master Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee shall execute a release of its security interest with respect to the assets so transferred.

In addition to the preceding paragraph, upon an Event of Default, the Members of the Obligated Group hereby agree to take no action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated hereby, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

With respect to all Obligations issued, executed and delivered under this Master Indenture, there shall be delivered to the Master Trustee duly executed financing statements evidencing the security interests of the Master Trustee in the Gross Receipts of the Members of the Obligated Group in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State of the State of New York.

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 Master 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 prepare and file such financing statements or amendments to or terminations of existing financing statements which shall, in the Opinion of Counsel, be necessary to comply with applicable law or be required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to Section 3.11 of this Master 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 Master Indenture. In particular, each Member of the Obligated Group covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to continue the security interest created hereunder pursuant to applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such financing statement, the Master Trustee shall prepare and file or cause each Member of the Obligated Group to prepare and file such continuation statements in a timely manner to assure that the security interest in Gross Receipts shall remain perfected.

(b) 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.

(c) 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 Master Indenture at the place, on the dates and in the manner provided in this Master Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Each Member of the Obligated Group covenants that, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with the Intercreditor Agreement, if it is still in effect, or Sections 4.03 and 4.04 of this Master Indenture, if the Intercreditor Agreement is no longer in effect.

(e) Covered Obligations in addition to being secured by a pledge of Gross Receipts as herein provided, shall be further secured by a Mortgage, as set forth and in accordance with the Supplement for such Obligation. The Master Trustee shall, after the application of the Gross Receipts in accordance with the provisions of this Master Indenture, apply the proceeds derived from the enforcement of any Mortgage in accordance with the provision of the Supplement pursuant to which the Covered Obligation was issued.

(Section 3.01)

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 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 the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times 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 obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(c) 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 for as long as there are Related Bonds of the Authority Outstanding) 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 to it shall be contested in good faith.

(d) 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 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 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 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) So long as all amounts due or to become due on any Related Bond, the interest on which is exempt from federal or State income tax, have not been fully paid to the holder thereof, it shall not take any action or suffer any action to be taken by others, or fail to take any action which action or failure, in the Opinion of Bond Counsel, would result in such interest becoming included in the gross income of the holder thereof for federal or State income tax purposes.

(Section 3.02)

Insurance

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations.

The Obligated Group Representative shall engage an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially) and shall furnish a copy of the Insurance Consultant's report and recommendations to the Master Trustee and each Related Credit Facility Issuer. If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Member that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the applicable Member of the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In its report and recommendations, the Insurance Consultant shall take into consideration whether the recommended insurance affords either the coverage available for the risk being insured against in an amount and at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability. Notwithstanding the foregoing, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, to adopt, establish or participate in alternative risk management programs, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, or to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group; *provided, however*, that no Member may self-insure in whole or in part individually or in connection with other institutions, for property loss or other damage to the Mortgaged Property. If any Member of the Obligated Group shall be self-insured for any coverage or participate in the programs of captive insurance companies, the report of the Insurance Consultant shall state whether the anticipated funding of any self-insurance fund or captive insurance companies is actuarially sound, and, if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

(Section 3.03)

Insurance and Condemnation Proceeds

The Obligated Group hereby covenants that amounts that exceed ten percent (10%) of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities shall be applied to repair or replace the Property (in the case of replacement, with 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 twelve (12) months after the casualty loss or taking, delivers to the twelve (12) months after the casualty loss or taking, delivers to the Master Trustee:

(i) (i) an Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than eighty percent (80%) of what it was in the Fiscal Year preceding such casualty or condemnation and is not less than 1.30 as shown by pro forma financial statements for each such period, 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 (ii) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds twenty percent (20%) of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(j) 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 subsection (a) 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, but not less than 1.00; 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 Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and the Mortgages, only in accordance with the assumptions described in subsection (a), or the recommendations described in subsection (b), of this Section. To the extent that such proceeds or awards relate to bond-financed property under the Code, then the Member must ensure that its use of such proceeds or awards does not result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal or State income tax purposes; provided further, that if the amount of such proceeds or awards exceeds five hundred thousand dollars (\$500,000), then the Member must obtain an Opinion of Bond Counsel to this effect.

(Section 3.04)

Limitations on Creation of Liens

(a) Each Member of the Obligated Group agrees that it will not 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.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by any Member of the Obligated 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 Obligated 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 Obligated 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 Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(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 one hundred and eighty (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 initial Obligation issued under this Master Indenture and is set

forth on Schedule A attached hereto, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated 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 Lien 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 Sections 3.09(e) or 3.11(e) 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 Obligated 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 Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations hereof on creation of Liens on Property of the Obligated Group;

(ix) So long as no Event of Default exists under this Master Indenture, any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained in Section 3.06;

(x) Any Lien on Property which secures Indebtedness that is, or Derivative Agreements in a notional amount which, if Indebtedness, would be, permitted to be 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 direct pay or standby letters of credit, standby bond purchase agreements, lines of credit or other liquidity or credit enhancement that provides liquidity or credit enhancement for Indebtedness otherwise permitted hereunder;

(xii) Any Lien on the proceeds of insurance insuring assets that are subject to a lease from a third-party owner or lesser 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 Master Indenture on Gross Receipts;

(xv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xvi) Liens on Property received by any Member of the Obligated 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 Obligated Group;

(xviii) The Mortgages;

(xix) Any Lien on Excluded Property;

(xx) Any Lien on Property including moveable equipment which secures Indebtedness that does not exceed in aggregate twenty percent (20%) of Total Operating Revenues as reflected in the most recent Audited Financial Statements; and

(xxi) Any Lien which is the subject of the Intercreditor Agreement.

(Section 3.05)

Limitations on Indebtedness

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (g) inclusive, of this Section 3.06. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such subsections. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements of Section 2.01 hereof.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that:

(A) The cumulative principal amount of all then Outstanding Long-Term Indebtedness incurred pursuant to this subsection 3.06(a)(i)(A), together with the Indebtedness then to be issued, does not exceed twenty percent (20%) of Total Operating

Revenues as reflected in the most recently Audited Financial Statements, or

(B) The Long-Term Debt Service Coverage Ratio for the Historic Audit Period, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.25; or

(ii) an Officer's Certificate of the Obligated Group Representative demonstrating that (A) the Long-Term Debt Service Coverage Ratio for the Historic Audit Period, excluding the proposed Long-Term Indebtedness, is at least 1.10 and (B) the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.10 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance Capital Additions, each of the two full Fiscal Years succeeding the date on which such Capital Additions are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing Capital Additions or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred or guaranteed, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restriction but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred as follows: (i) if prior to the incurrence of such Long-Term Indebtedness and if the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness, there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service on the refunding Long-Term Indebtedness will not be more than ten percent (10%) greater than Maximum Annual Debt Service on the refunded Long-Term Indebtedness, after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such proposed refunding Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) if the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service 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 on the Cross-over Refunded Indebtedness

alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than ten percent (10%).

(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 twenty percent (20%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Financial Statements are available; provided, however, that there shall be a period of at least thirty (30) consecutive calendar days during each period of twelve (12) consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed five percent (5%) of Total Operating Revenues; and provided further that failure to reduce Short-Term Indebtedness to less than five percent (5%) of Total Operating Revenues for each such thirty-day period shall not constitute an Event of Default so long as such Short-Term Indebtedness in excess of such five percent (5%) could qualify as permitted Long-Term Indebtedness pursuant to the provisions of Section 3.06(a).

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last paragraph of this Section 3.06; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in subsection 3.06(c) hereof.

(g) Indebtedness may be incurred for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which Indebtedness has theretofore been incurred, provided there shall be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

Indebtedness incurred pursuant to any subsection of this Section 3.06 may be reclassified as Indebtedness incurred pursuant to any other of such subsection if the tests

set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

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.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance herewith in an aggregate amount not exceeding seventy-five percent (75%) of the three (3) month average outstanding accounts receivable of the Obligated Group that are one hundred and twenty (120) days old or less as calculated in accordance with generally accepted accounting principles. The three (3) month average shall be calculated based on the month end available balances for the three (3) full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered.

(Section 3.06)

Long-Term Debt Service Coverage Ratio/Days Cash on Hand

(a) The Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such Fiscal Year; *provided, however*, that in any case where Long-Term Indebtedness has been incurred to acquire or construct a Capital Addition, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such Capital Addition unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) The Obligated Group covenants that the number of Days Cash On Hand of the Obligated Group shall not be less than thirty (30) days. The Days Cash On Hand for the Obligated Group shall be calculated semi-annually as of June 30 and December 31, based upon the unaudited statements of the Obligated Group with respect to the June 30 calculation and the audited financial statements of the Obligated Group as of December 31. The Obligated Group Representative shall cause there to be delivered a Certificate of an Authorized Officer to the Master Trustee and each Related Credit Facility Issuer and, so long as any Related Bonds of the Authority remain Outstanding, the Authority, certifying to the number of Days Cash on Hand so calculated and certifying that the Obligated Group is in compliance with the covenant in the preceding sentence. Such certificate shall be delivered no later than August 15, with respect to the June 30 calculation, and on the date the Audited Financial Statements are delivered pursuant to Section 3.10 with respect to the December 31 calculation date.

(c) The Obligated Group Representative shall deliver an Officer's Certificate at the time it delivers its Audited Financial Statements following the end of each Fiscal Year to the Master Trustee, each Related Credit Facility Issuer, and so long as any Related Bonds are Outstanding, each Related Bond Issuer, certifying as to the compliance with the Long-Term Debt Service Coverage Ratio required by subsection (a) and Days Cash On Hand required by subsection (b) hereof. If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof or Days Cash On Hand required by subsection (b) hereof, as set forth in the Officer's Certificate, is not met, the Obligated Group covenants to retain a Consultant within thirty (30) days of the delivery of the aforementioned Officer's Certificate to make recommendations to increase such Long-Term Debt Service Coverage Ratio or Days Cash On Hand in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable; *provided, however*, that the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this subsection (c) more frequently than biennially. Any Consultant so retained shall be required to submit such recommendations within sixty (60) days after being so retained. Each Member whose operations and management are the subject of recommendations made in such report shall promptly implement such recommendations to the extent permitted by Governmental Restrictions, and within thirty (30) days of receipt of such Consultant's report, each such Member shall deliver to the Master Trustee, and so long as Related Bonds of the Authority are Outstanding, the Authority, and each Related Credit Facility Issuer:

(i) a certified copy of a resolution adopted by the Governing Body of the Member accepting such report and agreeing to implement the recommendations, if any, of such Consultant; and

(ii) a report setting forth in reasonable detail the steps the Member proposes to take in order to implement the recommendations of such Consultant and achieve compliance with the requirements of paragraphs (a) and (b) above.

Each such Member shall deliver to the Master Trustee, each Related Credit Facility Issuer, and so long as Related Bonds of the Authority are Outstanding, the Authority such periodic reports, not less often than quarterly, as the Master Trustee may reasonably request, showing the progress made by the Member in implementing the recommendations set forth in such Consultant's report.

(d) The Obligated Group shall be deemed in compliance with paragraphs (a) and (b) above irrespective of whether the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.10 or the Days Cash On Hand is less than thirty (30), so long as the Obligated Group has complied with the requirements of paragraph (c) above and is following the recommendations, if any, of the Consultant. Notwithstanding the preceding sentence, if the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.00, the Obligated Group shall not be in compliance with paragraph (a) above.

(Section 3.07)

Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts

(a) Each Member of the Obligated Group agrees that it will not Transfer Property in any Fiscal Year (or other 12-month period for which Audited Financial Statements are available) except for Transfers of Property:

(i) To any Person provided such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person if the Property Transferred is considered Operating Assets and provided there shall be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with Section 3.07 hereof and that if such Transfer had occurred at the beginning of the Historic Audit Period the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness after the revenues and expenses derived from the Operating Assets proposed to be disposed of are excluded.

(iv) To any Person if the Property Transferred is considered Operating Assets and the aggregate Book Value of the Property that is transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed five percent (5%) of the Book Value of the Property of the Obligated Group as shown in the Audited Financial Statements for the most recent Fiscal Year.

(v) To any Person if the Property Transferred pursuant to this subsection (v) was transferred in the ordinary course of business, and at fair market value or on fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; *provided, however*, that with respect to Transfers of real property, fair market value shall be based on a written appraisal prepared by an appraiser with experience in valuing similar assets.

(vi) To a Person which at the time of the Transfer becomes a Member of the Obligated Group pursuant to the Master Indenture, without limit.

(b) Each Member of the Obligated Group may Transfer cash or investments in securities that in any twelve (12) month period preceding the Transfer and that give effect to it do not exceed fifteen percent (15%) of the Obligated Group's cash or investments in securities as of the date of such Transfer; *provided, however*, that after giving effect to such Transfer, cash and investments in securities shall be not less than fifty (50) Days Cash On Hand for such twelve (12) month period. For purposes of this subsection (b) cash and investments in securities shall be determined and valued in

accordance with accounting procedures and generally accepted accounting principles applied in the most recent Audited Financial Statements of the Obligated Group. Unsecured loans to Persons other than Members of the Obligated Group shall be treated as Transfers of cash. Notwithstanding the foregoing, Members of the Obligated Group may purchase Operating Assets and purchase or sell securities without limitation, provided that any purchase of an Operating Asset shall be for not more, and any sale of a security shall be for not less, than its fair market value.

(c) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated 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, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group, and if such sale, pledge, assignment or other disposition meets the limitations contained in the last paragraph of Section 3.06 hereof regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(Section 3.08)

Consolidation; Merger; Sale or Conveyance

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to, any Person unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under this Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Master Indenture and any Supplement hereto; and

(ii) 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 fully paid to the holder thereof, there shall have been 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 the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iii) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale or conveyance of assets had occurred at the beginning of the Historic Audit Period, the conditions described in Section 3.06(a)(i)(B) or Section 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness on the date of such Officer's Certificate, and (B) that after such merger or consolidation or sale or conveyance of assets, no Member of the Obligated Group will be in default in the performance of any covenant or the satisfaction of any condition contained in this Master Indenture.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall comply with the requirements of Section 3.11 hereof and shall succeed to and be substituted for its predecessor, as a Member of the Obligated Group. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable hereunder; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in this Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation hereunder shall in all respects have the same security position and benefit under this Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of this Master Indenture as though all of such Obligations had been issued hereunder without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under this Master Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iii) hereof has been delivered, the Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of Article VI and of this Section to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group in accordance with the provisions of this Section 3.09 shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect.

(f) All references herein to successor corporations shall be deemed to include the surviving corporation in a merger.

(Section 3.09)

Filing of Audited Financial Statements; Certificate of No Default; Other Information

The Obligated Group covenants that it will:

(a) No later than sixty (60) days subsequent to the last day of each of the first three quarters in each Fiscal Year, furnish to (1) the Master Trustee, (2) each Related Bond Issuer (so long as there are Related Bonds of such Related Bond Issuer Outstanding), (3) each Disclosure Dissemination Agent, (4) each Related Credit Facility Issuer, and (5) each Bondholder (as defined in the Related Bond Indenture) who has so requested, the following information: (A) the unaudited combined financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, and as of the end of the prior Fiscal Year, the statement of operations, changes in net assets and cash flow for the quarter, for the Fiscal Year to date and for the comparable prior year period; (B) utilization statistics of each Member of the Obligated Group, including certified beds, discharges, patient days, average length of stay, average percentage of occupancy (based on certified beds), emergency room visits, ambulatory surgery procedures and outpatient clinic visits; (C) major payor mix by percentage of inpatient discharges and payor; *provided, however*, that such utilization statistics may be modified if the Obligated Group Representative reasonably determines that such information no longer is useful in indicating the utilization of the Health Care Facilities or that other statistics would be more useful for that purpose; and

(b) Within fifteen (15) days after receipt of the Audited Financial Statements for a Fiscal Year but in no event later than one hundred fifty (150) days after the end of each Fiscal Year, file with the parties identified in clauses (1), (2), (3), (4) and (5) of the foregoing subsection (a), each Related Bond Trustee, and to such other parties as an authorized officer of a Related Bond Issuer may designate, including rating services, a copy of the Audited Financial Statements as of the end of such Fiscal Year, the utilization statistics set forth in clause (B) of the foregoing subsection (a) as of the end of such Fiscal Year, the major payor mix data set forth in clause (C) of the foregoing subsection (a) as of the end of such Fiscal Year, and such other statements, reports and schedules describing the finances, operation and management of each Member of the Obligated Group (or of the Obligated Group) reasonably required by an authorized officer of a Related Bond Issuer and each Related Credit Facility Issuer.

(c) Within fifteen (15) days after receipt of the Audited Financial Statements for a Fiscal Year, file with the Master Trustee, each Related Bond Issuer (so long as there are Related Bonds Outstanding), each Related Bond Trustee, each Related Credit Facility Issuer, and each Bondholder (as defined in the Related Bond Indenture) who may have so requested or on whose behalf the Master Trustee may have so requested, (1) an Officer's Certificate stating whether, to the best knowledge of the signer, any Member of the Obligated Group is in default in the performance of any covenant contained in this Master Indenture, a Related Loan Agreement, or a Mortgage, and, if so, specifying each such default of which the signer may have knowledge, and (2) a report of an independent certified public accountant stating the Long-Term Debt Service Coverage Ratio and Days Cash on Hand for such Fiscal Year.

(d) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee, each Related Credit Facility Issuer and each Related Bond Issuer (so long as there are Related Bonds Outstanding) such other financial statements and information concerning its operations and financial affairs (or those of any Member or any Affiliate) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours.

(e) Within thirty (30) days after its receipt thereof, file with the Master Trustee, each Related Credit Facility Issuer and the Authority (so long as there are Related Bonds of the Authority Outstanding) a copy of each report which any provision of this Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(Section 3.10)

Parties Becoming Members of the Obligated Group

Persons which are not Members of the Obligated Group 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 Master Indenture and any Supplements and thereby become subject to compliance with all provisions of this Master Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group hereunder, and thereunder, (ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably to guarantee to the Master Trustee and each other Member of the Obligated Group payment of all Obligations issued and then Outstanding or to be issued and Outstanding hereunder in accordance with the terms thereof and of this Master 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, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation; constitutes a valid and binding obligation of such Person enforceable against such Person 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, each Related Bond Issuer and each Related Credit Facility Issuer; and is authorized and complies with all Governmental Restrictions and the provisions of this Master Indenture and any agreements or other documents relating to this Master Indenture, the Obligations or the Related Bonds.

(c) If all amounts due or to become due on any Related Bonds which bear 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, under then existing law, 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) An Officer's Certificate of the Obligated Group Representative shall be provided to the Master Trustee and each Related Credit Facility Issuer demonstrating that (i) the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness, assuming that the Person which is becoming a Member of the Obligated Group had become a Member at the beginning of the Historic Audit Period and (ii) 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 or in the satisfaction of any condition contained in this Master Indenture.

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect.

(Section 3.11)

Withdrawal from the Obligated Group

(a) Vassar Brothers Hospital may not withdraw from the Obligated Group.

(b) No other Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due or to become due on any Related Bonds which bear 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 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 Bonds, would not cause the interest payable on such Related Bonds to become includable in the gross income of the recipient thereof under the Code;

(ii) The Obligated Group Representative shall have provided one of the following:

(A) An Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payment or extinguishment of Obligations to be made in connection therewith had occurred at the beginning of the Historic Audit Period taking all Long-Term Indebtedness incurred after the beginning of such period into account the conditions described in Section 3.06(a)(i)(B) or in Section 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness; or

(B) receipt by the Master Trustee of (x) a Credit Facility for all Obligations of the Obligated Group or Related Bonds not already supported by a Credit Facility, and (y) evidence satisfactory to the Master Trustee from each rating agency then rating each such 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 the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such withdrawal;

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee, each Related Bond Issuer, and each Related Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of this Master Indenture and any agreements or other documents relating to this Master Indenture, the Obligations or the Related Bonds; and

(iv) an Officer's Certificate of the Obligated Group Representative certifying that upon such withdrawal the remaining Members of the Obligated Group will not be in default in the performance of any covenant or the satisfaction of any condition contained in this Master Indenture.

(c) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (b) of this Section, any guaranty by such Member pursuant hereto shall be released and discharged in full, 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 Holders of any Obligations, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under this Master Indenture shall cease.

For purposes of Section 3.12(b)(ii)(B), a Credit Facility must be irrevocable and 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 (unless the Credit Facility allows for the tender of the Related Bonds or Obligation prior to the stated expiration of the Credit Facility) and shall provide for payment in full of principal and interest on such Related Bond or Obligation when due.

(Section 3.12)

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 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 Master Indenture or of any Supplement, unless otherwise indicated in the applicable Obligation;

(b) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under this Master Indenture for a period of thirty (30) 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 twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding or by the Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; *provided, however*, that if said failure cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) 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 and the applicable period to cure such event of default, if any, shall have expired;

(d) (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 two percent (2%) of Total Operating 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 two percent (2%) of Total Operating 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 such event of default such Indebtedness shall have been accelerated;

Provided, however, that failure to pay or other default pursuant to clauses (i) and (ii) of this Section 4.01(d) shall not constitute an Event of Default within the meaning of this Section if within 30 days of such failure to pay or acceleration (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that a Member of the Obligated Group is contesting the payment or acceleration of such Indebtedness and (ii) 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 or the acceleration thereof 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;

(e) There is entered by a court having jurisdiction in the premises a decree or 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, trustee 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 any such decree or order continues unstayed and in effect for a period of ninety (90) consecutive days;

(f) Any Member of the Obligated Group institutes proceedings for an order for relief, or consents to an order for relief against it, or files a petition or answers or consents to a petition seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or consents 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 makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due; and

(Section 4.01)

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 twenty-five (25%) in aggregate principal amount of Obligations Outstanding or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall, by notice to

the Members of the Obligated Group and the Obligated Group Representative 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 Master 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 principal or redemption prices and all accrued and unpaid interest thereon 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 twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding or upon the request of a Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, 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.

(c) Unless the Intercreditor Agreement has been terminated and is no longer in effect, the Master Trustee shall notify each of the parties to the Intercreditor Agreement promptly upon becoming aware of any Event of Default that has not been waived pursuant to Section 4.09 or cured before the giving of such notice. For as long as it is in effect, the rights and remedies of the Master Trustee herewith shall, in all events, be subject to the rights of the Security Agent under the Intercreditor Agreement with respect to any Lien on Property that is subject to the Intercreditor Agreement.

(Section 4.02)

Additional Remedies and Enforcement of Remedies

(a) Subject to Section 4.02(c), 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 twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by 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) 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;

(vi) Exercise any rights the Master Trustee may have as a party to the Intercreditor Agreement or under any Supplement; and

(vii) Enforcement of any other right of the Holders conferred by law or hereby.

(b) Subject to 4.02(c), upon the occurrence of an Event of Default pursuant to Section 4.01(a), the Master Trustee shall, and upon the occurrence of any other Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall, realize upon any security interest which the Master Trustee may have in Gross Receipts and shall request each Member of the Obligated Group to deliver or cause to be delivered its Gross Receipts to the Master Trustee and shall establish and maintain a Gross Receipts Revenue Fund into which shall be deposited all such Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund shall be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplement for application (i) to the payment of the reasonable and necessary Operating Expenses of the Obligated Group, all in accordance with budgeted amounts proposed by the Obligated Group Representative, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in

accordance with their respective terms, and (iii) as may be required by this Master Indenture and any Supplement hereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund shall be held for the equal and ratable benefit of all Obligations Outstanding; provided, that amounts held in the Gross Receipts Revenue Fund for making of debt service payments on or after the due date for Obligations shall be reserved and set aside solely for the purpose of making such payment. In addition, with regard to Gross Receipts, the Master Trustee may take any one or more of the following actions: (i) during normal business hours enter the offices or facilities of any Member of the Obligated Group and examine and make copies of the financial books and records of the Member relating to the Gross Receipts and take possession of all checks or other orders for payment of money and moneys in the possession of the Members of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify any account debtors obligated on any Gross Receipts to make payment directly to the Master Trustee, (iii) following such notification to account debtors, collect, or, in good faith compromise, settle, compound or extend amounts payable as Gross Receipts which are in the form of accounts receivable or contract rights from each Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member whether or not the full amount of any such account receivable or contract right owing shall be paid to the Master Trustee; (iv) forbid any Member to collect, extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Gross Receipts, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (v) endorse in the name of the applicable Member any checks or other orders for the payment of money representing any unpaid assigned Gross Receipts or the proceeds thereof.

(c) Notwithstanding any other provision of the Master Indenture, the Master Trustee, shall not take and shall not be authorized to take, any action in violation of or contrary to any Governmental Restrictions, or which would cause it to be considered an operator of any Member of the Obligated Group so as to require the Master Trustee to receive Public Health Council establishment approval under Article 28 of the Public Health Law.

(Section 4.03)

Application of Moneys after Default

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 reasonable and necessary operating

expenses of the Obligated Group pursuant to 4.02(b)(i) and 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 of Section 4.03(b) hereof 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 in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same 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 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; and

Third: To the extent there exists a Related Credit Facility Issuer with respect to any series of Related Bonds, amounts owed to such Related Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above.

(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 over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, 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 paragraph (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.

(d) 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.

(e) Moneys held in the Gross Receipts Revenue Fund shall be invested in Government Obligations which mature or are redeemable at the option of the holder not later than such times as shall be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments shall be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments, a copy of which certificate shall be provided by the Obligated Group Representative to each Related Credit Facility Issuer prior to submission to the Master Trustee for the approval of each Related Credit Facility Issuer; provided, however, that the failure of a Related Credit Facility Issuer to object to such certificate shall be deemed to be the approval of such Related Credit Facility Issuer. Unless otherwise provided in this Master Indenture, the Master Trustee shall sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it shall be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee shall not be liable or responsible for making any such investment in the manner provided above and shall not be liable for any loss resulting from any such investment. Any investment income derived from any investment of moneys on deposit in the Gross Receipts Revenue Fund shall be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

(f) 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 4.04)

Holders' Control of Proceedings

Subject to Section 4.02(c), 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; provided, further that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, and not the Holders, shall have the right to control proceedings with respect thereto in the manner described in this Section.

(Section 4.07)

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 prior written consent of the Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, 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 prior written consent of the Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, 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 4.09)

Appointment of Receiver

Subject to the provision of Section 4.02(c), upon the occurrence of any Event of Default described in Section 4.01(a), (e) or (f) 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 4.10)

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, and any Related Credit Facility Issuer, 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.

(Section 4.12)

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, the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations 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, to each Holder by first class mail at the address then reflected on the books of the Master Trustee, and each

Related Credit Facility Issuer 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 if no Event of Default shall have occurred and be continuing. If either no such appointment is made by the Obligated Group Representative within thirty (30) days of the date notice of resignation or removal is given, or 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 Outstanding shall appoint a successor Master Trustee, except that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding shall have the right to appoint the successor Master Trustee, and not the Holders. 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, any Related Credit Facility Issuer, 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 one hundred million dollars (\$100,000,000), 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 the Obligated Group Representative 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 Holder by first class mail at the address then reflected on its books.

(Section 5.04)

Supplements Not Requiring Consent of Holders

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, upon prior written notice to each Related Credit Facility Issuer, but 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 Master 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 Master 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 or tax law.
- (h) To add additional covenants, restrictions, security or conditions for the protection of the Holders of Obligations issued under the Master Indenture, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture; provided, however, that in respect of any such additional covenant, restriction or condition, such Supplemental Indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;
- (i) To provide for the establishment of additional funds and accounts under the Master Indenture and for the proper administration of and transfers of moneys among any such funds and accounts, provided that, except as otherwise provided in the

Master Indenture, all such funds and accounts shall be established for the equal and ratable benefit of the Holders of all Outstanding Obligations;

(j) To permit the Master Trustee to comply with any duties imposed upon it by law; and

(k) So long as no Event of Default has occurred and is continuing under this Master 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 Master Indenture has occurred and is continuing, to make any change to the provisions of this Master Indenture (except as set forth below) 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)(1) a Consultant's report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer's Certificate of the Obligated Group Representative demonstrating that the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof are satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness based upon the Historic Audit Period; or (B) evidence satisfactory to the Master Trustee to the effect that there exists for each Related Bond or Obligation which is not pledged to secure Related Bonds, a Credit Facility, and each such Credit Facility Issuer shall consent in writing to such amendment or modification;

(ii) 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 not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change; and

(iii) 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 Bond would otherwise be entitled.

The authorization to enter into a Supplement permitted pursuant to this clause (k) does not include the authorization to make any amendment which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of this Master Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event shall such ratio be reduced to less than 1.00, (2) the definitions in Article I of Affiliate, Audited Financial Statements, Book Value, Capital Addition, Days Cash on Hand, Non-Recourse Indebtedness, Operating Assets, Operating Expense, Property Plant and Equipment,

Subordinated Debt, or Total Operating Revenues (except to the extent such definitions shall be changed to conform to changes required by then prevailing generally accepted accounting principles), (3) the definition of any other term used in the calculation of the Long-Term Debt Service Coverage Ratio, or the amount of Long-Term Indebtedness or Short-Term Indebtedness, or (4) Articles III, and IV; and Sections 5.04, 6.01, 6.02(a), 7.01 or 8.02 of this Master Indenture.

The limitations contained in the immediately preceding paragraph shall not apply if, in conjunction with the adoption of the proposed Supplement, the requirements of Section 6.01(k)(i)(B) are met.

(Section 6.01)

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 fifty-one percent (51%) in aggregate principal amount of Obligations then Outstanding shall have the right, with prior written consent of each Credit Facility Issuer, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, 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 Master 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;

(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 and each Related Credit Facility Issuer; or

(iv) Affect the rights of a Holder of a Covered Obligation with respect to a Mortgage without the consent of such Holder.

(b) If at any time the Obligated Group Representative or 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 the Governing Body of each Member 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 the Obligated Group Representative or each Member of the Obligated Group in 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 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 Master Indenture. At any time after the Holders of the required principal amount 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 6.02)

Satisfaction and Discharge of Indenture

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated 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 Master 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 Master 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 Master Indenture or such Obligations.

(Section 7.01)

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 that is also secured by a separate Obligation issued hereunder, the principal amount of the Obligation that secures the Related Bonds deemed outstanding for purposes of any such request, direction or consent shall be reduced by the amount of Related Bonds that are secured by such Credit Facility for the purpose of any such request, direction or consent and the owners of the Related Bonds that are secured by such Credit Facility shall not be consulted or counted.

(Section 8.01)

2007 SUPPLEMENTAL INDENTURES

Mortgages

To secure, among other things, the prompt payment of the principal of, redemption premium, if any, and the interest on Obligations No. 1 through 3, inclusive, and the performance by each Member of the Obligated Group of its other obligations hereunder and under the Master Indenture, Vassar Brothers Hospital, Northern Dutchess Hospital and Putnam Hospital Center have each executed and delivered a Mortgage to the Master Trustee. The Master Trustee may modify, release or grant a parity interest in the lien of the Series 2007 Mortgages subject to the provisions of the 2007A Related Bond Indenture, the Series 2007 Mortgages, the Intercreditor Agreement, Article 3 of the Master Indenture and this Supplement No. 1; *provided, however*, that none of the Series 2007 Mortgages may be released, subordinated or amended in whole or in part without the prior written consent of the Authority and Assured Guaranty (which consent shall not be unreasonably withheld with respect to Permitted Liens and in any event shall not require the consent of the holders of Series 2007A Bonds). In the event of such modification or release of a Series 2007 Mortgage, the Master Trustee shall execute a release of its security interest or other appropriate consent document with respect to the Mortgage so modified or released. In addition to any other releases or subordinations as may be permitted hereunder and not as a limitation, the Master Trustee, in its capacity as

mortgagee under the Series 2007 Mortgages, shall, upon the Authority's and Assured Guaranty's prior written direction, execute and deliver consents, waivers, estoppels, releases, partial releases, subordination agreements, and such other documents as the Authority and Assured Guaranty deems reasonably necessary or appropriate.

(Section 3)

Additional Remedies Regarding the Mortgages

Subject to the obligations of the Master Trustee under the Intercreditor Agreement and in addition to any remedies enforceable pursuant to the Master Indenture, 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 twenty-five percent (25%) in aggregate principal amount of Covered Obligations Outstanding, or upon the direction of the Related Credit Facility Issuers, if any, of not less than twenty-five (25%) in aggregate principal amount of Related Bonds that are secured by Covered Obligations Outstanding, shall proceed forthwith to protect and enforce the rights of the Holders of Covered Obligations by such suits, actions, foreclosure proceedings or other proceedings as the Master Trustee, being advised by counsel, shall deem expedient regarding enforcement of rights under the Mortgages, including the Series 2007 Mortgages. In addition, the Holders of not less than a majority in aggregate principal amount of Covered 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 Mortgages, including the Series 2007 Mortgages, except that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Covered Obligations Outstanding, and not the Holders, shall have the right to control proceedings with respect to the Mortgages, including the Series 2007 Mortgages, in the manner described in this Section.

(Section 12)

Distribution of Proceeds from Enforcement of Rights under the Mortgages and the Intercreditor Agreement

Any proceeds received from the enforcement of the rights of the Security Agent pursuant to the Intercreditor Agreement or the Master Trustee as mortgagee under the Mortgages, including the Series 2007 Mortgages shall, notwithstanding any provision in the Master Indenture to the contrary, be distributed by the Master Trustee, after application of the Gross Receipts in accordance with the Master Indenture, to satisfy any remaining amounts then due and owing under any Covered Obligation, in direct proportion that the amount then due and owing under each such Covered Obligation bears to the total amounts then due and owing under all Covered Obligations.

(Section 13)

Financial Covenants

In consideration for the issuance by the Authority of the Series 2007 Bonds and the issuance by Assured Guaranty of its financial guaranty insurance policies guaranteeing the Series 2007 Bonds, the Members of the Obligated Group covenant for the benefit of the Authority and Assured Guaranty that they shall, in addition to the

covenants set forth in the Master Indenture, comply with the covenants set forth below in this Section 14 for so long as any Series 2007 Bonds remain Outstanding. These covenants may be waived by the Authority and Assured Guaranty, in their sole discretion, without the consent of the holders of the Series 2007 Bonds or the Trustee.

(a) The definition of “Guaranty” in Section 1.01 of the Master Indenture shall be amended to replace the second sentence of the definition with the following: “For the purposes of this Master Indenture, the aggregate annual principal and interest payments on any Indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to equal to twenty percent (20%) of the amount which would be payable as principal of and interest on the indebtedness for which a guaranty shall have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Requirement) if the beneficiary of the Guaranty has a long-term debt service coverage ratio (calculated in the same manner as the Obligated Group’s Long-Term Debt Service Coverage Ratio and referred to herein as the “Beneficiary’s Coverage Ratio”) greater than 2.0 times, twenty-five percent (25%) if the Beneficiary’s Coverage Ratio is greater than 1.75 times but less than or equal to 2.0 times, fifty percent (50%) if the Beneficiary’s Coverage Ratio is greater than 1.50 times but less than or equal to 1.75 times, seventy-five percent (75%) if the Beneficiary’s Coverage Ratio is greater than 1.25 times but less than or equal to 1.50 times, and one hundred percent (100%) if the Beneficiary’s Coverage Ratio is equal to or less than 1.25 times, provided that if there shall have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is two (2) years after such other Person resumes making all payments on such guaranteed obligation, one hundred percent (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.”

(b) With respect to any casualty loss or condemnation award related to the Health Care Facilities of the Hospital, Section 3.04(b) shall not apply and shall have no effect and Sections 3.04(a)(i) and 3.04(a)(ii) of the Master Indenture shall be amended to read as follows: “(i) an Officer’s Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than ninety percent (90%) of what it was in the Fiscal Year preceding such casualty or condemnation and is not less than 1.30 as shown by pro forma financial statements for each such period, 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 (ii) a written report of a Consultant confirming such certification.”

(c) Section 3.06 of the Master Indenture is amended to provide that each Member of the Obligated Group covenants and agrees that it will not incur Additional

Indebtedness that is Variable Rate Indebtedness if the aggregate amount of Variable Rate Indebtedness that will be outstanding after such Additional Indebtedness is incurred will exceed forty percent (40%) of the Obligated Group's total Long-Term Indebtedness; provided, however that any Variable Rate Indebtedness which is directly or indirectly converted to have a fixed rate of interest through a Derivative Agreement shall not be considered to be Variable Rate Indebtedness for the purposes of this calculation.

(d) Section 3.06 of the Master Indenture is amended to provide that each Member of the Obligated Group covenants and agrees that it will not incur Additional Indebtedness if, after such Additional Indebtedness is incurred, the Capitalization Ratio of the Obligated Group exceeds sixty-five percent (65%), as set forth on the most recent Audited Financial Statements.

(e) Sections 3.06(a) and 3.06(b) of the Master Indenture are amended to provide that the Obligated Group may issue additional Covered Obligations to secure Long-Term Indebtedness under the Master Indenture only if either: (i) at the time of incurrence of such additional Long-Term Indebtedness, the senior Indebtedness of the Obligated Group (without regard to credit enhancement) is rated at least BBB- (or correlative ratings) from at least two of Fitch, Moody's and S&P; or (ii) the prior written consent of the Authority and Assured Guaranty is obtained, and in either of such cases, the Master Trustee shall execute such amendments to, spreaders of, or other documents relating to the Mortgage to secure such permitted additional Long-Term Indebtedness on a parity with all other Indebtedness secured from time to time by the Series 2007 Mortgages.

(f) Section 3.06(a)(i)(B) of the Master Indenture is amended to read as follows and all references in the Master Indenture to this Section shall be deemed to refer to this Section as amended by this Supplement No. 1: "The Long-Term Debt Service Coverage Ratio for the Historic Audit Period taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period is not less than 1.30."

(g) Section 3.06(a)(ii) is amended to read as follows and all references in the Master Indenture to this Section shall be deemed to refer to this Section as amended by this Supplement No. 1: "(ii) an Officer's Certificate of the Obligated Group Representative demonstrating that (A) the Long-Term Debt Service Coverage Ratio for the Historic Audit Period, excluding the proposed Long-Term Indebtedness, is at least 1.30 and (B) the forecasted Long-Term Debt Service Coverage Ratio, as evidenced by a Consultant's report, is not less than 1.50 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance Capital Additions, each of the two (2) full Fiscal Years succeeding the date on which such Capital Additions are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing Capital Additions or in the case of a Guaranty, each of the two (2) full Fiscal Years succeeding the date on which the Indebtedness is incurred or guaranteed, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are

based; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restriction but in no event less than 1.00.”

(h) Section 3.06(b)(i)(A) of the Master Indenture is amended to read as follows: “(A) an Officer’s Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service on the refunding Long-Term Indebtedness will not be more than Maximum Annual Debt Service on the refunded Long-Term Indebtedness, after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof, and”.

(i) Section 3.06(b)(ii) of the Master Indenture is amended to read as follows: “or (ii) if the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service 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 on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness.”

(j) Section 3.06(c) of the Master Indenture is amended to read as follows: “Short-Term Indebtedness may be incurred subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed fifteen (15%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve (12) consecutive months for which Audited Financial Statements are available; provided, however, that there shall be a period of at least thirty (30) consecutive calendar days during each period of twelve (12) consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed zero percent (0%) of Total Operating Revenues; and provided further that failure to reduce Short-Term Indebtedness to less than zero percent (0%) of Total Operating Revenues for each such thirty (30) day period shall not constitute an Event of Default so long as such short-term indebtedness in excess of zero percent (0%) could qualify as permitted Long-Term Indebtedness pursuant to the provisions of Section 3.06(a) as amended by this Supplement No. 1.”

(k) Section 3.06(d) of the Master Indenture is amended to read as follows: “Non-Recourse Indebtedness and Subordinated Debt may be incurred as long as the total amount of Non-Recourse Indebtedness and Subordinated Debt does not exceed twenty percent (20%) of Total Operating Revenues.”

(l) Section 3.06(g) of the Master Indenture is amended by deleting the “and” before subsection (iii) and adding a new subsection (iv) to read as follows: “and (iv) the amount of such Indebtedness does not exceed ten percent (10%) of the Indebtedness previously incurred for the Capital Addition.”

(m) For the purposes of this Supplement No. 1, Sections 3.06(a)(i)(A) and 3.06(e) are omitted and shall have no effect and the Obligated Group shall not be permitted to issue Long-Term Indebtedness in compliance with these Sections.

(n) Section 3.07(a) of the Master Indenture is amended to change the required Long-Term Debt Service Coverage Ratio from 1.10 to 1.30 and all references in the Master Indenture to the required Long-Term Debt Service Coverage Ratio shall be deemed to refer to the Long-Term Debt Service Coverage Ratio required by this Supplement No. 1.

(o) Section 3.07(b) of the Master Indenture is amended to change the required number of Days Cash on Hand of the Obligated Group from thirty (30) days to seventy-five (75) days and all references in the Master Indenture to the required Days Cash on Hand shall be deemed to refer to the Days Cash on Hand required by this Supplement No. 1.

(p) Section 3.07(d) of the Master Indenture is amended to read as follows: “The Obligated Group shall be deemed in compliance with paragraphs (a) and (b) of Section 3.07 irrespective of whether the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.30 or the Days Cash on Hand is less than seventy-five (75), so long as the Obligated Group has complied with the requirements of paragraph (c) of Section 3.07 and is following the recommendations, if any, of the Consultant. Notwithstanding the preceding sentence, if the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.00, or the Obligated Group fails to maintain a Long-Term Debt Service Coverage Ratio of 1.30 for two (2) consecutive Fiscal Years, or Days Cash on Hand is less than fifty (50), or the Obligated Group has failed to maintain Days Cash on Hand of at least seventy-five (75) for two (2) consecutive Fiscal Years, then the Obligated Group shall not be in compliance with paragraph (a) and (b) of Section 3.07.”

(q) Section 3.08(b) of the Master Indenture is amended to read as follows: “Each Member of the Obligated Group may Transfer cash or investments in securities only if the following requirements are met: (i) after giving effect to such Transfer, the conditions described in Section 3.07(b) as modified by this Supplement No. 1. would have been satisfied, (ii) if such Transfer had occurred at the beginning of the Historic Audit Period the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii), as modified by this Supplement No. 1 would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness, (iii) after giving effect to such Transfer, unrestricted cash and investments would not decline by more than ten percent (10%) of the lesser of the unrestricted cash and investments as of the end of the most recent audited Fiscal Year or the date of the Transfer, and (iv) the Long-Term Debt Service Coverage Ratio is at least 1.45 times and eighty percent (80%) of what it was prior to the Transfer.”

(r) Section 3.09(a)(iii) of the Master Indenture is amended to read as follows: “(iii) There is delivered to the Master Trustee and Assured Guaranty an Officer’s Certificate of the Obligated Group Representative demonstrating that (A) after giving effect to such merger, consolidation or sale or conveyance of assets, the Obligated Group

has at least seventy-five (75) days Cash On Hand (B) if such merger, consolidation or sale or conveyance of assets had occurred at the beginning of the Historic Audit Period the conditions described in Section 3.06(a)(i)(B) or Section 3.06(a)(ii), as modified by this Supplement No. 1, would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness, (C) after giving effect to such merger, consolidation or sale or conveyance of assets, unrestricted cash and investments would not decline by more than ten percent (10%) of the lesser of the unrestricted cash and investments as of the end of the most recent audited Fiscal Year or the date of the merger, consolidation or sale or conveyance of assets, (D) the Long-Term Debt Service Coverage Ratio is at least 1.45 times and eighty percent (80%) of what it was prior to the merger, consolidation or sale or conveyance of assets, and (E) that after such merger, consolidation or sale or conveyance of assets, no Member of the Obligated Group will be in default in the performance of any covenant or the satisfaction of any condition contained in this Master Indenture.

(s) Section 3.10 of the Master Indenture is amended by adding a requirement that the Obligated Group Representative provide copies to Assured Guaranty of all reports of and correspondence with outside agencies relating to any and all violations or deficiencies which could adversely affect the operations of the Obligated Group.

(t) Section 3.12(b)(ii) is amended to read as follows: “(ii) The Obligated Group Representative shall have provided an Officer’s Certificate to the Master Trustee and Assured Guaranty demonstrating that (A) after giving effect to such withdrawal, the Obligated Group has at least seventy-five (75) days Cash On Hand (B) if such withdrawal had occurred at the beginning of the Historic Audit Period the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii), as modified by this Supplement No. 1, would have been satisfied for the incurrence of one dollar (\$1.00) of additional Indebtedness, (C) after giving effect to such withdrawal, unrestricted cash and investments would not decline by more than ten percent (10%) of the lesser of the unrestricted cash and investments as of the end of the most recent audited Fiscal Year or the date of the withdrawal, and (D) the Long-Term Debt Service Coverage Ratio is at least 1.45 times and eighty percent (80%) of what it was prior to the withdrawal.

(u) The paragraph following Section 4.01d)(ii) of the Master Indenture is amended by deleting the “and” before “(ii)” and adding a further subparagraph (iii) at the end of this paragraph that reads as follows: “and, (iii) the Master Trustee receives a written notice from Assured Guaranty confirming that the conditions of subparagraphs (i) and (ii) of this paragraph are met;”.

(v) Section 6.01(k)(i) of the Master Indenture is amended by deleting the following provision: “(A)(1) a Consultant’s report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer’s Certificate of the Obligated Group Representative demonstrating that the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof are satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness based upon the Historic Audit Period; or (B)”.

(w) Notwithstanding anything in the Master Indenture to the contrary, a Member of the Obligated Group may enter into a Derivative Agreement only if the following conditions are met: (i) the Derivative Agreement is entered into as a hedge against (w) swaps or other Derivative Agreements outstanding (including reverse swaps), (x) assets then held, (y) debt then outstanding, or (z) debt reasonably expected to be issued or incurred within twelve (12) months of the proposed interest rate swap or other Derivative Agreement, (ii) the Derivative Agreement does not contain any leverage element or multiplier component unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component, and (iii) unless the obligation of such Member is insured by a Credit Facility Issuer, the payment of any settlement, breakage or other termination amount due under the Derivative Agreement determined at the time of execution and delivery of the Derivative Agreement (based on an assumption of two hundred (200) basis points fixed rate reduction for a fixed rate obligation and three hundred (300) basis points fixed rate increase for a floating rate obligation) shall be secured and shall be payable in a manner immediately subordinate to any Obligation, including net regularly scheduled payments due under any Derivative Agreement. No Member of the Obligated Group shall terminate a Derivative Agreement unless it demonstrates to the satisfaction of Assured Guaranty prior to the payment of any such termination amount that such payment shall not cause the Obligated Group to be in default under the Master Indenture or this Supplement No. 1. The counterparty or the guarantor to the Derivative Agreement must have a rating of at least “AA-“ by S&P or “Aa3” by Moody’s; provided that Bear Stearns Capital Markets, Inc. or any successor entity thereto may act as the counterparty if its ratings are maintained at A1 by Moody’s, A by S&P and A+ by Fitch and that, if Bear Stearns Capital Markets Inc. is downgraded below the A rating category by any of these rating agencies, a replacement Derivative Agreement counterparty will be required, and (v) there is no immediate termination for events related to the Derivative Agreement counterparty.

(x) The Obligated Group shall not hereafter issue a Covered Obligation to secure Indebtedness unless the Member of the Obligated Group for which such Indebtedness is proposed to be issued grants to the Master Trustee a Mortgage on the project being financed or refinanced with the proceeds of the Indebtedness.

(y) Unless it is in connection with the giving of a Permitted Lien, no Member of the Obligated Group shall enter into any Control Agreement unless it shall have delivered to the Authority and Assured Guaranty (i) an opinion of counsel, which counsel is reasonably acceptable to the Authority and Assured Guaranty, stating that such Control Agreement will not adversely affect the Master Trustee’s security interest in Gross Receipts, and (ii) a list of all banking institutions with whom such Member of the Obligated Group has a banking relationship.

(z) The Authority’s consent shall be required prior to (i) any amendment of the following Sections of the Master Indenture: Section 3.01 [Security; Restrictions on Encumbering Property, Payment of Principal and Interest], Section 3.03 [Insurance]; Section 3.05 [Limitations on Creation of Liens], Section 3.06 [Limitations on Indebtedness], or Section 3.08 [Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of

Accounts]; or (ii) any amendment to the Master Indenture that is inconsistent with any provision of this Supplement.

(Section 14)

Parties Becoming Members of the Obligated Group

Notwithstanding anything in the Master Indenture to the contrary, the Obligated Group and Obligated Group Representative hereby covenant that a Person which is not a Member of the Obligated Group shall not become a Member of the Obligated Group (i) unless such Person grants a mortgage to the Master Trustee on Health Care Facilities owned by such Person at the time of admission to the Obligated Group, subject to any liens or security interests permitted to remain outstanding under the Master Indenture.

(Section 15)

Discharge of Supplement

Upon payment by the Obligated Group of a sum, in cash or Defeasance Securities (as defined in the 2007A Related Bond Indenture), or both, sufficient, together with any other cash and Defeasance Securities held by the Bond Trustee and available for such purpose, to cause all Outstanding Series 2007A Bonds to be deemed to have been paid within the meaning of the 2007A Related Bond Indenture and to pay all other amounts referred to the 2007A Related Bond Indenture, accrued and to be accrued to the date of discharge of the 2007A Related Bond Indenture, Obligation No. 1 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture and this Supplement No. 1 shall be discharged.

(Section 16)

Appendix F

**Proposed Form of Approving Opinion
of Bond Counsel**

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437 Madison Avenue
New York, New York 10022-7001
(212) 940-3000
Fax: (212) 940-3111

September 6, 2007

Dormitory Authority of the State of New York
515 Broadway
Albany, New York 12207

We have examined a record of proceedings relating to the issuance of \$69,335,000 aggregate principal amount of Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007, in three series consisting of \$14,280,000 Series 2007A (the "Series 2007A Bonds"), \$47,300,000 Series 2007B (the "Series 2007B Bonds") and \$7,755,000 Series 2007C (Federally Taxable) (the "Series 2007C Bonds"; and, collectively with the Series 2007A Bonds and the Series 2007B Bonds, the "Series 2007 Bonds"), by the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Title 4 of Article 8 of the Public Authorities Law of the State of New York, as amended to the date hereof, including, without limitation, by the Healthcare Financing Consolidation Act, being Title 4-B of the Public Authorities Law of the State of New York, as amended to the date hereof (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Series 2007 Bonds are issued under and pursuant to the Act, the Health Quest Systems, Inc. Obligated Group Revenue Bond Resolution of the Authority, adopted on June 27, 2007 (the "Resolution"), the three separate Series Resolutions corresponding to each series of the Series 2007 Bonds, the Series 2007A Resolution Authorizing Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007A, the Series 2007B Resolution Authorizing Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007B and the Series 2007C Resolution Authorizing Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007C, all adopted June 27, 2007 (collectively, the "Series Resolutions"), and the three separate Bond Series Certificates corresponding to each of the Series 2007 Bonds (the "Bond Series Certificates"). Said resolutions and Bond Series Certificates are herein collectively called the "Resolutions." Capitalized terms used but not defined herein have the respective meaning given to them in the Resolutions.

The Series 2007 Bonds are part of an issue of bonds of the Authority (the "Bonds"), which the Authority has established and created under the terms of the Resolution and is authorized to issue from time to time for the purposes authorized by the Act and the Resolution, as then in effect, and without limitation as to amount, except as provided in the Resolutions or as may be limited by law. The Series 2007 Bonds were issued for the purposes set forth in the Resolutions.

The Authority is authorized to issue Bonds, in addition to the Series 2007 Bonds, only upon the terms and conditions set forth in the Resolution and such Bonds, when issued, will with all other Bonds which have been or may be issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

The Series 2007 Bonds will be dated their date of delivery and will bear interest at the rates and mature on the dates and in the principal amounts set forth in the Official Statement of the Authority, dated August 24, 2007, with respect to such Series 2007 Bonds.

Each series of the Series 2007 Bonds is issuable in the form of fully registered bonds in denominations of \$5,000 or any greater integral multiple thereof. Each series of the Series 2007 Bonds is numbered consecutively from one upward in order of issuance.

Each of the Series 2007 Bonds are subject to redemption prior to maturity as provided in the Resolutions and in the Bond Series Certificate.

The Series 2007 Bonds are being issued to finance loans by the Authority to Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center (“VBMC”), Putnam Hospital Center (“PHC”) and Northern Dutchess Hospital (“NDH”; and, collectively with VBMC and PHC, the “Institutions”). The Authority and each Institution have entered into separate Loan Agreements, each dated as of June 27, 2007 (the “Loan Agreements”), in amounts corresponding to the sum of each Institution’s allocable share of the proceeds of the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007C Bonds, by which each Institution is required to make payments sufficient to pay, when due, the sum of each Institution’s allocable share of the principal and Redemption Price of and interest on the Outstanding Bonds, including the Series 2007 Bonds, as well as a part of the Authority’s annual administrative expenditures and costs. All amounts payable under the Loan Agreements for payment of the principal or Redemption Price of or interest on the Bonds are required to be paid to The Bank of New York, as trustee (the “Trustee”), under the Resolution and have been pledged by the Authority for the benefit of the Holders of Outstanding Bonds, including the Series 2007 Bonds.

We are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2007 Bonds thereunder.

2. The Series Resolutions have been duly adopted by the Authority in accordance with the provisions of the Resolution and are authorized and permitted by the Resolution. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2007 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2007 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in

accordance with their terms and the terms of the Resolutions and are entitled, together with all other Bonds issued under the Resolution, to the equal benefits of the Resolutions and the Act.

4. The Authority has the right and lawful authority and power to enter into the Loan Agreements and the Loan Agreements have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

5. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2007A Bonds and the Series 2007B Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007A Bonds and the Series 2007B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2007A Bonds and the Series 2007B Bonds. The Authority has covenanted in the Series Resolutions and the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code (the "Tax Certificate") and the Institutions have each covenanted in their respective Loan Agreements and the Tax Certificate to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007A Bonds and the Series 2007B Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the Institutions have made certain representations and certifications in the Tax Certificate. We have also relied on the opinion of counsel to the Institutions as to all matters concerning the status of each Institution as an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code. We have not independently verified the accuracy of those certifications and representations or that opinion.

Under existing law, assuming compliance with the tax covenants described above, and the accuracy of certain representations and certifications made by the Authority and the Institutions described above, interest on the Series 2007A Bonds and the Series 2007B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007A Bonds and the Series 2007B Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2007A Bonds maturing on July 1, 2012, July 1, 2013, July 1, 2014, July 1, 2015, July 1, 2017 and July 1, 2030 and the Series 2007B Bonds maturing on July 1, 2037 (the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be

increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

Interest on the Series 2007C Bonds is included in gross income for federal income tax purposes under Section 103 of the Code.

6. Interest on the Series 2007 Bonds is exempt, by virtue of the Act, from personal income taxes of the State of New York and its political subdivisions, including The City of New York and the City of Yonkers.

We have examined an executed Series 2007A Bond, Series 2007B Bond and Series 2007C Bond and, in our opinion, the form of said Bonds and the respective execution are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreements and the Series 2007 Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. Except as stated in paragraphs 5 and 6 above, we express no opinion as to any other Federal, state or local tax consequences of the ownership or disposition of the Series 2007 Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2007 Bonds, or the interest thereon, if any action is taken with respect to the Series 2007 Bonds or the proceeds thereof upon the advice or approval of other counsel.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Loan Agreements by the Institutions. We have assumed the due authorization, execution and delivery of the Loan Agreements by the Institutions.

Very truly yours,

Appendix G

Specimen Assured Guaranty Insurance Policy

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Assured Guaranty Corp.
 1325 Avenue of the Americas
 New York, NY 10019
 t. 212.974.0100
 www.assuredguaranty.com

Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the

next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By: _____
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

Counsel

