

**\$125,000,000**

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK  
NORTH SHORE - LONG ISLAND JEWISH OBLIGATED GROUP  
REVENUE BONDS, SERIES 2009**

**Consisting of****\$50,000,000 Series 2009B****\$37,500,000 Series 2009C****\$37,500,000 Series 2009D****Dated: Date of Delivery****Due: July 1, as shown below**

**Payment and Security:** The North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B (the "Series 2009B Bonds"), the North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C (the "Series 2009C Bonds") and the North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D (the "Series 2009D Bonds" and together with the Series 2009B Bonds and the Series 2009C Bonds, the "Series 2009B, C and D Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable from amounts derived from draws under the Letters of Credit (as hereinafter defined) and additionally secured by a pledge of certain payments to be made under a Loan Agreement (the "2009 Loan Agreement"), dated as of July 29, 2009, between Long Island Jewish Medical Center (the "Institution") and the Authority, the hereinafter defined Series 2009B, C and D Obligations, and the funds and accounts (except the Arbitrage Rebate Funds and the Credit Facility Provider Repayment Funds) authorized by the Authority's North Shore Health System Obligated Group Revenue Bond Resolution, adopted by the Authority on June 24, 1998, as amended by a Supplemental Resolution, adopted on July 23, 2003, and as further amended, supplemented or modified from time to time pursuant to the terms thereof (the "General Resolution" or the "Resolution"), and established under the Authority's Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B adopted on July 29, 2009 (the "Series 2009B Resolution"), the Authority's Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C adopted on July 29, 2009 (the "Series 2009C Resolution") and the Authority's Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D adopted on July 29, 2009 (the "Series 2009D Resolution" and, together with the Series 2009B Resolution and the Series 2009C Resolution, the "Series 2009B, C and D Resolutions").

From the date of original issuance of the Series 2009B Bonds through September 17, 2012, unless extended or earlier terminated or replaced, principal of and interest on the Series 2009B Bonds, and the Purchase Price of Series 2009B Bonds tendered for payment and not remarketed as described herein, will be payable from funds drawn under an irrevocable direct-pay letter of credit (the "Series 2009B Letter of Credit") issued by

**[TD BANK, N.A. LOGO]**

(the "Series 2009B Bank"), in favor of The Bank of New York Mellon, New York, New York, as trustee (the "Trustee" and "Tender Agent") for the benefit of the Holders of the Series 2009B Bonds.

From the date of original issuance of the Series 2009C Bonds through September 17, 2012, unless extended or earlier terminated or replaced, principal of and interest on the Series 2009C Bonds, and the Purchase Price of Series 2009C Bonds tendered for payment and not remarketed as described herein, will be payable from funds drawn under an irrevocable direct-pay letter of credit (the "Series 2009C Letter of Credit") issued by

**[JPMORGAN CHASE BANK, N.A. LOGO]**

(the "Series 2009C Bank"), in favor the Trustee for the benefit of the Holders of the Series 2009C Bonds.

From the date of original issuance of the Series 2009D Bonds through September 17, 2012, unless extended or earlier terminated or replaced, principal of and interest on the Series 2009D Bonds, and the Purchase Price of Series 2009D Bonds tendered for payment and not remarketed as described herein, will be payable from funds drawn under an irrevocable direct-pay letter of credit (the "Series 2009D Letter of Credit" and together with the Series 2009B Letter of Credit and the Series 2009C Letter of Credit, the "Letters of Credit") issued by

**[BANK OF AMERICA, N.A. LOGO]**

(the "Series 2009D Bank" and together with the Series 2009B Bank and the Series 2009C Bank, the "Banks"), in favor of the Trustee for the benefit of the Holders of the Series 2009D Bonds.

The Trustee is required to draw under the Letters of Credit in order to provide for the timely payment of the principal of and interest on a given Series of the Series 2009B, C and D Bonds and the Purchase Price of such Series of Series 2009B, C and D Bonds tendered for purchase and not remarketed. The Institution and the Banks will enter into separate Letter of Credit and Reimbursement Agreements, dated as of September 17, 2009 for each Series of Series 2009B, C and D Bonds (individually, the "Series 2009B Reimbursement Agreement", the "Series 2009C Reimbursement Agreement" and the "Series 2009D Reimbursement Agreement" and together, the "Reimbursement Agreements"), providing for reimbursement to the Banks of amounts drawn under the Letters of Credit. Payments due under the Reimbursement Agreements for any draws on the Letters of Credit will be secured by separate obligations issued under the Master Trust Indenture for each Series of Series 2009B, C and D Bonds (individually, the "Series 2009B LOC Obligation", the "Series 2009C LOC Obligation" and the "Series 2009D LOC Obligation" and, collectively, the "Series 2009B, C and D LOC Obligations"). See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS - The Letters of Credit."

Payment of the principal of and interest on the Series 2009B, C and D Bonds when due, and payment to the Authority by the Institution of amounts due as set forth in its 2009 Loan Agreement will be secured by payments made pursuant to, in the case of the Series 2009B Bonds, Obligation No. 31 dated as of September 1, 2009 (the "Series 2009B Obligation"), in the case of the Series 2009C Bonds, Obligation No. 32 dated as of September 1, 2009 (the "Series 2009C Obligation") and in the case of the Series 2009D Bonds, Obligation No. 33 dated as of September 1, 2009 (the "Series 2009D Obligation" and, together with the Series 2009B Obligation and the Series 2009C Obligation, the "Series 2009B, C and D Obligations") issued pursuant to the Master Trust Indenture, dated as of July 1, 1998, as supplemented, amended and restated (the "Master Trust Indenture") and constitutes the joint and several general obligation of all the Members of the Obligated Group (as hereinafter defined). The Obligated Group consists of the following six health care corporations affiliated with the North Shore - Long Island Jewish Health System (the "NSLIJ System"): North Shore University Hospital; Glen Cove Hospital; Plainview Hospital; Forest Hills Hospital; North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation; and Long Island Jewish Medical

Center (collectively, the “Members of the Obligated Group” or “Obligated Group Members” or “Obligated Group” or, individually, a “Member”). No affiliate of the NSLIJ System, other than the Members of the Obligated Group, will be obligated for amounts due under the Series 2009B, C and D Obligations. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS.”

The Institution’s obligation under its 2009 Loan Agreement and the Series 2009B, C and D Obligations is a general obligation of the Institution. The obligation of the Institution under its 2009 Loan Agreement and the Series 2009B, C and D Obligations is secured by a pledge of certain revenues of the Institution and by a mortgage granted by the Institution to the Authority on the Mortgaged Property (each, a “2009 Institution Mortgage” and collectively, the “Institution Mortgages”). For a more complete description of the security for the obligations of the Institution under its 2009 Loan Agreement, see “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS.” The Series 2009B, C and D LOC Obligations will be secured by a pledge of the Gross Receipts of the Members of the Obligated Group and not by the Institution Mortgages.

**The Series 2009B, C and D 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.**

Investment in the Series 2009B, C and D Bonds involves certain risks, including, but not limited to, those set forth in “PART 9 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP” herein.

**Description:** The Series 2009B, C and D Bonds will initially bear interest from their date of delivery at the Weekly Rate. Interest on the Series 2009B, C and D Bonds is payable on the first (1st) Wednesday of each month commencing October 7, 2009 for as long as the Series 2009B, C and D Bonds bear interest in the Weekly Rate Mode. **This Official Statement describes the terms of the Series 2009B, C and D Bonds only in the Weekly Rate Mode.**

Each Series of the Series 2009B, C and D Bonds may be converted from time to time in accordance with the provisions of the respective Series 2009B, C and D Resolutions to a different Interest Rate Mode, as set forth herein. At the time of a conversion from the Weekly Rate Mode to a Rate Mode other than a Daily Rate Mode, the Series 2009B, C and D Bonds are subject to mandatory tender for purchase at the Purchase Price, as set forth herein. The Series 2009B, C and D Bonds are also subject to mandatory tender for purchase under other circumstances and to tender for purchase at the option of the Holders when bearing interest at the Weekly Rate, as set forth herein. The Series 2009B and C Bonds tendered for purchase are to be remarketed by Citigroup Global Markets Inc. (the “Series 2009B and C Remarketing Agent”) and the Series 2009D Bonds tendered for purchase are to be remarketed by Morgan Stanley & Co. Incorporated (the “Series 2009D Remarketing Agent” and, together with the Series 2009B and C Remarketing Agent, the “Remarketing Agents”). Under the Letters of Credit, the Banks are obligated to pay the Purchase Price of the respective Series of Series 2009B, C and D Bonds tendered or deemed tendered for purchase but not remarketed.

As long as the Series 2009B, C and D Bonds bear interest at the Weekly Rate, the Series 2009B, C and D Bonds shall be issued in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The Series 2009B, C and D Bonds will be issued initially 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 2009B, C and D Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2009B, C and D Bonds, payments of the principal, Purchase Price and Redemption Price of and interest on such Series 2009B, C and D 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 2009B, C AND D BONDS -Book-Entry Only System” herein.

**Redemption:** The Series 2009B, C and D Bonds are subject to mandatory and optional redemption and purchase in lieu of optional redemption prior to maturity as more fully described herein.

**Tax Exemption:** In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009B, C and D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2009B, C and D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2009B, C and D Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including the City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009B, C and D Bonds.. See “PART 13 - TAX MATTERS” herein.

*The Series 2009B, C and D Bonds are offered when, as, and if issued and received by the Underwriters. The offer of the Series 2009B, C and D Bonds may be subject to prior sale, or withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, and to certain other conditions. Certain legal matters will be passed upon for the Institution, the Representative and the Obligated Group by their counsel, Winston & Strawn LL, New York, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., New York, New York, and for the Banks by their counsel, Emmet, Marvin & Martin, LLP, New York, New York. The Authority expects to deliver the Series 2009B, C and D Bonds in definitive form in New York, New York, on or about September 17, 2009.*

|   |                                    |
|---|------------------------------------|
| <b>Citi<sup>†</sup></b>   | <b>Morgan Stanley<sup>††</sup></b> |
| <sup>†</sup> Remarketing Agent for the Series 2009B and C Bonds.<br><sup>††</sup> Remarketing Agent for the Series 2009D Bonds. |                                    |

Dated: September 10, 2009

**\$125,000,000**  
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**  
**NORTH SHORE - LONG ISLAND JEWISH OBLIGATED GROUP**  
**REVENUE BONDS, SERIES 2009**  
**Consisting of**

**\$50,000,000 Series 2009B      \$37,500,000 Series 2009C      \$37,500,000 Series 2009D**

**\$50,000,000 Series 2009B Term Bond due July 1, 2039 @ 100% CUSIP\* 649905 QV1**  
**\$37,500,000 Series 2009C Term Bond due July 1, 2039 @ 100% CUSIP\* 649905 QW9**  
**\$37,500,000 Series 2009D Term Bond due July 1, 2039 @ 100% CUSIP\* 649905 QX7**

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\* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2009B, C and D Bonds and neither the Authority, the Institution, the Representative, the Obligated Group, the Underwriters nor the Trustee makes any representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2009B, C and D Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2009B, C and D Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Institution, the Obligated Group Members, the Representative (as defined herein), the Underwriters or the Banks to give any information or to make any representations with respect to the Series 2009B, C and D 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 Institution, the Obligated Group Members, the Representative, the Underwriters or the Banks.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2009B, C and D Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Institution, the Obligated Group Members, the Representative, the Banks 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 or of the Underwriters.

Other than with respect to information concerning the Letters of Credit and the Banks contained under the captions "THE BANKS" in Part 7, and "The Letters of Credit" and "The Reimbursement Agreements" in Part 2, none of the information in the Official Statement has been supplied or verified by the Banks and the Banks make no representation or warranty, expressed or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2009B, C and D Bonds; or (iii) the tax status of the interest on the Series 2009B, C and D Bonds.

The Obligated Group Members, including the Institution, and the Representative have reviewed the parts of this Official Statement describing the Institution, the Obligated Group, the NSLIJ System and the Representative under the headings "INTRODUCTION," "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS," "THE SERIES 2009B, C AND D BONDS," "THE PLAN OF FINANCE," "ANNUAL DEBT SERVICE REQUIREMENTS," "ESTIMATED SOURCES AND USES OF FUNDS," "THE OBLIGATED GROUP," and "RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP". The Obligated Group Members, including the Institution, and the Representative will certify as of the dates hereof and of delivery of the Series 2009B, C and D Bonds that such parts do not contain any untrue statement 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 Representative has also reviewed "Appendix B-1(a) - Management's Introduction to the Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors," "Appendix B-1(b) - Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors" and "Appendix B-2 - Unaudited Interim Combined Financial Statements for the Six Months Ended June 30, 2009." The Representative will certify as of the date hereof and of delivery of the Series 2009B, C and D Bonds that such Appendices 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 light of the circumstances under which the statements are made, not misleading. Neither the Obligated Group Members, including the Institution, nor the Representative makes any representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the Resolution, the Series 2009B, C and D Resolutions, the 2009 Loan Agreement, the 2009 Institution Mortgages, the Intercreditor Agreement, the Letters of Credit, the Reimbursement Agreements, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations and the Series 2009B, C and D LOC Obligations (as each such term is defined in this Official Statement) do not purport to be complete. Investors should refer to the Act, the Resolution, the Series 2009B, C and D Resolutions, the 2009 Loan Agreement, the 2009 Institution Mortgages, the Intercreditor Agreement, the Letters of Credit, the Reimbursement Agreements, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations and the Series 2009B, C and D LOC Obligations for full and complete details of their provisions, copies of which are on file with the Authority and the Trustee.

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

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Authority, the Banks, the Institution, the Obligated Group Members, the Representative or the NSLIJ System have remained unchanged after the date of this Official Statement.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2009B, C AND D BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2009B, C AND D BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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.

## TABLE OF CONTENTS

| <u>Part</u>   | <u>Page</u> | <u>Part</u>   | <u>Page</u> |
|---|-------------|---|-------------|
| PART 1 - INTRODUCTION.....  | 1           | Capitalization .....  | 103         |
| Purpose of the Official Statement.....                                  | 1           | Historical and Pro Forma Coverage of Debt Service .....             | 104         |
| Purpose of the Issue .....  | 1           | Reimbursement Methodologies .....                                   | 104         |
| Authorization of Issuance.....  | 2           | Members of the Obligated Group .....                                | 109         |
| The Series 2009B, C and D Bonds .....                                   | 2           | Other NSLIJ System Hospitals' Supplemental Information .....        | 144         |
| The Authority.....  | 3           | PART 9 - RISK FACTORS AND REGULATORY CHANGES                        |             |
| Members of the Obligated Group.....                                     | 3           | WHICH MAY AFFECT THE MEMBERS OF THE                                 |             |
| The NSLIJ System and the Obligated Group .....                          | 5           | OBLIGATED GROUP .....   | 166         |
| Payment of the Series 2009B, C and D Bonds .....                        | 5           | General .....   | 167         |
| Security for the Series 2009B, C and D Bonds .....                      | 5           | Legislative, Regulatory and Contractual Matters Affecting           |             |
| The Letters of Credit.....  | 6           | Revenue.....  | 167         |
| The Master Indenture.....   | 7           | State Budget .....  | 168         |
| The Mortgages and the Intercreditor Agreement .....                     | 7           | Managed Care and Other Private Initiatives.....                     | 169         |
| Additional Indebtedness .....   | 7           | Medicare and Medicaid Managed Care .....                            | 169         |
| Additional Bonds .....  | 8           | Outlier Payments.....   | 170         |
| PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE                         |             | Competition.....  | 172         |
| SERIES 2009B, C AND D BONDS.....  | 8           | Workforce Shortages.....  | 172         |
| Payment of and Security for the Series 2009B, C and D Bonds .....       | 8           | Labor Relations and Collective Bargaining.....                      | 172         |
| The Letters of Credit.....  | 10          | Federal "Fraud and Abuse" Laws and Regulations .....                | 172         |
| Substitute Credit Facilities.....                                       | 12          | Federal and State False Claims Acts.....                            | 173         |
| Requirements of Credit Facilities.....                                  | 12          | Limitations on Certain Arrangements Imposed by Federal Ethics       |             |
| The Reimbursement Agreements .....                                      | 12          | in Patient Referrals Act.....                                       | 173         |
| The Master Indenture.....   | 13          | Department of Health Regulations .....                              | 176         |
| The Mortgages .....   | 15          | Other Governmental Regulation.....                                  | 176         |
| Intercreditor Agreement.....  | 16          | OIG Compliance Guidelines.....                                      | 176         |
| Events of Default and Acceleration under the Resolution .....           | 16          | Not-for-Profit Status .....   | 177         |
| PART 3 - THE SERIES 2009B, C AND D BONDS .....                          | 17          | Internal Revenue Code Limitations .....                             | 177         |
| Description of the Series 2009B, C and D Bonds .....                    | 17          | Tax Audits.....   | 178         |
| Interest Rate .....   | 18          | Antitrust .....   | 178         |
| Determination of Weekly Rate .....                                      | 18          | Health Insurance Portability and Accountability Act.....            | 179         |
| Redemption Prices and Terms .....                                       | 19          | Environmental Matters.....  | 179         |
| Tender of the Series 2009B, C and D Bonds .....                         | 22          | Affiliation, Merger, Acquisition and Divestiture .....              | 180         |
| Conversion to Other Interest Rate Modes .....                           | 25          | Insurance .....   | 180         |
| The Remarketing Agent.....  | 25          | Certain Accreditations.....   | 180         |
| Special Considerations Relating to the Bonds.....                       | 25          | Increased Costs and State-Regulated Reimbursement .....             | 181         |
| Book-Entry Only System.....   | 26          | Secondary Market .....  | 181         |
| PART 4 - THE PLAN OF FINANCE .....                                      | 29          | Enforceability of Lien on Gross Receipts.....                       | 181         |
| The Series 2009B, C and D Bonds .....                                   | 29          | Enforceability of the Master Indenture .....                        | 182         |
| The Series 2009 Projects.....   | 29          | Exercise of Remedies under Master Indenture .....                   | 183         |
| Proposed Issuance of Additional Indebtedness .....                      | 30          | Intercreditor Agreement.....  | 183         |
| PART 5 - ANNUAL DEBT SERVICE REQUIREMENTS .....                         | 31          | Bankruptcy .....  | 183         |
| PART 6 - ESTIMATED SOURCES AND USES OF FUNDS .....                      | 31          | Considerations Relating to Additional Debt.....                     | 184         |
| PART 7 - THE BANKS.....   | 32          | Other Risk Factors .....  | 184         |
| PART 8 - THE OBLIGATED GROUP.....                                       | 35          | PART 10 - THE AUTHORITY .....                                       | 185         |
| Introduction.....   | 35          | PART 11 - LEGALITY OF THE SERIES 2009B, C AND D                     |             |
| North Shore - Long Island Jewish Health System.....                     | 35          | BONDS FOR INVESTMENT AND DEPOSIT .....                              | 193         |
| Members of the Obligated Group .....                                    | 40          | PART 12 - NEGOTIABLE INSTRUMENTS .....                              | 193         |
| Other NSLIJ System Hospitals and Entities (Refer to <i>Organization</i> |             | PART 13 - TAX MATTERS .....   | 193         |
| <i>Chart.</i> ).....  | 41          | PART 14 - STATE NOT LIABLE ON THE SERIES 2009B, C                   |             |
| Market .....  | 41          | AND D BONDS.....  | 195         |
| Geographic Origin of Inpatients and Ambulatory Surgery Patients         |             | PART 15 - COVENANT BY THE STATE .....                               | 195         |
| of the Obligated Group .....  | 44          | PART 16 - LEGAL MATTERS .....                                       | 195         |
| Centralized Services, Common Objectives and Coordinated                 |             | PART 17 - UNDERWRITING AND REMARKETING .....                        | 195         |
| Clinical Leadership of the NSLIJ System, NSLIJ HCI and the              |             | PART 18 - CONTINUING DISCLOSURE .....                               | 196         |
| Obligated Group Members .....   | 45          | PART 19 - RATINGS .....   | 196         |
| Research.....   | 47          | PART 20 - MISCELLANEOUS .....                                       | 197         |
| Quality Management.....   | 49          | Appendix A Certain Definitions .....                                | A-1         |
| Workforce .....   | 51          | Appendix B-1(a) Management's Introduction to the Audited            |             |
| Labor Relations of the Obligated Group Members .....                    | 52          | Combined Financial Statements of the North Shore-Long Island        |             |
| Employee Benefit Plans.....   | 53          | Jewish Obligated Group for the Years Ended December 31,             |             |
| Center for Learning and Innovation .....                                | 54          | 2008 and 2007 with Report of Independent Auditors.....              | B-1(a)-1    |
| Medical Education .....   | 55          | Appendix B-1(b) Audited Combined Financial Statements of the        |             |
| Licensure and Accreditation .....                                       | 56          | North Shore-Long Island Jewish Obligated Group for the Years        |             |
| Philanthropy.....   | 57          | Ended December 31, 2008 and 2007 with Report of                     |             |
| Community Programs .....  | 57          | Independent Auditors .....  | B-1(b)-1    |
| Financial Assistance Policy .....                                       | 58          | Appendix B-2 Unaudited Interim Combined Financial Statements For    |             |
| Swap and Debt Policy .....  | 58          | the Six Months Ended June 30, 2009.....                             | B-2-1       |
| The NSLIJ System Risk Management and Insurance Program .....            | 59          | Appendix C Summary of Certain Provisions of the Loan Agreement..... | C-1         |
| Investment Policy .....   | 60          | Appendix D Summary of Certain Provisions of the Resolutions.....    | D-1         |
| Future Plans .....  | 60          | Appendix E Summary of Certain Provisions of the Master Trust        |             |
| Litigation.....   | 61          | Indenture and the 2009B, C and D Supplemental Indentures.....       | E-1         |
| Governance .....  | 62          | Appendix F Summary of Certain Provisions of the Reimbursement       |             |
| Board.....  | 65          | Agreements.....   | F-1         |
| Executive Staff.....  | 66          | Appendix G Proposed Form of Approving Opinion of Bond Counsel ..... | G-1         |
| Combined Statements of Operations.....                                  | 73          |   |             |
| Combined Statements of Financial Position.....                          | 75          |   |             |
| Management's Discussion and Analysis for the Years ended                |             |   |             |
| December 31, 2008 and December 31, 2007 and the Six                     |             |   |             |
| Months ended June 30, 2009 .....  | 77          |   |             |



**DORMITORY AUTHORITY - STATE OF NEW YORK - 515 BROADWAY, ALBANY, N.Y. 12207**  
**PAUL T. WILLIAMS, JR. - EXECUTIVE DIRECTOR                      ALFONSO L. CARNEY, JR., ESQ. - CHAIR**

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**OFFICIAL STATEMENT RELATING TO**

**\$125,000,000**

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK  
NORTH SHORE - LONG ISLAND JEWISH OBLIGATED GROUP  
REVENUE BONDS, SERIES 2009**

**Consisting of**

**\$50,000,000 Series 2009B**

**\$37,500,000 Series 2009C**

**\$37,500,000 Series 2009D**

**PART 1 - INTRODUCTION**

**Purpose of the Official Statement**

The purpose of this Official Statement is to provide information in connection with the initial offering of \$125,000,000 aggregate principal amount of Dormitory Authority of the State of New York North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B (the “Series 2009B Bonds”), the North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C (the “Series 2009C Bonds”) and the North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D (the “Series 2009D Bonds” and together with the Series 2009B Bonds and the Series 2009C Bonds, the “Series 2009B, C and D Bonds”).

The following is a brief description of certain information concerning the Series 2009B, C and D Bonds, the Authority, the Banks (as hereafter defined), North Shore University Hospital (“NSUH”), Long Island Jewish Medical Center (“LIJMC”), Glen Cove Hospital (“GCH”), Plainview Hospital (“PVH”), Forest Hills Hospital (“FHH”) and North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation (“CECR”), which together comprise the members of the Obligated Group (hereinafter, the “Members of the Obligated Group”) and North Shore - Long Island Jewish Health Care, Inc. (“NSLIJ HCI” or the “Representative”). A more complete description of such information and additional information that may affect a decision to invest in the Series 2009B, C and D 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 hereto.

**Purpose of the Issue**

The proceeds of the Series 2009B, C and D Bonds, together with other funds of the Institution, if any, will be used to finance a portion of the LIJMC Project (as hereinafter defined). Additionally, proceeds of another Series of North Shore-Long Island Jewish Obligated Group Revenue Bonds (the “Series 2009A Bonds”) expected to be issued as fixed-rate bonds in the principal amount of \$235,615,000 on or about the same day as the Series 2009B, C and D Bonds, will be used to finance the NSUH-M Project (as hereinafter defined) and a portion of the LIJMC Project (the LIJMC Project and NSUH-M Project, each as hereinafter defined, are collectively referred to as the “Projects” or the “Series 2009 Projects”) (as described under “PART 4 – THE PLAN OF FINANCE – The Series 2009 Projects”),

including capitalized interest during the construction period. The proceeds of the Series 2009B, C and D Bonds will also be applied to pay all or a portion of the costs of issuance incurred in connection with the issuance of the Series 2009B, C and D Bonds. See “PART 4 - THE PLAN OF FINANCE” and “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.” The Series 2009A Bonds are being offered pursuant to a separate official statement of the Authority.

### **Authorization of Issuance**

The Series 2009B, C and D Bonds will be issued pursuant to the Act, the Authority’s North Shore Health System Obligated Group Revenue Bond Resolution, dated June 24, 1998, as amended by a Supplemental Resolution, dated July 23, 2003 (the “General Resolution” or the “Resolution”), and the Series 2009B Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B adopted on July 29, 2009 (the “Series 2009B Resolution”), the Series 2009C Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C adopted on July 29, 2009 (the “Series 2009C Resolution”) and the Series 2009D Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D adopted on July 29, 2009 (the “Series 2009D Resolution” and, together with the Series 2009B Resolution and the Series 2009C Resolution, the “Series 2009B, C and D Resolutions” and, together with the General Resolution, the “Resolutions”). Additional Series of Bonds may be issued pursuant to the Resolution and each Series will be separately secured by (i) the funds and accounts established pursuant to each Series Resolution, (ii) the Loan Agreement or Loan Agreements to be executed by and between the Authority and one or more Members of the Obligated Group for whose benefit the Series of Bonds is issued, and (iii) the respective Obligation (as defined herein) to be issued by the Obligated Group under the Master Trust Indenture (as defined herein). The Series 2009B, C and D Bonds and all other Series of Bonds issued pursuant to the Resolution are referred to as the “Bonds.” Although each Series of Bonds is separately secured by the funds and accounts under its respective Series Resolution, the Obligation securing each Series or subseries of Bonds or issued in connection with each Series of Bonds is a joint and several obligation of the Members of the Obligated Group. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS.”

### **The Series 2009B, C and D Bonds**

The Series 2009B, C and D Bonds will be dated the date of their initial delivery, will bear interest from that date and will mature, subject to prior redemption or tender for purchase, as set forth on the cover page hereof. Commencing on the date of delivery, each Series of the Series 2009B, C and D Bonds will bear interest at the Weekly Rate as determined by the applicable Remarketing Agent on or before the date of delivery until such Series of the Series 2009B, C and D Bonds are converted to a Daily Rate, a Term Rate or a Fixed Rate. Each Series of the Series 2009B, C and D Bonds may be converted permanently to the Fixed Rate Mode. See “PART 3 - THE SERIES 2009B, C AND D BONDS - Description of the Series 2009B, C and D Bonds.”

**This Official Statement generally describes the Series 2009B, C and D Bonds only in the Weekly Rate Mode. For further information about the other Interest Rate Modes, see “Appendix D - Summary of Certain Provisions of the Resolutions.”**

Interest on the Series 2009B, C and D Bonds while in the Weekly Rate Mode is payable on the first (1st) Wednesday of each month, commencing October 7, 2009. If any such Wednesday is not a Business Day, the Interest Payment Date shall be the succeeding Business Day.

**A conversion of a Series of the Series 2009B, C and D Bonds to a Term Rate or a Fixed Rate or the expiration of an applicable Credit Facility, delivery of a Substitute Credit Facility or Event of Default under a given Reimbursement Agreement will cause a mandatory tender of all Series 2009B, C and D Bonds of the applicable Series.**

It is currently anticipated that upon substantial completion of the Project, the Series 2009B, C and D Bonds will be converted to the Fixed Rate Mode. If such conversion occurs, it will trigger a mandatory

tender of all Series 2009B, C and D Bonds and cause the Letters of Credit to terminate following such mandatory tender. See “PART 3 - THE SERIES 2009B, C AND D BONDS - Tender of the Series 2009B, C and D Bonds - *Mandatory Tenders.*” The Series 2009B, C and D Resolutions provide that a debt service reserve fund must be funded at any time a Credit Facility is not in place. It is contemplated that upon any conversion of the Series 2009B, C and D Bonds to the Fixed Rate Mode, the Authority will issue the Additional Bonds, a portion of the proceeds of which will fund the debt service reserve fund requirement for the Series 2009B, C and D Bonds and finance the cost of such conversion, including the costs, if any, of terminating certain interest rate swap agreements, and other costs of issuance.

The Series 2009B, C and D Bonds will be subject to acceleration upon the occurrence of an Event of Default, as more fully described in “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS - Events of Default and Acceleration under the Resolution.” Notwithstanding their stated maturities, the Series 2009B, C and D Bonds are subject to optional and mandatory redemption and purchase in lieu of optional redemption prior to maturity.

While in the Weekly Rate Mode, the interest rate borne by the Series 2009B, C and D Bonds will be determined by the applicable Remarketing Agent to be the lowest rate of interest that, in the judgment of the Remarketing Agent, under prevailing financial market conditions, enables such Series 2009B, C and D Bonds to be sold at a price of par (plus accrued interest, if any). In no event may the interest rate on any Series 2009B, C or D Bond exceed 12%.

Each Bondholder, at all times while the Series 2009B, C and D Bonds bear interest at the Weekly Rate, will have the right and, at certain other times, will have the obligation, to tender the Series 2009B, C and D Bonds (or portion thereof under certain circumstances) owned by such Bondholder for purchase at a Purchase Price of 100% of the principal amount of such Series 2009B, C and D Bonds, plus accrued interest, if any, as described herein, by delivering the tendered Series 2009B, C and D Bonds to the Tender Agent. The right to optionally tender Series 2009B, C and D Bonds shall terminate following the conversion of the Series 2009B, C and D Bonds to the Term Rate Mode or the Fixed Rate Mode. As noted above, it is anticipated that upon substantial completion of the Project, the Series 2009B, C and D Bonds will be mandatorily tendered and converted to the Fixed Rate Mode. See “PART 3 - THE SERIES 2009B, C AND D BONDS - Description of the Series 2009B, C and D Bonds.”

The Series 2009B, C and D Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

### **The Authority**

The Authority is a public benefit corporation of the State of New York, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational and not-for-profit institutions. See “PART 10 - THE AUTHORITY.” Pursuant to the Health Care Consolidation Act, the Authority succeeded to the rights and powers of the New York State Medical Care Facilities Finance Agency.

### **Members of the Obligated Group**

The Members of the Obligated Group are: Long Island Jewish Medical Center, North Shore University Hospital, Glen Cove Hospital, Plainview Hospital, Forest Hills Hospital and North Shore University Hospital Stern Family Center For Extended Care and Rehabilitation. The Obligated Group Representative is North Shore-Long Island Jewish Health Care, Inc., which is not a Member of the Obligated Group and, therefore, is neither obligated under the Master Indenture nor responsible for the payment of the debt service on the Series 2009B, C and D Bonds. The Members of the Obligated Group and NSLIJ HCI are each a part of the North Shore - Long Island Jewish Health System (the “NSLIJ System”), which is an integrated healthcare delivery system comprised of certain hospitals, other healthcare providers and related entities.



Each Member of the Obligated Group is a New York not-for-profit corporation that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code, and each is established as a hospital under Article 28 of the Public Health Law of the State of New York (“PHL”).

Proceeds of the Series 2009B, C and D Bonds will be loaned to the following Member of the North Shore-Long Island Jewish Obligated Group:

***Long Island Jewish Medical Center*** is a not-for-profit, tertiary care teaching medical center with 880 certified beds. LIJMC is comprised of the 492-bed Long Island Jewish Hospital (“LIJ”) for adult care, the 152-bed Schneider Children’s Hospital (“SCH”) for pediatric care, and the 236-bed Zucker Hillside Hospital (“ZHH”) for psychiatric care, all located on a 48-acre campus in Nassau and Queens Counties, New York. When the Katz Women’s Hospital financed with the Series 2009A Bonds and the Series 2009B, C and D Bonds is completed and surveyed by the Department of Health, certified beds are expected to increase by 35 beds to 915. LIJ was established in 1954. See “THE OBLIGATED GROUP MEMBERS - Long Island Jewish Medical Center” herein for additional information.

Other Members of the Obligated Group who will not be borrowing any proceeds from the sale and issuance of the Series 2009B, C and D Bonds (the “Non-Borrowing Members”) are as follows:

***North Shore University Hospital*** is a not-for-profit hospital with campuses located in Manhasset and Syosset, New York:

*North Shore University Hospital (Manhasset)* (“NSUH-M”) has 812-certified beds. First chartered in 1946, NSUH-M is located in Manhasset, New York. NSUH-M, which opened in 1953, is a tertiary care teaching hospital.

*North Shore University Hospital (Syosset)* (“NSUH-S”) does business as Syosset Hospital. NSUH-S is a 103-certified bed hospital offering specialized inpatient and ambulatory surgical services. NSUH-S is a full-service community hospital with inpatient medical-surgical and intensive care units and an emergency department. NSUH-S, which opened in 1962, is located in Syosset, New York. See “THE OBLIGATED GROUP MEMBERS - North Shore University Hospital” herein for additional information.

***Glen Cove Hospital*** is a not-for-profit, 265-certified bed, community hospital located in northern Nassau County, New York. GCH opened in 1921. See “THE OBLIGATED GROUP MEMBERS – Glen Cove Hospital” herein for additional information.

***Plainview Hospital*** is a not-for-profit, 204-certified bed, community hospital located in Plainview, New York, primarily serving patients in eastern and central Nassau and western Suffolk Counties, New York. PVH opened in 1961. See “THE OBLIGATED GROUP MEMBERS – Plainview Hospital” herein for additional information.

***Forest Hills Hospital***, which opened in 1953, is a not-for-profit, 312-certified bed, community hospital located in Forest Hills, Queens County, New York. See “THE OBLIGATED GROUP MEMBERS – Forest Hills Hospital” herein for additional information.

***North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation***, which opened in 1989, is a not-for-profit, 256-certified bed, skilled nursing facility located on a parcel of real property contiguous to the NSUH-M campus. See “THE OBLIGATED GROUP MEMBERS - North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation” herein for additional information.

**See “PART 8 – THE OBLIGATED GROUP” for a more complete description of the Members of the Obligated Group.**

## **The NSLIJ System and the Obligated Group**

The NSLIJ System is an integrated health care delivery system comprised of 13 hospitals, two long-term care facilities, five home healthcare agencies, five trauma centers, a hospice network, many outpatient centers, The Feinstein Institute for Medical Research, the largest emergency services department on Long Island with the largest hospital-based EMS operation in the region, and certain other related entities. The NSLIJ System provides administrative and management services for its affiliated hospitals. See “PART 8 – THE OBLIGATED GROUP” for a more complete description of the NSLIJ System and the Obligated Group.

The ultimate parent of the NSLIJ System is the North Shore-Long Island Jewish Health System, Inc., a New York not-for-profit corporation (“NSLIJ”). As such, NSLIJ is the ultimate parent of each Member of the Obligated Group, and of each other entity within the NSLIJ System.

NSLIJ HCI serves as the Representative of the Obligated Group. NSLIJ HCI is the sole corporate member of each Member of the Obligated Group, and NSLIJ is the sole corporate member of NSLIJ HCI. NEITHER NSLIJ NOR NSLIJ HCI ARE MEMBERS OF THE OBLIGATED GROUP AND, THEREFORE, HAVE NO OBLIGATION TO PAY THE SERIES 2009B, C AND D OBLIGATIONS OR THE SERIES 2009B, C AND D BONDS.

Appendix B-1(a) contains Management’s introduction to the audited combined financial statements of the Obligated Group for the years ended December 31, 2008 and 2007, which audited combined financial statements are contained in Appendix B-1(b). Appendix B-2 hereto contains the unaudited interim combined financial statements of the Obligated Group for the six months ended June 30, 2009.

The Non-Borrowing Members will not be borrowing any proceeds from the sale and issuance of the Series 2009B, C and D Bonds.

### **Payment of the Series 2009B, C and D Bonds**

The Series 2009B, C and D Bonds will be special obligations of the Authority payable solely from certain payments to be made by TD Bank, N.A. (in the case of the Series 2009B Bonds), JPMorgan Chase Bank, N.A. (in the case of the Series 2009C Bonds) and Bank of America, N.A. (in the case of the Series 2009D Bonds) (collectively, the “Banks”) under irrevocable direct-pay letters of credit (the “Letters of Credit”) and from Revenues pledged to such Bonds. The Revenues consist of certain payments to be made by the Institution under the 2009 Loan Agreement and to be made by the Members of the Obligated Group under Obligations in connection with each of the Series 2009B Bonds, the Series 2009C Bonds and the Series 2009D Bonds (the “Series 2009B, C and D Obligations”) issued pursuant to the Master Trust Indenture, dated as of July 1, 1998, as amended and restated (the “Master Trust Indenture”), by and among the Members of the Obligated Group and The Bank of New York Mellon, New York, New York, successor to United States Trust Company of New York, as master trustee (the “Master Trustee”), and the Supplemental Indentures for the Series 2009B, C and D Obligations, each dated as of September 1, 2009 (collectively, the “2009B, C and D Supplemental Indentures”), by and between the Representative, on behalf of the Members of the Obligated Group, and the Master Trustee. The Master Trust Indenture as so supplemented and further supplemented by the Series 2009B, C and D LOC Obligations (as defined herein) is hereinafter referred to as the “Master Indenture.” The Revenues are pledged and assigned to the Trustee to secure the Series 2009B, C and D Bonds. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS.”

### **Security for the Series 2009B, C and D Bonds**

The Series 2009B, C and D Bonds will be separately secured by the pledge and assignment made by the Authority, pursuant to the Resolutions, to the Trustee of the Revenues pledged to such Bonds and the funds and accounts authorized by the Resolutions and established under the Series 2009B, C and D

Resolutions (with the exception of the applicable Arbitrage Rebate Funds and the Credit Facility Provider Repayment Funds). Payments when due on the Series 2009B, C and D Bonds, and payments when due on the obligations of the Institution to the Authority under the 2009 Loan Agreement, will be secured by payments due on the Series 2009B, C and D Obligations.

The Series 2009B, C and D Obligations and the loan repayments by the Institution pursuant to the 2009 Loan Agreement are general obligations of the Institution that will be secured by a separate mortgage on certain property which includes its core hospital facilities for each Series of the Series 2009B, C and D Bonds (each, a “2009 Institution Mortgage” and collectively, the “2009 Institution Mortgages”).

The real property that is subject to the 2009 Institution Mortgages is also subject to prior mortgages and leases that have been granted by the Institution to secure certain existing obligations of the Institution.

The Series 2009B, C and D Obligations will be further secured by the 2009 Additional Mortgages (as defined herein under “—The Mortgages and the Intercreditor Agreement”) of the Non-Borrowing Members of the Obligated Group. The 2009 Institution Mortgages and the 2009 Additional Mortgages are not pledged or assigned by the Authority pursuant to the Resolution to secure the Series 2009B, C and D Bonds or the Reimbursement Agreements. The Authority may, but has no present intention to, assign the 2009 Institution Mortgages and the 2009 Additional Mortgages to the Trustee; provided, however, that upon an event of default under a Reimbursement Agreement due to any failure of the Institution to make any scheduled payments required to be made thereunder, which results in a mandatory tender of all of the Bonds of a Series and where the Credit Facility Provider purchases all of the Bonds of such Series, the Authority shall assign the 2009 Institution Mortgages and the 2009 Additional Mortgages to the Trustee. Furthermore, the Authority will not assign the 2009 Institution Mortgages and the 2009 Additional Mortgages to the Banks.

See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS - Payment of and Security for the Series 2009B, C and D Bonds” and “- The Mortgages.”

None of the Series 2009B, C and D Bonds will have a Debt Service Reserve Fund while the Letters of Credit are in effect.

**The Series 2009B, C and D Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.**

For a more complete discussion of the security for the Series 2009B, C and D Bonds, see “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS.”

### **The Letters of Credit**

From the date of original issuance of the Series 2009B, C and D Bonds through September 17, 2012, unless extended or earlier terminated or replaced, principal of and interest on the Series 2009B, C and D Bonds, and the Purchase Price of Series 2009B, C and D Bonds tendered for payment and not remarketed as described herein, will be payable from funds drawn under the applicable Letters of Credit issued by the Banks. Subject to the terms of the Letters of Credit, the Trustee is required to draw under a Letter of Credit in order to provide for the timely payment of the principal of and interest on the respective Series of Series 2009B, C and D Bonds and all or a portion of the Purchase Price of such Series of Series 2009B, C and D Bonds tendered for purchase and not remarketed. LIJMC and each of the Banks will enter into separate Letter of Credit and Reimbursement Agreements, each dated as of September 17, 2009 (collectively, the “Reimbursement Agreements”), providing for reimbursement to a Bank of amounts drawn under its Letter of Credit and the payment of certain fees to that Bank. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS - The Letters of Credit.”

## **The Master Indenture**

Each Obligation, including the Series 2009B, C and D Obligations and the Series 2009B, C and D LOC Obligations, heretofore or hereafter issued pursuant to the Master Indenture constitutes a joint and several obligation of each Member of the Obligated Group. As a Member of the Obligated Group, the Institution is obligated, jointly and severally with the other Members of the Obligated Group, for the payment of all Obligations issued under the Master Indenture. The issuance of Obligations is subject to the satisfaction of certain financial covenants set forth in the Master Indenture that bind all Members of the Obligated Group.

## **The Mortgages and the Intercreditor Agreement**

In addition to the 2009 Institution Mortgages, concurrently with the issuance of the Series 2009B, C and D Bonds and the Series 2009B, C and D Obligations, each Non-Borrowing Member will grant the Authority a separate mortgage with respect to the Series 2009B, C and D Bonds on certain properties which includes its core hospital facilities (collectively, the “2009 Additional Mortgages”) to secure its obligations under the Series 2009B, C and D Obligations. The property of each Member of the Obligated Group that is subject to the 2009 Institution Mortgages and the 2009 Additional Mortgages is also subject to certain existing mortgages and leases (the “Existing Mortgages”) granted to the Authority to secure existing loan agreements related to bonds issued by the Authority for certain Members of the Obligated Group (the “Pre-2009 Outstanding Authority Bonds”) and, in the case of NSUH and GCH, granted to The Bank of New York Mellon, as trustee, to secure four series of bonds issued in 2001 by the Nassau County Industrial Development Agency (the “IDA”) on behalf of certain Members of the Obligated Group (the “IDA Bonds”). The 2009 Institution Mortgages, the 2009 Additional Mortgages and the Existing Mortgages are collectively referred to herein as the “Mortgages.”

In connection with the issuance of the bonds in 2003, the Authority, the IDA, NSUH, LIJMC, GCH, PVH, FHH, CECR, the Representative, The Bank of New York Mellon, as successor trustee for the Pre-2009 Outstanding Authority Bonds and the IDA Bonds, and The Bank of New York Mellon, as successor Security Agent, entered into an Intercreditor Agreement, as amended from time to time, providing for the enforcement and administration of remedies and, after taking into account certain amounts, the pro rata distribution of proceeds of foreclosure of the Existing Mortgages. In connection with the issuance of the Series 2009B, C and D Bonds, the Intercreditor Agreement will be amended to take into account the 2009 Institution Mortgages and the 2009 Additional Mortgages. As so amended, the Intercreditor Agreement is referred to herein, as the “Intercreditor Agreement.” See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS – The Mortgages” and “ – Intercreditor Agreement.”

## **Additional Indebtedness**

Each Member of the Obligated Group, upon compliance with the terms and conditions of the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, will constitute a joint and several general obligation of each Member of the Obligated Group secured on a parity by the security interest in Gross Receipts with the Series 2009B, C and D Obligations, the Series 2009B, C and D LOC Obligations and all other Obligations heretofore or hereafter issued under the Master Indenture. Any additional Obligation may, but need not, be secured by a mortgage on the property of the Member of the Obligated Group issuing such Obligation. Any additional Obligation that is secured by a mortgage (a “Future Mortgage”) on property subject to the Mortgages will be governed by the terms and provisions of the Intercreditor Agreement and will be entitled to share on a parity basis with the Mortgages in the allocation of the proceeds from a foreclosure of all or any of the Mortgages and such Future Mortgage. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS – The Master Indenture” and “ – Intercreditor Agreement.”

In addition, under certain conditions, the Members of the Obligated Group may also incur Indebtedness that is not evidenced or secured by an Obligation issued under the Master Indenture. Any such other Indebtedness may be unsecured or secured by (i) a Lien on Property to the extent such Lien is permitted under the Master Indenture or (ii) a Lien on Excluded Property. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures.”

### **Additional Bonds**

The General 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 General Resolution for the benefit 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. Such Series of Additional Bonds shall be secured by an Obligation.

It is currently anticipated that upon substantial completion of the Project, the Series 2009B, C and D Bonds will be converted to the Fixed Rate Mode and the Authority will issue its Series 2009F Bonds on behalf of the Institution to fund a debt service reserve fund for the Series 2009B, C and D Bonds and the Series 2009F Bonds and finance the cost of such conversion, including the costs, if any, of terminating certain interest rate swap agreements, and other costs of issuance. The Series 2009F Bonds will be special obligations of the Authority payable from payments to be made by the Institution under an Obligation to be issued under the Master Trust Indenture (the “Series 2009F Obligation”) and a Supplemental Indenture to be adopted in connection therewith. The Series 2009F Obligation will be secured by mortgages to be granted on certain property of the Institution and the Non-Borrowing Members (the “Series 2009F Institution Mortgages”). In connection with the issuance of the Series 2009F Bonds, it is anticipated that the Intercreditor Agreement will be amended to provide that the Series 2009F Bonds will constitute Covered Bonds thereunder.

## **PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS**

*Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2009B, C and D 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 Series 2009B, C and D Resolutions, the 2009 Loan Agreement, the 2009 Institution Mortgages, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations, the Letters of Credit, the Reimbursement Agreements and the Intercreditor Agreement. Copies of the Act, the Resolution, the Series 2009B, C and D Resolutions, the 2009 Loan Agreement, the 2009 Institution Mortgages, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations, the Letters of Credit, the Reimbursement Agreements and the Intercreditor Agreement are on file with the Authority and the Trustee. See also “Appendix C - Summary of Certain Provisions of the Loan Agreement,” “Appendix D - Summary of Certain Provisions of the Resolutions” and “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures” for a more complete statement of the rights, duties and obligations of the parties thereto.*

### **Payment of and Security for the Series 2009B, C and D Bonds**

#### ***General***

The Series 2009B, C and D Bonds and all other Series of Bonds issued or to be issued under the General Resolution will be special obligations of the Authority. The principal, Sinking Fund Installments, Redemption Price of, Purchase Price of, and interest on a given Series of Series 2009B, C and D Bonds are payable, as applicable, from proceeds received by the Trustee from drawings under the respective Letter of Credit, any Substitute Credit Facility issued with respect to that Series of Series

2009B, C and D Bonds and, in the event a Bank or provider of any Substitute Credit Facility fails to make payments under its Letter of Credit or Substitute Credit Facility, as the case may be, certain payments required to be made by the Institution under its 2009 Loan Agreement and to be made by the Members of the Obligated Group under the Series 2009B, C and D Obligations. The Revenues have been pledged and assigned to the Trustee for the benefit of the Holders of the Series 2009B, C and D Bonds.

For Series 2009B, C and D Bonds which are in the Weekly Rate Mode, payments of principal and interest on the Series 2009B, C and D Bonds are to be made to the Holders of the Series 2009B, C and D Bonds from funds drawn under the Letters of Credit and, in the case of the Purchase Price of Tendered Bonds, from remarketing proceeds or, if remarketing proceeds are inadequate, from funds drawn on the respective Letters of Credit.

Upon compliance with the provisions of the Resolutions, a Substitute Credit Facility may be issued in substitution for any Letter of Credit or the Credit Facility then in effect. All of the Series 2009B, C and D Bonds of a given Series are subject to mandatory tender (i) on the effective date of a Substitute Credit Facility with respect to such Series (or if such day is not a Business Day, the immediately preceding Business Day), (ii) on the date which is not less than three Business Days prior to the Expiration Date of the applicable Letter of Credit or the Credit Facility then in effect (or if such day is not a Business Day, the immediately preceding Business Day), unless such Credit Facility has been extended at least 20 days prior to such expiration date or (iii) on the date which shall be at least two Business Days prior to the date on which the Credit Facility terminates following an Event of Default under the applicable Reimbursement Agreement; upon notice to the Trustee, in each case at a Purchase Price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to such Purchase Date. Such Purchase Price shall be payable from the proceeds of a drawing under the applicable Letter of Credit or the Credit Facility then in effect. See “PART 3 - THE SERIES 2009B, C AND D BONDS - Tender of the Series 2009B, C and D Bonds - *Mandatory Tenders.*”

The obligations of the Institution under its 2009 Loan Agreement are general obligations of such Institution and will be secured by (i) payments to be made pursuant to the Series 2009B, C and D Obligations and (ii) the 2009 Institution Mortgages. Amounts payable by the Institution under the 2009 Loan Agreement will be deposited in the Credit Facility Provider Repayment Fund and will be applied to reimburse the Banks for amounts drawn under the Letters of Credit to pay the principal, Purchase Price and Sinking Fund Installments of and interest on the Series 2009B, C and D Bonds. The Series 2009B, C and D Obligations are joint and several general obligations of each Member of the Obligated Group. The Authority has pledged and assigned the payments to be made by the Obligated Group pursuant to the Series 2009B, C and D Obligations to the Trustee for the benefit of the Series 2009B, C and D Bondholders, respectively. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C AND D BONDS - The Master Indenture” and “- The Mortgages.”

Each 2009 Loan Agreement obligates the Institution to make payments to the Trustee in amounts sufficient to reimburse the Banks for draws on the Letters of Credit applied to pay, among other things, the Institution’s allocable portion of an amount equal to the principal, Sinking Fund Installments, and Purchase Price of and interest on the Outstanding Series 2009B, C and D Bonds as they become due. In particular, while the Series 2009B, C and D Bonds are in a mode that pay more frequently than semi-annually (i) on the fourth Business Day preceding the first day of each month, the Institution shall pay its proportionate share of interest accruing on the Series 2009B, C and D Bonds during such month, (ii) on the fourth Business Day preceding the first day of July on which principal or Sinking Fund Installments come due, the Institution shall pay its proportionate share of all of the principal or Sinking Fund Installment coming due on such July 1, and (iii) on the due date of the Purchase Price of a Series 2009B, C or D Bond tendered for purchase that has not been remarketed or for which there is no Credit Facility in effect, the Institution shall pay its proportionate share of such Purchase Price. Each 2009 Loan Agreement also obligates the Institution to pay, unless the redemption of the Series 2009B, C or D Bonds or any purchase in lieu of optional redemption is subject to the condition that sufficient money is available on the redemption date or the purchase date, unless waived by the Authority or unless such

Series 2009B, C and D Bonds are held by the Credit Facility Provider and are subject to mandatory redemption, at least 45 days prior to a redemption date of the Series 2009B, C and D Bonds called for redemption, the amount, if any, required to pay such Institution's allocable portion of the Redemption Price of such Bonds. See "PART 3 - THE SERIES 2009B, C AND D BONDS - Redemption Provisions."

The Authority has directed the Institution, and the Institution has agreed, to make payments under the 2009 Loan Agreement directly to the Trustee. Any payments made on the Series 2009B, C and D Obligations will also be made directly to the Trustee.

Pursuant to the terms of the Resolution, the funds and accounts established and pledged by the Series 2009B, C and D Resolutions (other than the Arbitrage Rebate Fund and the Credit Facility Provider Repayment Fund) secure only the Series 2009B, C and D Bonds, respectively, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. None of the Series 2009B, C and D Bonds will have a Debt Service Reserve Fund while the Letters of Credit are in effect.

The Series 2009B, C and D Bonds will not be 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 or sinking fund installments of or interest on its bonds or notes. See "PART 10 - THE AUTHORITY."

### **The Letters of Credit**

The following description is subject in all respect to the complete terms of the Letters of Credit, to which reference is made.

As security for the timely payment of the principal of and interest on the Series 2009B, C and D Bonds, and the timely payment of the Purchase Price of Series 2009B, C and D Bonds tendered for purchase on demand or subject to mandatory tender as described herein, the Banks have agreed to issue the Letters of Credit to the Trustee pursuant to the Reimbursement Agreements concurrently with the issuance and delivery of the Series 2009B, C and D Bonds.

The 2009B Letter of Credit constitutes the irrevocable obligation of the Series 2009B Bank to pay to the Trustee upon timely request up to \$50,739,726 which may from time to time be reduced and reinstated (the "Stated Amount"), up to \$50,000,000 of which may be drawn for the purpose of paying the principal or the principal portion of the Purchase Price of Series 2009B Bonds (the "Principal Stated Amount") and up to \$739,726 (an amount equal to 45 days' interest computed at the rate of twelve (12%) per annum computed on the basis of actual days elapsed in a 365-day year) of which may be drawn for the purpose of paying interest on or the interest portion of the purchase price of the Series 2009B Bonds (the "Interest Stated Amount"). The Series 2009B Letter of Credit will expire at the close of business on September 17, 2012 (the "2009B Letter of Credit Expiration Date") unless earlier terminated or extended and is subject to reduction, as hereinafter described. The Series 2009B Letter of Credit permits drawings only from payment of amounts due with respect to the principal or Purchase Price of the Series 2009B Bonds and interest thereon, and not for amounts due with respect to any other bonds of the Authority.

The 2009C Letter of Credit constitutes the irrevocable obligation of the Series 2009C Bank to pay to the Trustee upon timely request up to \$38,054,795 which may from time to time be reduced and reinstated (the "Stated Amount"), up to \$37,500,000 of which may be drawn for the purpose of paying the principal or the principal portion of the Purchase Price of Series 2009C Bonds (the "Principal Stated Amount") and up to \$554,795 (an amount equal to 45 days' interest computed at the rate of twelve (12%) per annum computed on the basis of actual days elapsed in a 365-day year) of which may be drawn for the purpose of paying interest on or the interest portion of the purchase price of the Series 2009C Bonds (the "Interest Stated Amount"). The Series 2009C Letter of Credit will expire at the close of business on September 17, 2012 (the "2009C Letter of Credit Expiration Date") unless earlier terminated or extended

and is subject to reduction, as hereinafter described. The Series 2009C Letter of Credit permits drawings only from payment of amounts due with respect to the principal or Purchase Price of the Series 2009C Bonds and interest thereon, and not for amounts due with respect to any other bonds of the Authority.

The 2009D Letter of Credit constitutes the irrevocable obligation of the Series 2009D Bank to pay to the Trustee upon timely request up to \$38,054,795 which may from time to time be reduced and reinstated (the "Stated Amount"), up to \$37,500,000 of which may be drawn for the purpose of paying the principal or the principal portion of the Purchase Price of Series 2009D Bonds (the "Principal Stated Amount") and up to \$554,795 (an amount equal to 45 days' interest computed at the rate of twelve (12%) per annum computed on the basis of actual days elapsed in a 365-day year) of which may be drawn for the purpose of paying interest on or the interest portion of the purchase price of the Series 2009D Bonds (the "Interest Stated Amount"). The Series 2009D Letter of Credit will expire at the close of business on September 17, 2012 (the "2009D Letter of Credit Expiration Date") unless earlier terminated or extended and is subject to reduction, as hereinafter described. The Series 2009D Letter of Credit permits drawings only from payment of amounts due with respect to the principal or Purchase Price of the Series 2009D Bonds and interest thereon, and not for amounts due with respect to any other bonds of the Authority.

The amount available under a given Letter of Credit will be reduced (i) to the extent of any drawings thereunder and (ii) upon receipt by the applicable Bank of a certificate from the Trustee notifying the Bank that, as a result of the payment or provision for payment of a portion of the principal amount of the applicable Series 2009B, C and D Bonds, the stated amount of the Letter of Credit has been reduced by an amount equal to the amount specified in such certificate. Reductions under clause (i) above with respect to any drawing to pay interest on the Series 2009B, C and D Bonds (except for that portion of the Purchase Price corresponding to unpaid interest, if any, on such Series 2009B, C and D Bonds) shall be automatically reinstated. Reductions under clause (i) above with respect to any drawing to pay the Purchase Price of the Series 2009B, C and D Bonds pursuant to an optional tender shall be automatically reinstated to the extent such drawings have been reimbursed to the Bank and the related Series 2009B, C and D Bonds are remarketed pursuant to the Remarketing Agreements. Reductions under clause (i) above with respect to any drawing to pay the principal of the Series 2009B, C and D Bonds or the Purchase Price of the Series 2009B, C and D Bonds pursuant to a mandatory tender shall not be subject to reinstatement. Reductions under clause (ii) above shall not be subject to reinstatement.

Each Letter of Credit provides that its respective Bank will pay to the Trustee up to the Stated Amount (subject to the Principal Stated Amount and Interest Stated Amount limitations referred to above) upon presentation by the Trustee to the Bank of payment documents indicating whether such draw is for the purpose of paying principal, interest or the Purchase Price of the applicable Series of Series 2009B, C and D Bonds. Under the Resolutions, the Trustee is directed to draw under a Letter of Credit an amount sufficient to pay when due the principal of and interest on the applicable Series of Series 2009B, C and D Bonds bearing interest at a Weekly Rate and to make any necessary payments of the Purchase Price of Series 2009B, C and D Bonds bearing interest at a Weekly Rate tendered for payment, by submitting a draw request to the Bank on or before specified times on the required payment date.

Each Reimbursement Agreement provides that LIJMC shall pay to the applicable Bank an amount equal to all amounts drawn under its Letter of Credit pursuant to (A) a principal drawing (a "Principal Drawing"), (B) an interest drawing (an "Interest Drawing"), (C) a drawing to pay the Purchase Price on the Series 2009B, C and D Bonds in respect of principal, or a drawing to pay the Purchase Price on the Series 2009B, C and D Bonds in respect of interest (each, a "Liquidity Drawing"), without any requirement of notice or demand by the Bank, on the day on which such drawing is paid by the Bank; *provided, however*, if on the date of any Liquidity Drawing no Event of Default has occurred and is continuing under the applicable Reimbursement Agreement, LIJMC shall not be required to pay to the Bank an amount equal to such Liquidity Drawing on such date but shall be required to pay to the Bank with respect to such Liquidity Drawing as set forth in its Reimbursement Agreement.



No drawing under the Letters of Credit may be made with respect to any Bond held by the Bank, or any Series 2009B, C or D Bond registered in the name of, or held by the Trustee for the account of, the Institution, the Authority or any Affiliate of the Institution or the Authority (each an "Excluded Bond").

Prior to their expiration, each Letter of Credit may be terminated or extended as provided therein or replaced with a Substitute Credit Facility in accordance with the provisions of the Resolutions. Expiration or termination of a Letter of Credit or substitution of a Substitute Credit Facility for such Letter of Credit will result in a mandatory tender of the applicable Series of Series 2009B, C and D Bonds pursuant to the Resolutions. A default under a Reimbursement Agreement may, at the election of the respective Bank, result in a mandatory tender or redemption of the applicable Series of Series 2009B, C and D Bonds.

See "PART 7 -THE BANKS" herein for information regarding the Banks.

### **Substitute Credit Facilities**

The Authority may replace a Credit Facility with a Substitute Credit Facility upon written notice to a Credit Facility Provider, or the Institution may, at any time, at its option with the prior written consent of the Authority and upon written notice to a Credit Facility Provider, deliver or cause to be delivered to the Trustee a Substitute Credit Facility provided by the Institution; provided, however, that in no event shall an existing Credit Facility be surrendered to the Credit Facility Provider thereof upon delivery of a Substitute Credit Facility until a drawing to pay the Purchase Price of the Series 2009B, C and D Bonds of a given Series tendered for purchase and not remarketed has been honored by such Credit Facility Provider. No such Substitute Credit Facility shall be or become effective unless it meets the requirements set forth in the Series 2009B, C and D Resolutions, as applicable. See "Appendix D - Summary of Certain Provisions of the Resolutions."

**The replacement of a Credit Facility with a Substitute Credit Facility will cause a mandatory tender of all Series 2009B, C and D Bonds of the applicable Series.**

### **Requirements of Credit Facilities**

Any Credit Facility must provide money at the times and in the amounts specified in the Series 2009B, C and D Resolutions. No Credit Facility may be amended without the consent of the Trustee. The Trustee shall not consent to any such amendment of a Credit Facility that, in the reasonable judgment of the Trustee, would adversely affect the interests of any of the Bondholders, unless such amendment will not become effective until after the date on which there is a mandatory tender of Series 2009B, C and D Bonds to which the Credit Facility relates. The term "amendment" of the Credit Facility shall not include an extension thereof.

### **The Reimbursement Agreements**

The Letters of Credit are being issued pursuant to the Reimbursement Agreements, under which the Institution will be obligated, among other things, to reimburse the Banks, with interest, for each drawing under the Letters of Credit.

Each Reimbursement Agreement contains various representations, warranties and covenants of the Institution and the Obligated Group and provides for various Events of Default thereunder, see "Appendix F - Summary of Certain Provisions of the Reimbursement Agreements." After the occurrence of an Event of Default under a particular Reimbursement Agreement, the applicable Bank may require a mandatory tender of the Series 2009B, C and D Bonds of the applicable Series.

The terms of the Reimbursement Agreements and certain related documents may be modified, waived, amended or supplemented by the Banks and the Institution from time to time without giving notice to or obtaining the consent of the Bondholders. Any amendment, modification or supplement to the Reimbursement Agreements may contain amendments or modifications to the covenants of the Members

of the Obligated Group or additional covenants of the Members of the Obligated Group and these amended or modified covenants may be more or less restrictive than those in effect at the date of issuance of the Series 2009B, C and D Bonds.

## **The Master Indenture**

### *General*

Pursuant to the Master Indenture, each Obligation issued thereunder is a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants in the Master Indenture that it will not pledge or grant a security interest in any of its Property except as otherwise permitted by the Master Indenture. In 2003, the Master Indenture was amended to pledge a security interest in the Gross Receipts of each Member of the Obligated Group to the Master Trustee to secure on a parity basis all Obligations theretofore and thereafter issued under the Master Indenture. As described in “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures - Limitations on Creation of Liens” and “ - Limitations on Indebtedness,” under certain circumstances the Members of the Obligated Group may create Liens on Property or incur Indebtedness. However, 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. The Liens created by the Mortgages are Permitted Liens. By operation of the Intercreditor Agreement, the distribution of proceeds from the enforcement or foreclosure of the Mortgages and any Future Mortgage, will be pro rata based on the outstanding principal amount (after deducting certain amounts) of the Indebtedness secured by such Mortgages and any Future Mortgage, thereby effectively placing such Indebtedness on a parity with respect to foreclosure proceeds regardless of the order of priority of the liens granted under such Mortgages and any Future Mortgage. See “—Intercreditor Agreement” in this PART 2.

The Members of the Obligated Group may issue additional Obligations which will be secured on a parity basis by the security interest in Gross Receipts with the Series 2009B, C and D Obligations and all previously issued Obligations. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures - Limitations on Indebtedness” for a description of the conditions whereby the Members of the Obligated Group may issue additional Obligations.

THE MASTER INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE SERIES 2009B, C AND D OBLIGATIONS. 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 2009B, C AND D BONDS.

### *Security Interest in Gross Receipts*

As security for the obligations of the Members of the Obligated Group under the Master Indenture, each Member of the Obligated Group has pledged to the Master Trustee a security interest in their Gross Receipts, consisting of all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source; provided, however, that Gross Receipts do not include (x) gifts, grants, bequests, donations, and contributions and any income derived therefrom, to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Loan Agreement, (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group, or (z) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group and the proceeds thereof and any insurance or condemnation proceeds thereon,

whether now owned or hereafter acquired, derived from Excluded Property which constitutes real property. See “Appendix A - Certain Definitions – Gross Receipts.”

The security interest in Gross Receipts has been perfected to the extent, and only to the extent, that such security interest may be perfected by filing financing statements under the Uniform Commercial Code of the State of New York (the “UCC”). Continuation statements with respect to such filings must be filed as required by law to continue the perfection of such security interest. The security interest in Gross Receipts is subject to Permitted Liens that existed prior to or that may be created subsequent to the time the security interest in Gross Receipts attached and subject to the right of each Member of the Obligated Group to sell accounts receivable or incur Indebtedness secured by accounts receivable under certain circumstances, as described more fully in Appendix D. The security interest in Gross Receipts may not be enforceable against third parties unless Gross Receipts are transferred to the Master Trustee (which transfer Members of the Obligated Group are required to make only if requested by the Master Trustee after a default under the Master Indenture) and is subject to certain exceptions under the UCC. The enforcement of the security interest in Gross Receipts may be further limited by the following: (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, (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 or the security interest in Gross Receipts and (vi) rights of third parties in Gross Receipts not in the possession of the Master Trustee.

The actual realization of amounts to be derived upon the enforcement of any security interest securing the Series 2009B, C and D Bonds will depend upon the exercise of various remedies specified by the 2009 Loan Agreement, the Resolution and the Master Indenture. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing law, the remedies specified by the 2009 Loan Agreement, the Resolution and the Master Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2009B, C and D Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors’ rights generally. See “PART 9 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP”, “Appendix C - Summary of Certain Provisions of the Loan Agreement” and “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures”.

### ***Particular Covenants***

Subject to the terms of the Master Indenture, any Persons which are not Members of the Obligated Group and corporations which are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Indenture may become a Member of the Obligated Group. The Members of the Obligated Group are subject to covenants under the Master Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio and restricting, among other things, incurrence of Indebtedness, existence of liens on Property, consolidation and merger, disposition of assets, addition of Members of the Obligated Group and withdrawal of the Obligated Group Members from the Obligated Group. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures.”

Limitations on Indebtedness. The Master Indenture imposes certain limitations on the incurrence of Indebtedness by the Members of the Obligated Group. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures – Limitations on Indebtedness.”

*Long-Term Debt Service Coverage Ratio and Days Cash on Hand.* Pursuant to the Master Trust Indenture, each Member of the Obligated Group covenants to set rates and charges for its 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, but the failure to meet such requirement is not an Event of Default under the Master Indenture; *provided, however*, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, 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 improvements 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. See “Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures – Long-Term Debt Service Coverage Ratio.”

In addition, the 2009B, C and D Supplemental Indentures provides that, if, on any Semi-Annual Testing Date, (i) the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.25 or (ii) the number of Days Cash on Hand for the Obligated Group is less than thirty (30), then the Obligated Group shall (i) prepare a scope of work for a Consultant in form and content acceptable to the Authority, (ii) retain a Consultant acceptable to the Authority, (iii) require such Consultant, within fifteen (15) days of its appointment, to commence work on a report to be delivered to the Obligated Group and the Authority recommending changes with respect to the operation and management of the Obligated Group’s facilities, and (iv) to the extent permitted by Governmental Restrictions, implement such Consultant’s recommendation in a timely manner. Failure on the part of the Obligated Group to satisfy the provisions set forth in this paragraph is not an Event of Default under the Master Indenture, and the sole remedies for noncompliance will be the right to seek specific performance. Notwithstanding the foregoing, and so long as any Related Bonds of the Authority are Outstanding, if, (i) on any Semi-Annual Testing Date the Days Cash on Hand has decreased by 30% or more within the prior 12-month period, or (ii) on any Semi-Annual Testing Date the Days Cash on Hand has decreased by 50% or more within the prior 24-month period, then the Obligated Group shall, within thirty (30) days of such Semi-Annual Testing Date, deliver written notice to the Authority of such decrease and cooperate with the Authority in evaluating cause(s) for such decrease.

Each Member of the Obligated Group also covenants in the 2009B, C and D Supplemental Indentures that in no event shall the Long-Term Debt Service Coverage Ratio be less than 1.00, and the failure to meet such requirement is an Event of Default under the Master Indenture.

## **The Mortgages**

In connection with the delivery of the Series 2009B, C and D Bonds, the Institution will execute and deliver to the Authority the 2009 Institution Mortgages (as defined in “PART 1 – INTRODUCTION – Security for the Series 2009B, C and D Bonds”) to secure the payments required to be made by the Institution in connection with the Series 2009B, C and D Bonds pursuant to the 2009 Loan Agreement and the Series 2009B, C and D Obligations. In addition, to further secure the Series 2009B, C and D Obligations, the Non-Borrowing Members will each execute and deliver a 2009 Additional Mortgage (as defined in “PART 1 – INTRODUCTION – The Mortgages and the Intercreditor Agreement”).

The Authority may, but has no present intention to, assign the 2009 Institution Mortgages or the 2009 Additional Mortgages to the Trustee for the benefit of the Holders of the Series 2009B, C and D Bonds; *provided, however*, that upon an event of default under a Reimbursement Agreement due to any failure of the Institution to make any scheduled payments required to be made thereunder, which results in a mandatory tender of all of the Bonds of a Series, and where the Credit Facility Provider purchases all of the Bonds of such Series, the Authority will assign the 2009 Institution Mortgages or the 2009 Additional Mortgages to the Trustee for the benefit of the Holders of the Series 2009B, C and D Bonds.

The property of each Member of the Obligated Group that is subject to the 2009 Institution Mortgages and the 2009 Additional Mortgages is also subject to the Existing Mortgages (as defined in

“PART 1 – INTRODUCTION – The Mortgages and the Intercreditor Agreement”) granted to the Authority to secure existing loan agreements related to the Pre-2009 Outstanding Authority Bonds, and, in the case of NSUH and GCH, granted to The Bank of New York Mellon, as trustee, to secure the IDA Bonds. The Resolution authorizes the Authority to release, amend or discharge any of the Existing Mortgages securing an existing loan agreement related to a Series of the Pre-2009 Outstanding Authority Bonds.

### **Intercreditor Agreement**

The Intercreditor Agreement will govern the administration and enforcement of the Mortgages, the Existing Mortgages and any Future Mortgage. The Intercreditor Agreement provides for the administration and enforcement of remedies and, in certain circumstances, the pro rata distribution of the proceeds from such Mortgages, the Existing Mortgages and any Future Mortgage.

### **THE AVAILABILITY OF REMEDIES UNDER THE 2009 LOAN AGREEMENT AND THE SERIES 2009B, C AND D OBLIGATIONS UPON DEFAULT MAY BE LIMITED BY THE INTERCREDITOR AGREEMENT.**

The Intercreditor Agreement provides for the pro rata allocation in certain circumstances of the proceeds of foreclosure of all or any of the Mortgages, the Existing Mortgages and any Future Mortgage to payment of certain Outstanding Obligations including the Series 2009B, C and D Obligations, that secure the Pre-2009 Outstanding Authority Bonds, the IDA Bonds and the Series 2009B, C and D Bonds. The pro rata allocation of such proceeds is based on the outstanding par amount of each series of bonds or Obligation secured by such Mortgages, Existing Mortgages and any Future Mortgage less certain amounts available for the payment for each series or Obligation.

The Intercreditor Agreement requires the parties thereto to provide certain notices with respect to events of default under the Agency Documents or Authority Documents (each as defined in the Intercreditor Agreement), to specify the proposed remedial action, and, in certain circumstances, to obtain the consent of the other parties prior to exercising certain Restricted Remedies (as defined in the Intercreditor Agreement), including acceleration of the related bonds. If the consent of the other party is not obtained, the party that provided notice of such event of default may, in some circumstances, be prohibited from exercising certain remedies for up to 120 days following the occurrence of an event of default. In addition, under certain circumstances the trustee for the Pre-2009 Outstanding Authority Bonds or the Trustee may be able to accelerate the Pre-2009 Outstanding Authority Bonds or the Series 2009B, C and D Bonds, respectively, and foreclose on the Existing Mortgages and/or the Mortgages securing the Pre-2009 Outstanding Authority Bonds or the Series 2009B, C and D Bonds, respectively, without obtaining the consent of or coordinating with the other parties to the Intercreditor Agreement, although the proceeds of such foreclosure would be applied pro rata in accordance with the Intercreditor Agreement.

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

The following constitute events of default under the General Resolution with respect to the Series 2009B, C and D Bonds: (i) a default by the Authority in the payment of the principal, Sinking Fund Installments or Redemption Price of or interest on any Series 2009B, C or D Bond; (ii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the Series 2009B, C and D Bonds or in the General Resolution or in the Series 2009B, C and D Resolutions which continues for 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 the applicable Series of Outstanding Series 2009B, C and D Bonds), unless the default is not capable of being cured within 30 days, the Authority has commenced to cure the default within 30 days and is diligently prosecuting such cure; (iii) 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 2009B, C or D Bonds from gross income under the Code; or (iv) an “Event of

Default,” as defined in the 2009 Loan Agreement, shall have occurred and is continuing and all sums payable by the defaulting Institution under the applicable 2009 Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled).

The General Resolution provides that if an event of default occurs and continues (except in the case of an event of default described in clause (iii) of the preceding paragraph), the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the applicable Series of the Outstanding Series 2009B, C and D Bonds, declare the principal of and interest on all Outstanding Series 2009B, C and D Bonds of such Series to be due and payable immediately. At the expiration of 30 days from the giving of such notice, such principal and interest shall become immediately due and payable. The Trustee shall, with the written consent of the Holders of not less than 25% in principal amount of the applicable Series of Series 2009B, C and D Bonds not yet due by their terms and then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the General Resolution with respect to such annulment.

The General Resolution also provides that if any event of default (including the occurrence and continuance of an event of default described in clause (iii) of the first paragraph under this caption) occurs and continues, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in principal amount of the applicable Series of Outstanding Series 2009B, C and D Bonds, shall proceed to protect and enforce its rights and the rights of the Holders under the Resolution.

The General Resolution provides that the Trustee shall give notice to the Holders within 30 days of each event of default known to the Trustee, 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 2009B, C and D 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 2009B, C and D Bonds.

### **PART 3 - THE SERIES 2009B, C AND D BONDS**

#### **Description of the Series 2009B, C and D Bonds**

The Series 2009B, C and D Bonds will be issued pursuant to the Act, the Resolution, and the Series 2009B, C and D Resolutions. The Series 2009B, C and D Bonds will be dated the date of their initial delivery, and will bear interest at the Weekly Rate while in the Weekly Rate Mode until such time, if ever, as the Rate Mode of the Series 2009B, C and D Bonds is changed, as set forth herein. Under the Series 2009B, C and D Resolutions, the term “Weekly Rate Period” means a period commencing on a Conversion Date or the Wednesday of a calendar week and extending to and including the next succeeding Tuesday. While in the Weekly Rate Mode, interest on the Series 2009B, C and D Bonds is payable on the first (1st) Wednesday of each month commencing on October 7, 2009. Interest on Series 2009B, C and D Bonds payable during the Weekly Rate Mode shall be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

The Series 2009B, C and D Bonds, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2009B, C and D Bonds, payments of the principal, Redemption Price and Purchase Price of and interest on the Series 2009B, C and D Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the Direct Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as hereinafter defined) of the Series 2009B, C and D Bonds is the responsibility of the Direct Participants and the Indirect Participants (as hereinafter defined). See “- Book-Entry Only System.”

If the Series 2009B, C and D Bonds are not registered in the name of DTC or its nominee, Cede & Co., the principal, Sinking Fund Installments, if any, Redemption Price or Purchase Price of Series 2009B, C and D Bonds will be payable upon presentation and surrender of such Series 2009B, C and D Bonds at the principal corporate trust office of The Bank of New York Mellon, New York, New York, as Trustee. Interest on the Series 2009B, C and D Bonds will be payable by check or draft mailed to the Holders of the Series 2009B, C and D Bonds at their addresses as shown on the registration books held by the Trustee on the Record Date; provided, however, that while the Series 2009B, C and D Bonds are in the Weekly Rate Mode, the Tender Agent shall, at the request of a Holder of Series 2009B, C and D Bonds, provide for the payment of interest by wire transfer to the wire transfer address within the United States of America designated by such Holder or may make arrangements for payment of interest satisfactory to it and the Holder. While the Series 2009B, C and D Bonds are in the Weekly Rate Mode, the Record Date shall be close of business on the Business Day immediately preceding each Interest Payment Date.

While bearing interest at a Weekly Rate, the Series 2009B, C and D Bonds are issuable in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof. The Series 2009B, C and D Bonds may be exchanged for other Series 2009B, C and D Bonds in any other authorized denominations upon surrender thereof at the corporate trust office of the Trustee, duly executed by the registered owner or his representative.

### **Interest Rate**

Interest shall be payable on each Interest Payment Date during the Weekly Rate Mode in immediately available funds payable by check mailed to each registered owner of a Series 2009B, C or D Bond on the Record Date immediately preceding such Interest Payment Date to the address thereof as it appears on the registry books of the Authority, or, at the request of a registered owner, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has not later than five (5) days prior to the Record Date immediately preceding such Interest Payment Date directed the Trustee to wire such interest payment. Notwithstanding the foregoing, interest payable on any Interest Payment Date during which the Series 2009B, C and D Bonds are Book Entry Bonds shall be paid by wire transfer to the Depository for the Series 2009B, C and D Bonds or its nominee, at the wire transfer address therefor.

Interest payable on each Interest Payment Date shall be the interest accrued and unpaid to and including the day preceding such Interest Payment Date.

### **Determination of Weekly Rate**

Each Series 2009B, C or D Bond in a Weekly Rate Mode (other than a Pledged Bond) will bear interest at the Weekly Rate. The Weekly Rate shall be determined by the Remarketing Agent for such Series 2009B, C or D Bond to be the rate of interest that, if borne by such Series 2009B, C or D Bond for such Weekly Rate Period, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as such Series 2009B, C or D Bond and that are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Series 2009B, C or D Bond, would be the lowest interest rate that would enable such Series 2009B, C or D Bond to be sold on the first day of the applicable Weekly Rate Period at a price of par, plus accrued interest, if any.

The Remarketing Agent shall make the Weekly Rate available to any Holder, the Trustee, the Tender Agent, the Authority and the Credit Facility Provider requesting the same.

The Remarketing Agent shall determine a Weekly Rate for each Weekly Rate Period by 5:00 p.m., New York City time, on Tuesday of each week, or the next succeeding Business Day if any Tuesday is not a Business Day. If for any reason (i) the Weekly Rate for a Weekly Rate Period is not established as

aforesaid, (ii) no Remarketing Agent is serving under the applicable Series 2009B, C or D Resolution, (iii) the Weekly Rate so established is held to be invalid or unenforceable with respect to a Weekly Rate Period or (iv) pursuant to the applicable Remarketing Agreement the applicable Remarketing Agent is not then required to establish a Weekly Rate, then the Weekly Rate for such Weekly Rate Period shall be the SIFMA Municipal Index on the date such Weekly Rate was to have been determined by the Remarketing Agent.

### **Redemption Prices and Terms**

The Series 2009B, C and D Bonds will be subject to redemption prior to maturity as provided below.

#### ***Optional Redemption***

The Series 2009B, C and D Bonds in the Weekly Rate Mode are subject to redemption prior to maturity at the election of the Authority, in whole or in part, on any Business Day at a Redemption Price equal to 100% of the principal amount of each Series 2009B, C or D Bond or portion thereof to be redeemed, plus accrued interest to the redemption date.

#### ***Mandatory Redemption***

##### The Series 2009B Bonds

The Series 2009B Bonds described below are also subject to redemption prior to maturity, 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 2009B Bonds specified for each of the years shown below:

#### **\$50,000,000 Series 2009B Term Bonds Maturing on July 1, 2039**

| <u>Year</u>       | <u>Amount</u> |
|-------------------|---------------|
|                   | \$13,905,00   |
| 2037              | 0             |
| 2038              | 15,675,000    |
| 2039 <sup>†</sup> | 20,420,000    |

† Stated Maturity

##### The Series 2009C Bonds

The Series 2009C Bonds described below are also subject to redemption prior to maturity, 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 2009C Bonds specified for each of the years shown below:

#### **\$37,500,000 Series 2009C Term Bonds Maturing on July 1, 2039**

| <u>Year</u>       | <u>Amount</u> |
|-------------------|---------------|
| 2037              | \$9,745,000   |
| 2038              | 15,675,000    |
| 2039 <sup>†</sup> | 12,080,000    |

† Stated Maturity





### The Series 2009D Bonds

The Series 2009D Bonds described below are also subject to redemption prior to maturity, 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 2009D Bonds specified for each of the years shown below:

#### **\$37,500,000 Series 2009D Term Bonds Maturing on July 1, 2039**

| <u>Year</u>       | <u>Amount</u> |
|-------------------|---------------|
| 2037              | \$5,575,000   |
| 2038              | 15,670,000    |
| 2039 <sup>†</sup> | 16,255,000    |

<sup>†</sup> Stated Maturity

#### ***Extraordinary Mandatory Redemption***

The Series 2009B, C and D Bonds that are Pledged Bonds shall be subject to redemption prior to maturity in whole or in part at the option of the Credit Facility Provider at a Redemption Price equal to 100% of the principal amount of the Pledged Bonds or portion thereof to be redeemed plus accrued interest to the date of redemption at the times and in the principal amounts required by the applicable Credit Facility or the applicable Reimbursement Agreement.

All Outstanding Series 2009B, C and D Bonds of a Series are subject to extraordinary mandatory redemption in whole by the Trustee within thirty (30) days after the Trustee's receipt of notice from the applicable Credit Facility Provider directing the Trustee to redeem such Series 2009B, C and D Bonds. Notice of the redemption is to be mailed to the registered owners of the Series 2009B, C and D Bonds of an applicable Series by the Trustee so that the redemption date takes place within the thirty (30) day period and in no event later than one (1) Business Day prior to the termination of the Credit Facility.

#### ***Special Redemption***

The Series 2009B, C and D Bonds are also subject to redemption prior to maturity, in whole or in part, at 100% of the principal amount of Series 2009B, C and D Bonds to be redeemed, at the option of the Authority on any interest payment date, (i) from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the LIJMC Project or the Mortgaged Property, or (ii) from unexpended proceeds of the Series 2009B, C and D Bonds upon the abandonment of all or a portion of the LIJMC Project due to a legal or regulatory impediment.

#### ***Notice of Redemption***

As long as the Series 2009B, C and D Bonds to be redeemed bear interest at a Weekly Rate, each notice of redemption shall, unless such Series 2009B, C and D Bonds are held by the Credit Facility Provider and are subject to mandatory redemption, be given not less than 30 nor more than 45 days prior to the redemption date; provided, however, that if the redemption is a result of a mandatory tender of the Series 2009B, C and D Bonds and a termination of a Letter of Credit or Substitute Credit Facility, the Trustee need give only two (2) Business Days notice. Each notice of redemption of Series 2009B, C and D Bonds in the Weekly Rate Mode to be redeemed at the option of the Authority shall state, in addition to any other condition, that the redemption is conditioned upon the availability on the redemption date of available moneys sufficient to pay the Redemption Price of the Series 2009B, C and D Bonds to be redeemed.

If on the redemption date moneys for the redemption of the Series 2009B, C and D Bonds or portions thereof to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, then interest on such Series 2009B, C and D Bonds or portions thereof shall cease to accrue from and after the redemption date and such Series 2009B, C and D Bonds will no longer be considered to be Outstanding under the Resolution. If such moneys shall not be so available on the redemption date, such Series 2009B, C and D Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

For a more complete description of the redemption and other provisions relating to the Series 2009B, C and D Bonds, see “Appendix D – Summary of Certain Provisions of the Resolutions.”

### ***Purchase In Lieu of Redemption***

Any Series 2009B, C and D Bond which is subject to optional redemption may be purchased by the Trustee at the direction of the Institution with the consent of the Authority. Such Series 2009B, C and D Bond need not be cancelled upon purchase, but may be resold with the same terms or such different terms as may be agreed upon by as the Institution and the purchasers with the consent of the Authority.

### ***Selection of Series 2009B, C and D Bonds to be Redeemed***

If less than all of the Outstanding Series 2009B, C and D Bonds of a particular Series in the Weekly Rate Mode are to be redeemed as described herein, the Trustee shall select for redemption, using such method of selection as it deems proper in its discretion, the Pledged Bonds before selecting any other Series 2009B, C and D Bonds of Such Series. Series 2009B, C and D Bonds in the Weekly Rate Mode that are not Pledged Bonds shall be selected by the Trustee in accordance with the Resolution.

### **Tender of the Series 2009B, C and D Bonds**

*Optional Tender of Book Entry Bonds.* For so long as a Series 2009B, C or D Bond bears interest in a Weekly Rate Mode during which such Series 2009B, C or D Bond is a Book Entry Bond, a Direct Participant, acting on behalf of a Beneficial Owner, shall have the right to tender all or any portion, in an Authorized Denomination, of the principal amount of such Beneficial Owner’s interest in such Series 2009B, C or D Bond for purchase on any Optional Tender Date, by giving or delivering to the Remarketing Agent and the Tender Agent at their respective principal offices a Tender Notice stating (i) the aggregate principal amount in an Authorized Denomination of each Series 2009B, C or D Bond or portion thereof to be purchased, and (ii) that such principal amount of the Series 2009B, C or D Bond (in an Authorized Denomination) must be purchased on such Optional Tender Date pursuant to the Series 2009B, C and D Resolutions. Optional Tender Date means any Business Day while the Series 2009B, C and D Bonds bear interest in the Weekly Rate Mode.

Such Tender Notice must be delivered, in the case of Series 2009B, C and D Bonds bearing interest at a Weekly Rate, not later than 5:00 P.M., New York City time, on the seventh calendar day prior to the Optional Tender Date.

Any Tender Notice so given or delivered shall be irrevocable and shall be binding on the Direct Participant, the Beneficial Owner on whose behalf such notice was given and any transferee of such Beneficial Owner. The principal amount of the Series 2009B, C and D Bonds for which a Tender Notice has been given or delivered shall be deemed tendered on the Optional Tender Date without presentation or surrender of the Series 2009B, C and D Bonds to the Tender Agent. If there is on deposit with the Tender Agent on the Optional Tender Date an amount sufficient to pay the Purchase Price of the aggregate principal amount of Series 2009B, C and D Bonds to be tendered on such Optional Tender Date pursuant to a Tender Notice given pursuant to this paragraph, ownership of such aggregate principal amount of Series 2009B, C and D Bonds shall be recorded in the records of DTC as transferred to the applicable Remarketing Agent.

*Mandatory Tenders.* The Series 2009B, C and D Bonds of a particular Series are subject to mandatory tender and purchase at the Purchase Price on the following dates:

(i) on each Conversion Date for such Series 2009B, C and D Bonds being converted to a different Rate Mode, other than a Conversion from the Daily Rate Mode to the Weekly Rate Mode or from the Weekly Rate Mode to the Daily Rate Mode;

(ii) on a date that is not less than three Business Days prior to the Expiration Date of any Credit Facility then in effect with respect to such Series 2009B, C or D Bond, which Credit Facility will be drawn upon to pay the Purchase Price of Tendered Bonds (or if such day is not a Business Day, on the immediately preceding Business Day), unless such Credit Facility has been extended at least 20 days prior to such expiration date;

(iii) on the effective date of a Substitute Credit Facility delivered with respect to such Series 2009B, C or D Bond (or if such day is not a Business Day, on the immediately preceding Business Day); provided, however, the Credit Facility in effect prior to delivery of the Substitute Credit Facility shall be drawn upon to pay the Purchase Price of Tendered Bonds that have not been remarketed; and

(iv) upon notice by the Trustee on a Mandatory Tender Date, which date shall be at least two Business Days prior to the date on which the Credit Facility terminates; provided, however, that such date shall be determined by the Trustee after the date the Trustee, the Remarketing Agent and the Authority shall receive a notice delivered by the Credit Facility Provider or its agent stating that:

(A) an Event of Default has occurred under the Reimbursement Agreement or there has not been a reinstatement of a draw on the Credit Facility,

(B) the Credit Facility Provider has elected to require a mandatory tender of the Series 2009B, C or D Bonds as provided in the Reimbursement Agreement, and

(C) the mandatory tender will occur on a date set forth in the notice, which may not be less than two Business Days after the receipt by the Trustee, the Remarketing Agent and the Authority of such notice.

*Notices of Mandatory Tenders.* The Tender Agent will give notice of the mandatory tender to the Remarketing Agent and the Depository:

(i) when the Series 2009B, C and D Bonds are to be tendered for purchase on Conversion to a new Rate Mode, not less than three days after the Conversion Notice is received;

(ii) when Series 2009B, C and D Bonds are to be tendered for purchase on the Expiration Date of a Credit Facility or in connection with the delivery of a Substitute Credit Facility, not less than five days prior to the earlier of the Expiration Date of the Credit Facility or the effective date of the Substitute Credit Facility; and

(iii) when Series 2009B, C and D Bonds are to be tendered for purchase at the direction of a Credit Facility Provider following an Event of Default under the Credit Facility, not less than one Business Day prior to the date of the mandatory tender specified by the Credit Facility Provider.

If the Series 2009B, C and D Bonds are not held by a Depository, notices will be sent by first class mail to the Holder of the Series 2009B, C and D Bonds.

*Tendered and Deemed Tendered Bonds.* If a Bondholder fails to deliver to the Tender Agent, on or before the applicable Tender Date, all or any portion of a Series 2009B, C or D Bond subject to

mandatory tender for purchase or any Series 2009B, C or D Bond, other than a Book Entry Bond, for which an election to tender has been duly made, such Series 2009B, C or D Bond (or portion thereof in an Authorized Denomination) shall be deemed to have been properly tendered to the Tender Agent. To the extent that there is on deposit with the Tender Agent on the purchase date thereof an amount sufficient to pay the Purchase Price of the Tendered Bonds, such Tendered Bonds will cease to constitute or represent a right to payment of principal or interest thereon and will constitute and represent only the right to the payment of the Purchase Price payable on such date. The foregoing shall not limit the right of any person who on a Record Date is the Holder of a Series 2009B, C or D Bond to receipt of interest, if any, due thereon on the date such Series 2009B, C or D Bond is required to be purchased.

*Purchase of Tendered Bonds.* On each Tender Date the Tendered Bonds shall be purchased (but solely from Available Moneys) at the applicable Purchase Price, which will be paid by 2:30 P.M., New York City time, on the Tender Date. The Purchase Price for the Tendered Bonds shall be paid by the Tender Agent from the proceeds of remarketing of the Tendered Bonds, amounts drawn on a Credit Facility or certain other Available Moneys under the Series 2009B, C and D Resolutions. No Tendered Bond so purchased with moneys made available by a Credit Facility Provider shall cease to be Outstanding solely by reason of the purchase thereof.

*Inadequate Funds for Tenders.* If sufficient funds are not available for the purchase of all Series 2009B, C or D Bonds tendered or deemed tendered and required to be purchased on any Tender Date, the failure to pay the Tender Price of all tendered Series 2009B, C or D Bonds when due and payable shall not constitute an Event of Default and all tendered Series 2009B, C or D Bonds shall be returned to their respective Holders and all Series 2009B, C or D Bonds shall bear interest from the date of such failed purchase through the 180<sup>th</sup> day following such date at the lesser of (i) the SIFMA Index plus 500 basis points and (ii) the Maximum Rate and thereafter at the Maximum Rate until all such tendered Series 2009B, C or D Bonds are purchased as required in accordance with the Bond Series Certificate for the respective Series of Series 2009B, C and D Bonds. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider, the Credit Facility Provider, or the Institution.

*Remarketing of Series 2009B, C and D Bonds.* Upon receipt of any notice given pursuant to the Series 2009B, C and D Resolutions that any Series 2009B, C and D Bonds will be or are required to be tendered for purchase, the Remarketing Agent shall use its best efforts to remarket such Tendered Bond on its Tender Date at a price equal to the Purchase Price or, if all Series 2009B, C and D Bonds have been Pledged Bonds, such Series 2009B, C and D Bonds will be remarketed at a price equal to par with an interest accrual date of the date they are remarketed.

Notwithstanding any other provision of the Series 2009B, C and D Resolutions to the contrary, so long as any Series 2009B, C or D Bond is registered in the name of Cede & Co, as nominee of The Depository Trust Company, all payments with respect to principal of, interest, Purchase Price and premium, if any, and all deliveries to be made and all notices to be delivered with respect to such Series 2009B, C and D Bonds shall be made and given, respectively, pursuant to The Depository Trust Company's rules and procedures.

*Limitations on Remarketings.* Remarketing of the Series 2009B, C and D Bonds is subject to the following limitations:

(i) The Remarketing Agent shall not, during any period during which a Credit Facility is in effect, remarket Tendered Bonds if:

(A) upon such remarketing the amount available to be drawn under the Credit Facility for the payment of the principal or Purchase Price of the Outstanding Series 2009B, C and D Bonds to which such Credit Facility relates is less than the principal of such Series 2009B, C and D Bonds that are not Pledged Bonds, plus an amount available to be drawn under such Credit Facility for payment of the interest on

such Outstanding Series 2009B, C and D Bonds, is less than the minimum amount required to be available under Credit Facilities in accordance with the Series 2009B, C and D Resolutions;

(B) the Credit Facility related to such Tendered Bonds then in effect will expire or terminate within 20 days after the Tender Date of the Tendered Bonds, unless and until such Credit Facility has been extended or a Substitute Credit Facility has been delivered to the Tender Agent; or

(C) the Tendered Bonds were tendered pursuant to a mandatory tender required by a Credit Facility Provider following an Event of Default under the Reimbursement Agreement.

(ii) No such Tendered Bonds shall be remarketed by the Remarketing Agent for purchase by the Authority or the Institution, unless there has been delivered to the Trustee an Opinion of Bond Counsel and an opinion of counsel reasonably satisfactory to the Trustee to the effect that payment of the Purchase Price of Tendered Bonds from moneys paid by or on behalf of the Authority or the Institution for the purchase of such Tendered Bonds will not constitute a voidable preference under Section 547 of the United States Bankruptcy Code in a proceeding commenced by or against the Authority or an Institution thereunder.

### **Conversion to Other Interest Rate Modes**

The Institution, on behalf of the Authority, may, from time to time, by written direction to the Authority, the Trustee, the Tender Agent, the Credit Facility Provider, and the Remarketing Agent, elect that all (but not less than all) of the Series 2009B, C and D Bonds of a particular Series be converted from the Weekly Rate Mode to a Daily Rate Mode, a Term Rate Mode or a Fixed Rate Mode. Upon such direction, the Authority shall, not less than 20 days prior to any Conversion Date, deliver to the Remarketing Agent, the Credit Facility Provider, the Trustee, the Tender Agent, and each Rating Service then maintaining a rating on the Series 2009B, C and D Bonds of such Series, a written notice specifying (A) the Conversion Date or Conversion Dates, (B) the Rate Mode or Rate Modes that will be effective upon such conversion, (C) if the conversion is to a Term Rate Mode, the Term Rate Period, and (D) the ratings expected to be effective on the Series 2009B, C and D Bonds of such Series after such conversion. At the time of a conversion from the Weekly Rate Mode to a Rate Mode other than a Daily Rate Mode, such Series 2009B, C and D Bonds are subject to mandatory tender for purchase at the Purchase Price, as set forth herein. See "Appendix D - Summary of Certain Provisions of the Resolutions".

### **The Remarketing Agent**

The Authority has appointed Citigroup Global Markets Inc. as the Remarketing Agent for the Series 2009B and C Bonds and Morgan Stanley & Co. Incorporated as the Remarketing Agent for the Series 2009D Bonds. In accordance with the Series 2009B, C and D Resolutions and the Remarketing Agreements, the Remarketing Agents will use their best efforts to find purchasers for tendered Series 2009B, C and D Bonds, as the case may be. In the case of the Series 2009B and C Bonds, the Remarketing Agent can be contacted at Citigroup Global Markets Inc., 390 Greenwich Street, 2nd Floor, New York, New York 10013, telephone number (212) 723-7082, Attention: Short-Term Tax-Exempt Trading. In the case of the Series 2009D Bonds, the Remarketing Agent can be contacted at Morgan Stanley & Co. Incorporated, 1221 Avenue of the Americas, New York, New York 10020, telephone number (212) 762-8263, Attention: Short-Term Products..

### **Special Considerations Relating to the Series 2009B, C and D Bonds**

*The Remarketing Agent is Paid By the Institution.* The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2009B, C and D Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the

Indenture and the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Authority at the direction of the Institution and is paid by the Institution for its services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of Series 2009B, C and D Bonds.

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

***Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date.*** Pursuant to the Indenture and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the interest rate determination date, at a discount to par to some investors.

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

***The Remarketing Agent May Resign, Without a Successor Being Named.*** The Remarketing Agent may resign, upon 60 days' prior written notice, without a successor having been named.

### **Book-Entry Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2009B, C and D Bonds. The Series 2009B, C and D Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2009B, C or D Bond of each Series will be issued for each stated maturity of the Series 2009B, C and D Bonds of such Series, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2009B, C and D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009B, C and D Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2009B, C or D Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009B, C and D Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2009B, C and D Bonds, except in the event that use of the book-entry system for the Series 2009B, C and D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009B, C and D 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 2009B, C and D Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009B, C and D Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2009B, C and D Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 2009B, C and D Bonds within a stated maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2009B, C and D Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2009B, C and D Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as



possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009B, C and D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and redemption payments on the Series 2009B, C and D 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 detailed information, 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 redemption proceeds and principal 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 and the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service with respect to the Series 2009B, C and D Bonds at any time by giving reasonable notice to the Authority and 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 2009B, C and D 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, such Series 2009B, C and D Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2009B, C and D Bonds in other authorized denominations and of the same maturity 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.

NEITHER THE AUTHORITY NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2009B, C AND D BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO SERIES 2009B, C OR D BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS A SERIES 2009B, C OR D BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2009B, C AND D BONDS.

Each person for which a Participant acquires an interest in the Series 2009B, C and D Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL

SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT, THE RESOLUTION AND THE SERIES 2009B, C AND D RESOLUTIONS TO THE EXTENT OF SUCH PAYMENTS.

For every transfer and exchange of beneficial ownership of the Series 2009B, C and D Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

**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 Trustee nor the Underwriter makes 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 information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the Institution and the Obligated Group Members believes to be reliable, but none of the Authority, the Institution, the Obligated Group Member or the Underwriters takes responsibility for the accuracy thereof.**

**So long as Cede & Co. is the registered owner of the Series 2009B, C and D Bonds, as nominee for DTC, references herein to the Bondholders, Holders, or registered owners of the Series 2009B, C and D Bonds (other than under the captions "PART 13 - TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2009B, C and D Bonds.**

#### **PART 4 - THE PLAN OF FINANCE**

##### **The Series 2009B, C and D Bonds**

The Series 2009B, C and D Bonds are being issued to (i) finance projects for LIJMC described below, (ii) pay a portion of the interest on the Series 2009B, C and D Bonds, and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2009B, C and D Bonds, including capitalized credit facility provider fees and remarketing agent fees.

##### **The Series 2009 Projects**

The following eight Projects (seven for LIJMC and one for NSUH-M) are expected to be financed with a portion of the proceeds of the Series 2009B, C and D Bonds and the Series 2009A Bonds:

LIJMC Project: The main component of the LIJMC Project is the construction of a 285,000 square foot, 88-bed tower that will add an additional 35 obstetric beds to LIJMC's operating certificate. The new tower will be named the "Katz Women's Hospital" and will be connected to the existing main tower which will be renovated. It will include 88 private patient rooms equipped with amenities to accommodate both patients and family members, and a range of maternity and women's health services. The Katz Women's Hospital will have one below-grade level and eight above-grade floors including the mechanical penthouse. The basement will contain conference facilities and education and administration functions, and utility connections with the existing LIJ main tower. The construction will include two new lobbies one for the Katz Women's Hospital and the other for LIJ's main tower building. The 2<sup>nd</sup> floor will provide the elevator cores and connections to the LIJ main tower building. The 3<sup>rd</sup> floor will be comprised of the obstetrical intervention components that serve the maternity program. The 4<sup>th</sup> floor will house both ante-partum patient rooms and GYN medical/surgical beds. The 5<sup>th</sup> and 6<sup>th</sup> floors will each provide 30 beds for mothers and a nursery of thirty spaces for newborn infants. The 7<sup>th</sup> and 8<sup>th</sup> floors will be constructed as shell space for future medical surgical bed expansion. The project is expected to be completed winter 2012.

In conjunction with the construction of the new tower, the proposed project includes three projects: 1) the installation of campus site utilities and other infrastructure improvements; 2) a campus

reorganization involving moving various business and support functions to accommodate the new tower; and 3) a new campus entrance. A fourth project involves the installation of the southern campus site utilities to complete the modernization of utility distribution systems servicing the campus, as part of the multi-phase campus energy modernization plan.

In addition to the aforementioned projects at LIJ's main campus, two projects under LIJMC's operating certificate are planned for the Center for Advanced Medicine ("CFAM") which is located across the street from LIJMC's campus and is a state-of-the-art outpatient treatment center. The first project is to construct two new operating rooms, and the second project is to expand its Pre-Surgical Testing area by adding five more pre-surgical testing exam rooms and office and administrative support space. In addition, the LIJMC Project may also include a campus-wide upgrade of the fire alarm system and the renovation, repair and equipment purchases that functionally support or are related thereto.

NSUH-M Project: The NSUH-M Project provides the necessary infrastructure improvements to accommodate the new Bioskills Center and other programs at the CFAM.

### **Proposed Issuance of Additional Indebtedness**

*Proposed Issuance of Fixed Rate Indebtedness.* In addition to the Series 2009B, C and D Bonds, the Obligated Group has requested that the Authority issue the Series 2009A fixed rate bonds (the "Series 2009A Bonds") in the principal amount of \$235,615,000, the proceeds of which, if issued, will be loaned to LIJMC and NSUH-M for the purposes of providing funds in order to pay for (i) the NSUH-M Project and a portion of the LIJMC Project, (ii) a portion of the interest on the Series 2009A Bonds, (iii) a Debt Service Reserve Fund to secure the Series 2009A Bonds and (iv) costs of issuance incurred in connection with the issuance of the Series 2009A Bonds.

Additionally, the Obligated Group has accepted an offer to repurchase a portion of the Authority's North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2007B (the "Series 2007B Bonds") at a discount to par. As part of such transaction, the Obligated Group also intends to terminate certain related interest rate swap agreements. In contemplation of such transactions, the Obligated Group has requested that the Authority issue the Series 2009E fixed rate bonds (the "Series 2009E Bonds" and, together with the Series 2009A Bonds, the "Series 2009 Fixed Rate Bonds") in the principal amount of \$60,890,000, the proceeds of which, if issued, will be used by the Obligated Group to (i) fund the purchase and cancellation of a portion of the Series 2007B Bonds, (ii) fund the Debt Service Reserve Fund to secure the Series 2009E Bonds and a portion of the Debt Service Reserve Fund to secure the Series 2009A Bonds, (iii) finance certain swap termination payments, and (iv) pay costs of issuance incurred in connection with the issuance of the Series 2009E Bonds.

The issuance of the Series 2009 Fixed Rate Bonds was approved by the Authority on July 29, 2009. If issued by the Authority, each of the Series 2009A Bonds and the Series 2009E Bonds are expected to be issued simultaneously with the issuance of the Series 2009B, C and D Bonds. **Although the Authority has approved the issuance of the Series 2009 Fixed Rate Bonds, there is no guaranty that either Series of fixed rate bonds will be issued.**

## PART 5 - ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each Fiscal Year ending December 31, (i) the amounts required to be paid by the Obligated Group to the Bond Trustee in each Fiscal Year for the payment of principal of (whether at maturity or pursuant to sinking fund redemptions) and interest on the Series 2009B, C and D Bonds, (ii) the debt service on the Series 2009A Bonds and the Series 2009E Bonds and (iii) total debt service on all other long-term debt of the Obligated Group. In some cases, totals in the following table may not foot due to rounding.

| Fiscal Year<br>Ending<br>December 31, | <u>Debt Service on the Series<br/>2009B, C and D Bonds</u> |                       | Series 2009A and<br>Series 2009E<br>Bonds Debt<br>Service <sup>2</sup> | Total Debt Service   | Total Debt<br>Service on All<br>Long-Term Debt<br>of the Obligated<br>Group |
|---------------------------------------|--|-----------------------|--|--|---|
|                                       | Principal  | Interest <sup>1</sup> |  | On Other<br>Outstanding<br>Long-Term Debt<br>of the Obligated<br>Group |   |
| 2009                                  | -  | \$ 950,052            | -  | \$ 58,697,312  | \$ 59,647,364   |
| 2010                                  | -  | 4,550,249             | \$ 17,828,885  | 59,018,640   | 81,397,774  |
| 2011                                  | -  | 4,637,754             | 15,887,125   | 58,537,278   | 79,062,157  |
| 2012                                  | -  | 4,539,730             | 15,887,125   | 58,364,647   | 78,791,502  |
| 2013                                  | -  | 4,548,098             | 16,377,125   | 58,533,958   | 79,459,180  |
| 2014                                  | -  | 4,550,249             | 16,357,125   | 58,057,733   | 78,965,107  |
| 2015                                  | -  | 4,550,249             | 16,827,125   | 54,144,244   | 75,521,618  |
| 2016                                  | -  | 4,627,234             | 16,787,125   | 53,805,067   | 75,219,426  |
| 2017                                  | -  | 4,548,337             | 16,745,875   | 53,782,974   | 75,077,185  |
| 2018                                  | -  | 4,550,249             | 17,674,625   | 51,087,743   | 73,312,617  |
| 2019                                  | -  | 4,550,249             | 29,742,625   | 33,632,042   | 67,924,916  |
| 2020                                  | -  | 4,539,969             | 29,715,750   | 33,385,477   | 67,641,196  |
| 2021                                  | -  | 4,548,098             | 25,441,125   | 26,569,425   | 56,558,648  |
| 2022                                  | -  | 4,637,754             | 25,162,500   | 26,011,904   | 55,812,158  |
| 2023                                  | -  | 4,550,249             | 24,886,250   | 26,029,144   | 55,465,643  |
| 2024                                  | -  | 4,539,969             | 21,912,719   | 21,175,027   | 47,627,714  |
| 2025                                  | -  | 4,548,098             | 21,351,294   | 21,736,953   | 47,636,344  |
| 2026                                  | -  | 4,550,249             | 21,560,894   | 21,526,740   | 47,637,883  |
| 2027                                  | -  | 4,550,249             | 21,540,719   | 21,544,044   | 47,635,012  |
| 2028                                  | -  | 4,627,234             | 21,553,994   | 21,533,413   | 47,714,641  |
| 2029                                  | -  | 4,548,098             | 22,244,838   | 20,841,090   | 47,634,025  |
| 2030                                  | -  | 4,550,249             | 24,524,319   | 18,561,125   | 47,635,693  |
| 2031                                  | -  | 4,550,249             | 24,721,425   | 18,362,750   | 47,634,424  |
| 2032                                  | -  | 4,539,969             | 24,709,913   | 18,374,500   | 47,624,381  |
| 2033                                  | -  | 4,635,602             | 24,693,400   | 18,394,500   | 47,723,502  |
| 2034                                  | -  | 4,550,249             | 24,698,313   | 18,390,375   | 47,638,937  |
| 2035                                  | -  | 4,550,249             | 32,796,863   | 10,291,625   | 47,638,737  |
| 2036                                  | -  | 4,539,969             | 32,792,825   | 10,290,750   | 47,623,544  |
| 2037                                  | \$ 29,225,000  | 4,098,008             | 6,170,000  | 10,291,000   | 49,784,008  |
| 2038                                  | 47,020,000   | 2,766,956             | -  | -  | 49,786,956  |
| 2039                                  | <u>48,755,000</u>  | <u>1,033,663</u>      | -  | -  | <u>49,788,663</u>   |
| Total                                 | <u>\$125,000,000</u>                                       | <u>\$132,057,579</u>  | <u>\$610,591,897</u>   | <u>\$960,971,479</u>   | <u>\$1,828,620,956</u>  |

<sup>1</sup> Debt service for Series 2009B, C and D Bonds has been estimated using a blended rate of 3.6502%, which is a weighted average of NSLIJ's \$100 million forward starting swaps at a synthetic fixed swap rate of 3.722% and \$25 million of the restructured Series 2007B swap at a rate of 3.363%.

<sup>2</sup> The Series 2009A Bonds and the Series 2009E Bonds are expected to be issued at the same time as the Series 2009B, C and D Bonds.

## PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Series 2009B, C and D Bonds:

### Sources of Funds:

|   |                         |
|---|-------------------------|
| Principal Amount of the Series 2009B, C and D Bonds ..... | \$125,000,000.00        |
| Total Sources of Funds .....                              | <u>\$125,000,000.00</u> |

### Uses of Funds:

|                                   |                         |
|-----------------------------------|-------------------------|
| Deposit to Construction Fund..... | \$101,342,481.26        |
| Capitalized Interest.....         | 19,449,906.03           |
| Costs of Issuance* .....          | <u>4,207,612.71</u>     |
| Total Uses of Funds.....          | <u>\$125,000,000.00</u> |

\*Includes Underwriters' discount, certain legal fees, printing costs, rating agency fees and miscellaneous expenses.

## PART 7 - THE BANKS

### The Series 2009B Bank

TD Bank, N.A. (the "*Series 2009B Bank*") is a national banking association organized under the laws of the United States, with its main office located in Wilmington, Delaware. The Series 2009B Bank is an indirect, wholly-owned subsidiary of The Toronto-Dominion Bank ("*TD*") and, operating under the brand names TD Banknorth and TD Bank, offers a full range of banking services and products to individuals, businesses and governments throughout its market areas, including commercial, consumer, trust, investment advisory and insurance agency services. The Series 2009B Bank operates banking offices in Connecticut, Delaware, the District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Vermont and Virginia.

On October 2, 2007, TD entered into a merger agreement with Commerce Bancorp, Inc. ("*Commerce*"), the holding company for Commerce Bank, N.A., Philadelphia, Pennsylvania, and Commerce Bank/North, Ramsey, New Jersey (together, the "*Commerce Banks*"), which provided for Commerce to be acquired by TD. The acquisition was consummated on March 31, 2008. On May 31, 2008, the Commerce Banks merged with and into TD Banknorth, N.A. ("*TD Banknorth*") and the legal name of the resulting entity was changed to "TD Bank, N.A." As of June 30, 2009, the Series 2009B Bank had consolidated assets of \$104.41 billion, consolidated deposits of \$78.82 billion and stockholder's equity of \$20.06 billion, based on regulatory accounting principles.

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

The information concerning TD and the Series 2009B Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Series 2009B Letter of Credit is the obligation of the Series 2009B Bank and not TD.

The Series 2009B Bank will provide copies of the publicly available portions of the most recent quarterly Call Report of the Bank (or its predecessor banks) delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

TD Bank, N.A.  
P.O. Box 9540  
Portland, ME 04112-9540  
Attn: Corporate Communications  
Mail Stop: ME 089-71

Information regarding the financial condition and results of operations of the Series 2009B Bank will be contained in the quarterly Call Reports of the Series 2009B Bank delivered to the Comptroller of the Currency and available online at <https://cdr.ffiec.gov/public>. General information regarding the Series 2009B Bank may be found in periodic filings made by TD with the SEC. TD is a foreign issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare certain filings with the SEC in accordance with the disclosure requirements of Canada, its home country. Canadian disclosure requirements are different from those of the United States. TD's financial statements are prepared in accordance with Canadian generally accepted accounting principles, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies prepared in accordance with United States generally accepted accounting principles.

NEITHER TD NOR ANY OTHER SUBSIDIARY OF TD OTHER THAN THE SERIES 2009B BANK IS OBLIGATED TO MAKE PAYMENTS UNDER THE SERIES 2009B LETTER OF CREDIT.

The information set forth above relating to the Series 2009B Bank has been obtained from the Series 2009B Bank. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of TD or the Series 2009B Bank since the date hereof, or that the information contained or referred to above is correct as of any time subsequent to its date.

### **The Series 2009C Bank**

JPMorgan Chase Bank, National Association (“*the Series 2009C Bank*”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Series 2009C Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of June 30th, 2009, the Series 2009C Bank had total assets of \$1,664 billion, total net loans of \$567.8 billion, total deposits of \$974.5 billion, and total stockholder's equity of \$132.1 billion. These figures are extracted from the Series 2009C Bank's unaudited Consolidated Reports of Condition and Income (the “*Call Report*”) as at June 30th, 2009, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at [www.fdic.gov](http://www.fdic.gov).

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2008, of JPMorgan Chase & Co., the 2008 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the “*SEC*”) by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at [www.sec.gov](http://www.sec.gov).

The information set forth above relating to the Series 2009C Bank has been obtained from the Series 2009C Bank. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Series 2009C Bank since the date hereof, or that the information contained or referred to above is correct as of any time subsequent to its date.

### **The Series 2009D Bank**

Bank of America, N.A. (the “*Series 2009D Bank*”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Series 2009D Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (“*BAC*”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2009, the Series 2009D Bank had consolidated assets of \$1.45 trillion, consolidated deposits of \$1 trillion and stockholder’s equity of \$150 billion based on regulatory accounting principles.

BAC is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding BAC is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the “*SEC*”).

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

The information concerning BAC and the Series 2009D Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Series 2009D Letter of Credit has been issued by the Series 2009D Bank. Moody’s Investors Service, Inc. (“*Moody’s*”) currently rates the Series 2009D Bank’s long-term debt as “Aa3” and short-term debt as “P-1.” The outlook is stable. Standard & Poor’s currently rates the Series 2009D Bank’s long-term debt as “A+” and its short-term debt as “A-1.” The outlook is stable. Fitch Ratings, Inc. (“*Fitch*”) currently rates long-term debt of the Series 2009D Bank as “A+” and short-term debt as “F1+.” The outlook is stable. Further information with respect to such ratings may be obtained from Moody’s, Standard & Poor’s and Fitch, respectively. No assurances can be given that the current ratings of the Series 2009D Bank’s instruments will be maintained.

The Series 2009D Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Series 2009D Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

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

PAYMENTS OF PRINCIPAL AND INTEREST ON THE SERIES 2009D BONDS WILL BE MADE FROM DRAWINGS UNDER THE SERIES 2009D LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE SERIES 2009D BONDS WILL BE MADE FROM DRAWINGS UNDER THE SERIES 2009D LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE SERIES 2009D LETTER OF CREDIT IS A BINDING OBLIGATION OF THE SERIES 2009D BANK, THE SERIES 2009D BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF BAC OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE SERIES 2009D BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The information set forth above relating to the Series 2009D Bank has been obtained from the Series 2009D Bank. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of BAC or the Series 2009D Bank since the date hereof, or that the information contained or referred to above is correct as of any time subsequent to its date.

## **PART 8 - THE OBLIGATED GROUP**

### **Introduction**

The Members of the North Shore-Long Island Jewish Obligated Group (as hereinbefore defined, the “Obligated Group”) are: Long Island Jewish Medical Center (as hereinbefore defined, “LIJMC”), North Shore University Hospital (as hereinbefore defined, “NSUH”), Glen Cove Hospital (as hereinbefore defined, “GCH”), Plainview Hospital (as hereinbefore, defined “PVH”), Forest Hills Hospital (as hereinbefore, defined “FHH”) and North Shore University Hospital Stern Family Center For Extended Care and Rehabilitation (formerly known as North Shore University Hospital Center for Extended Care and Rehabilitation, as hereinbefore defined, “CECR”). The Obligated Group Representative is North Shore-Long Island Jewish Health Care, Inc. (as hereinbefore defined, the “Representative” or “NSLIJ HCI”), which is not a Member of the Obligated Group and, therefore, is neither obligated under the Master Indenture nor responsible for the payment of the debt service on the Series 2009B, C and D Bonds and the Series 2009 Fixed Rate Bonds. The Members of the Obligated Group and NSLIJ HCI are each a part of the North Shore - Long Island Jewish Health System (as hereinbefore defined, the “NSLIJ System”), which is an integrated healthcare delivery system comprised of hospitals, other healthcare providers and related entities. See “Organizational Chart” herein.

### **North Shore - Long Island Jewish Health System**

According to a survey of healthcare systems in the United States in the June 8, 2009 issue of *Modern Healthcare*, the NSLIJ System is the:

- 3<sup>rd</sup> largest not-for-profit secular healthcare system nationwide and the 2<sup>nd</sup> largest in New York State when ranked by 2008 staffed acute-care beds;
- the 5<sup>th</sup> largest not-for-profit secular healthcare system nationwide and the 2<sup>nd</sup> largest in New York State when ranked by 2008 net patient revenue; and
- the 18<sup>th</sup> largest healthcare system (overall) nationwide when ranked by 2008 net patient revenue.



The NSLIJ System was ranked 20<sup>th</sup> nationwide and was the only system in downstate New York State to make the 2009 Top 100 Integrated Healthcare Networks (“IHN”) by SDI Health LLC (“SDI”) published January 26, 2009. This ranking represents a continued improvement from the IHN 2005, 2006, 2007 and 2008 results. The SDI “IHN 100” (formerly known as the Verispan IHN 100) is a national rating system designed to evaluate integrated health networks on their performance and degree of integration.

The NSLIJ System has an inpatient market share of 31.5% in its service area which is comprised of Nassau, Suffolk, Queens and Richmond Counties (Staten Island) - a service area encompassing more than five million people.

The NSLIJ System is the largest employer on Long Island, New York (according to the latest survey by *Newsday*, May 14, 2007) and the 9th largest employer in New York City with 12,857 full-time employees located in New York City (according to *Crain’s New York Business*, March 27, 2006, the most recent survey). Furthermore, the NSLIJ System is ranked the 18<sup>th</sup> largest health system nationally based on total number of hospital FTEs (according to a ranking in the May 25, 2009 issue of *Modern Healthcare* utilizing data from the *American Hospital Directory*. The 24,966 FTEs used in this list represents the NSLIJ System hospital employees as reported in the Medicare Cost Report.)

The NSLIJ System had \$4.5 billion in Total Operating Revenue for the year ended December 31, 2008. (Total Operating Revenue of the Obligated Group represented 67% of the consolidated revenue of the NSLIJ System for such period.)

The NSLIJ System includes the following healthcare providers: 13 hospitals, two long-term care facilities, five home healthcare agencies (includes three Medicare certified home health agencies), five trauma centers, a hospice network, many outpatient centers, The Feinstein Institute for Medical Research, the largest emergency services department on Long Island with the largest hospital-based EMS operation in the region and certain other related entities.

More than 1,100 faculty physicians and 6,800 community physicians are on the NSLIJ System’s medical staff. According to a 2008 survey published in *New York* magazine, “Best Doctors in New York” June 15, 2009 issue, The NSLIJ System has 52 doctors recognized as being at the top of their field in the New York area. Those honored represent a wide variety of specialties.

The NSLIJ System provides many community education programs and sponsors more than 90 accredited medical residency and fellowship training programs educating well over 1,200 future practicing physicians. In addition, the NSLIJ System trains in excess of 500 students from our major medical school affiliations with Albert Einstein College of Medicine, New York University, SUNY Downstate, SUNY Stony Brook and the New York College of Osteopathic Medicine as well as the many other students from medical, dental and podiatric schools across the country and overseas. In March 2008, Hofstra University, a major university on Long Island, and the NSLIJ System entered into a joint academic agreement to work in close collaboration to develop an allopathic medical school to be called Hofstra University School of Medicine in partnership with North Shore – Long Island Jewish Health System (“Medical School”).

### **About North Shore-Long Island Jewish Health System**

The ultimate parent of the NSLIJ System is North Shore-Long Island Jewish Health System, Inc., a New York not-for-profit corporation (as hereinbefore defined, “NSLIJ”). As such, NSLIJ is the ultimate parent of each Member of the Obligated Group, and of each other entity within the NSLIJ System. NSLIJ was formed on October 29, 1997, through the affiliation of the then existing North Shore Health System (“NSHS”) with LIJMC. NSHS and LIJMC each retained their individual corporate identities upon their affiliation. The Chief Executive Officer of NSLIJ is also the Chief Executive Officer of NSUH, LIJMC and each of the Obligated Group Members.

In 1998, all of the Members of the Obligated Group, except LIJMC, formed the North Shore Health System Obligated Group pursuant to the Master Indenture. For various purposes, including increased potential for raising future capital, the Boards of Trustees of LIJMC and each of the Members of the North Shore Health System Obligated Group authorized the creation of a borrowing entity consisting of LIJMC and the Members of the North Shore Health System Obligated Group in December 2002. In connection with the creation of the new financial entity, and upon issuance of bonds in 2003, NSHS was renamed North Shore-Long Island Jewish Health Care, Inc. (as hereinbefore defined, “NSLIJ HCI”), and serves as the representative of the expanded Obligated Group, which includes LIJMC. NSLIJ HCI is the sole corporate member of each Member of the Obligated Group, which includes LIJMC, and NSLIJ is the sole corporate member of NSLIJ HCI.

The not-for-profit entities in the NSLIJ System are New York not-for-profit corporations which do not have “stockholders” but instead have “members” which have rights similar to those of stockholders, including the right to elect trustees. With NSLIJ as their common ultimate parent, all the entities in the NSLIJ System are considered to be under common control for antitrust and other legal purposes and, thus, may conduct joint managed care contracting and other joint activities, including strategic planning. While all of the not-for-profit corporations in the NSLIJ System have NSLIJ as their direct or indirect sole corporate member, they are not all Members of the Obligated Group and remain as separate corporations with their own regulatory licenses and all other attributes of a separate corporate existence.

In addition several healthcare institutions on Long Island have contractual relationships, terminable on specified written notice, which permit them to cooperate with the NSLIJ System on matters relating to healthcare delivery, clinical research and healthcare education for the benefit of their respective communities and the furtherance of their respective missions sometimes referred herein as “Clinical Affiliates”.

The following organizational chart sets forth the principal operating entities that comprise the NSLIJ System, and the map shows the location of each of the hospitals in the NSLIJ System.

Part 8 will mainly address the Obligated Group Members and integrated the NSLIJ System activities. Supplemental information for the other NSLIJ System hospitals known as Huntington Hospital, Franklin Hospital, Southside Hospital and Staten Island University Hospital (collectively, the “Other NSLIJ System Hospitals”) is highlighted in “***OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION***” herein.

INSERT ORGANIZATIONAL CHART

MAP ATTACHMENT TO BE INSERTED

## Members of the Obligated Group

Each Member of the Obligated Group is a New York not-for-profit corporation that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code, and each is established as a hospital under Article 28 of the Public Health Law of the State of New York (“PHL”).

***Long Island Jewish Medical Center*** (as hereinbefore defined, “LIJMC”) is a not-for-profit, tertiary care teaching medical center with 880 certified beds. LIJMC is comprised of the 492-bed Long Island Jewish Hospital (as hereinbefore defined, “LIJ”) for adult care, the 152-bed Schneider Children’s Hospital (as hereinbefore defined, “SCH”) for pediatric care, and the 236-bed Zucker Hillside Hospital (as hereinbefore defined, “ZHH”) for psychiatric care, all located on a 48-acre campus in Nassau and Queens Counties, New York. When the Katz Women’s Hospital financed with the Series 2009A Bonds and Series 2009B, C and D Bonds is completed and surveyed by the Department of Health, certified beds are expected to increase by 35 beds to 915. LIJ was established in 1954. See “THE OBLIGATED GROUP MEMBERS - Long Island Jewish Medical Center” herein for additional information.

***North Shore University Hospital*** (as hereinbefore defined, “NSUH”) is a not-for-profit hospital with campuses located in Manhasset and Syosset, New York:

***North Shore University Hospital (Manhasset)*** (as hereinbefore defined, “NSUH-M”) has 812-certified beds. First chartered in 1946, NSUH-M is located in Manhasset, New York. NSUH-M, which opened in 1953, is a tertiary care teaching hospital.

***North Shore University Hospital (Syosset)*** (as hereinbefore defined, “NSUH-S”) does business as Syosset Hospital. NSUH-S is a 103-certified bed hospital offering specialized inpatient and ambulatory surgical services. NSUH-S is a full-service community hospital with inpatient medical-surgical and intensive care units and an emergency department. NSUH-S, which opened in 1962, is located in Syosset, New York.

See “THE OBLIGATED GROUP MEMBERS - North Shore University Hospital” herein for additional information.

***Glen Cove Hospital*** (as hereinbefore defined, “GCH”) is a not-for-profit, 265-certified bed, community hospital located in northern Nassau County, New York. GCH opened in 1921. See “THE OBLIGATED GROUP MEMBERS – Glen Cove Hospital” herein for additional information.

***Plainview Hospital*** (as hereinbefore defined, “PVH”) is a not-for-profit, 204-certified bed, community hospital located in Plainview, New York, primarily serving patients in eastern and central Nassau and western Suffolk Counties, New York. PVH opened in 1961. See “THE OBLIGATED GROUP MEMBERS – Plainview Hospital” herein for additional information.

***Forest Hills Hospital*** (as hereinbefore defined, “FHH”), which opened in 1953, is a not-for-profit, 312-certified bed, community hospital located in Forest Hills, Queens County, New York. See “THE OBLIGATED GROUP MEMBERS – Forest Hills Hospital” herein for additional information.

***North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation*** (as hereinbefore defined, “CECR”), which opened in 1989, is a not-for-profit, 256-certified bed, skilled nursing facility located on a parcel of real property contiguous to the NSUH-M campus. See “THE OBLIGATED GROUP MEMBERS - North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation” herein for additional information.

**THE FOLLOWING OTHER NSLIJ SYSTEM HOSPITALS AND ENTITIES ARE NOT MEMBERS OF THE OBLIGATED GROUP AND, THEREFORE, ARE NEITHER OBLIGATED UNDER THE MASTER INDENTURE NOR RESPONSIBLE FOR PAYMENT OF THE DEBT SERVICE ON THE SERIES 2009B, C AND D BONDS AND THE SERIES 2009 FIXED RATE BONDS.**

## **Other NSLIJ System Hospitals and Entities (Refer to *Organization Chart*.)**

In addition to the Members of the Obligated Group there are certain other NSLIJ System hospitals. Furthermore, there are entities which are non-Obligated Group Members and non-hospital entities which are part of the NSLIJ System with NSLIJ as their common ultimate parent (hereinafter defined, “Other NSLIJ System Entities”). ***These Other NSLIJ System Hospitals and Entities are not Members of the Obligated Group and, therefore, are neither obligated under the Master Indenture nor responsible for the payment of the debt service on the Series 2009B, C and D Bonds and the Series 2009 Fixed Rate Bonds.***

Likewise, the Obligated Group Members are not responsible for the debt of the Other NSLIJ System Hospitals and Entities. No Other NSLIJ System Entities are obligated for Other NSLIJ System Hospitals’ debt except as outlined in “*OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION*” herein.

The following is a brief description of the major healthcare providing entities of Other NSLIJ System Hospitals and Entities.

### ***Other NSLIJ System Hospitals and Hospice (as hereinafter defined)***

As separate corporations, no Other NSLIJ System Hospitals and Entities are obligated legally for the debt of Franklin (as hereinafter defined) or Southside (as hereinafter defined) except for the prior financial commitments by NSLIJ HCI and the North Shore-Long Island Jewish Health System Foundation as mentioned in “*Management’s Discussion and Analysis*” and “*OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION*” herein.

***Franklin Hospital*** (“Franklin”) is a not-for-profit, 305-certified bed, community hospital located in Valley Stream, Nassau County, New York, which was established in 1963 and joined NSHS (now NSLIJ HCI) in 1996. In addition, Franklin operates a 120-bed skilled nursing facility, the Orzac Center for Extended Care and Rehabilitation, which adjoins the hospital.

***Southside Hospital*** (“Southside”) is a not-for-profit, 341-certified bed community hospital located in Bay Shore on Long Island, Suffolk County, New York. Southside was established in 1911 and joined NSHS (now NSLIJ HCI) in 1996. See “*OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION*” herein for additional information on Southside.

***Huntington Hospital Association (“Huntington Hospital”)*** is a not-for-profit, 408-certified bed, community hospital located in northwestern Suffolk County, which was established in 1916 and joined NSHS (now NSLIJ HCI) in 1994. See “*OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION*” herein for additional information on Huntington Hospital.

***Staten Island University Hospital (“SIUH”)*** is a not-for-profit, 714-certified bed, acute care tertiary teaching hospital with two sites in Staten Island, New York. The merger of Staten Island Hospital and Richmond Memorial Hospital formed SIUH in 1987. Staten Island Hospital was established in 1869, and Richmond Memorial Hospital was established in 1919. SIUH joined NSHS (now NSLIJ HCI) in 1996. See “*OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION*” herein for additional information on SIUH.

***Hospice Care Network*** (“Hospice”) is a not-for-profit hospice program located in Westbury, New York, which provides professional and volunteer services to patients in the terminal stage of disease in the form of physical, psychosocial and spiritual care for dying patients and their families. Hospice joined the NSLIJ System in March 1999.

## **Market**

The Members of the Obligated Group and the Other NSLIJ System Hospitals operate within a highly competitive healthcare market comprised of Nassau and Suffolk Counties on Long Island, and New York (Manhattan), Queens and Richmond Counties in New York City. The service areas of the

hospitals in this healthcare market tend to overlap due in part to their close geographic proximity. While these hospitals typically have a number of core services to meet the healthcare needs of the local community, many also offer nationally and internationally recognized specialty programs.

The NSLIJ System service area is comprised of Nassau, Suffolk, Queens and Richmond Counties. The majority of the System's service area competitors operate primarily on Long Island and include the following: (i) *Catholic Health Services of Long Island*, a health system with two hospitals in Nassau County (St. Francis Hospital and Mercy Medical Center) and three hospitals in Suffolk County (St. Charles Hospital and Rehabilitation Center, St. Catherine of Siena and Good Samaritan Hospital Medical Center); (ii) *Winthrop-South Nassau University Health System*, which includes two Nassau County hospitals: Winthrop-University Hospital Association and South Nassau Communities Hospital; (iii) Stony Brook University Hospital which is in an alliance in Suffolk County with the East End Health Alliance which is comprised of Peconic Bay Medical Center, Eastern Long Island Hospital and Southampton Hospital; (iv) Nassau University Medical Center, which is a Clinical Affiliate of the NSLIJ System; (v) New Island Hospital an independent hospital in Nassau County, which is a Clinical Affiliate of the NSLIJ System (vi) Brookhaven Memorial Hospital Medical Center an independent hospital in Suffolk County; and (vii) Long Beach Medical Center in Nassau County, an independent hospital.

The other major competitor systems in the NSLIJ System service area primarily resulted from the efforts of major medical centers in Manhattan, New York including: (i) The *New York Presbyterian Health System*, a health system with one hospital in Queens, New York (*New York Hospital Medical Center of Queens*), as well as a number of other hospitals in New Jersey, Brooklyn, Manhattan, Bronx and Westchester Counties in New York; (ii) The *New York City Health and Hospitals Corporation*, a health system comprised of nine hospitals in the Bronx, Brooklyn and Manhattan, and two hospitals in Queens: Elmhurst Hospital Center and Queens Hospital Center. (iii) *Mount Sinai Hospital*, a health system with one hospital in Queens, New York (*Mount Sinai Hospital of Queens*) and one hospital in Manhattan, New York. In addition, there is the Queens County-based *MediSys Health Network*, which is comprised of four hospitals, three of which are in Queens (*Jamaica Hospital Medical Center*, *Flushing Hospital Medical Center* and *Peninsula Hospital Center*) and one hospital in Brooklyn (*Brookdale University Hospital and Medical Center*). There is one other unaffiliated hospital *St. John's Episcopal Hospital* in Queens. Finally, there was also Caritas Health Care Planning, Inc. which acquired Mary Immaculate Hospital and St. John's Queens Hospital from Saint Vincent Catholic Medical Centers in January 2007 but closed as of February 28, 2009. In Richmond County, where the NSLIJ System's Staten Island University Hospital is the major provider, the only other hospital provider is *Richmond University Medical Center*.

According to Statewide Planning and Research Cooperative System data for hospital discharges excluding newborns as of June 2008 and December 2006, the NSLIJ System had an inpatient market share of 31.5% and 29.5%, respectively in its service area (as defined above). As of June 2008, the next largest single competitor, *Catholic Health Services of Long Island* ("CHS-LI") held an 11.9% market share. The remaining market share was apportioned as follows: *New York Presbyterian Health System* (7.8%), *Winthrop South Nassau University Health System* (7.2%), *New York City Health and Hospitals Corporation* ("HHC") (6.8%), *MediSys Health Network prior to Peninsula Hospital Center becoming a sponsored hospital in the spring of 2009* (*Jamaica Hospital Medical Center*, *Flushing Hospital Medical Center* and *Brookdale University Hospital and Medical Center*) (5.2%), *Stony Brook University Medical Center* (4.4%), *Nassau University Medical Center* ("NUMC") (3.3%), *Mount Sinai* (3.0%), *Brookhaven Memorial Hospital Medical Center* (2.5%) and other institutions (16.4%).

MARKET SHARE PIE CHART PLACEHOLDER



A further breakdown of the other institutions' market share is shown in the following table.

**Market Share for YTD June 2008 for Other Institutions**

|                                    |       |
|------------------------------------|-------|
| Richmond University Medical Center | 2.1%  |
| John T Mather Hospital             | 1.8%  |
| Peconic Bay Medical Center         | 1.6%  |
| Continuum Health Partners*         | 1.3%  |
| NYU Medical Center                 | 1.2%  |
| Episcopal Health Services          | 1.1%  |
| All other                          | 7.3%  |
| Total Other                        | 16.4% |

\* *Continuum Health Partners is comprised of Beth Israel Medical Center, Roosevelt Hospital, St. Luke's Hospital, Long Island College Hospital and The New York Ear and Eye Infirmary.*

Refer to Market Share Pie Charts.

**Geographic Origin of Inpatients and Ambulatory Surgery Patients of the Obligated Group**

The following chart sets forth the geographic origin of inpatients of the Obligated Group Members except CECR, for the years ended December 31, 2005 and December 31, 2008.

|                | <u>12/31/05</u> | <u>12/31/08</u> |
|----------------|-----------------|-----------------|
| Nassau County  | 42.1%           | 41.6%           |
| Suffolk County | 11.1%           | 10.1%           |
| Queens County  | 41.8%           | 42.9%           |
| Other          | 5.0%            | 5.4%            |
| Total          | 100.0%          | 100.0%          |

*Source: NSLIJ Finance Department*

The following chart sets forth the geographic origin of ambulatory surgery patients of the Members of the Obligated Group except CECR, for the years ended December 31, 2005 and December 31, 2008.

|                | <u>12/31/05</u> | <u>12/31/08</u> |
|----------------|-----------------|-----------------|
| Nassau County  | 48.6%           | 48.5%           |
| Suffolk County | 17.1%           | 16.0%           |
| Queens County  | 29.9%           | 30.5%           |
| Other          | 4.4%            | 5.0%            |
| Total          | 100.0%          | 100.0%          |

*Source: NSLIJ Finance Department*

## **Centralized Services, Common Objectives and Coordinated Clinical Leadership of the NSLIJ System, NSLIJ HCI and the Obligated Group Members**

### ***Centralized Services***

The NSLIJ System supports its hospitals by providing a strategic planning framework, administrative resources and developing programs necessary to meet their community objectives in a fiscally responsible manner. Centralized services with consolidated management for the Obligated Group include:

- Finance
- Quality Management
- Medical Emergency Transportation System,
- Coordinated Bioterrorism and Emergency Service Response
- Material Support Services
- Purchasing
- Facilities Design and Construction
- Marketing
- Physician Services
- Patient Financial Services
- Human Resources
- Geriatrics and Longevity Center to Coordinate Elderly Patients' Clinical Needs
- Information Systems
- Strategic Planning
- Centralized Laboratory
- Workforce Development/ Center for Learning and Innovation
- Insurance/ Risk Management
- In-house Legal Counsel
- Medication Usage
- Faculty Practice Plan
- Managed Care Contracting
- Financial Assistance Unit
- Health Information Management
- System-wide Approach to Nursing Recruitment and Retention

### ***Common Objectives***

Although the strategic planning framework is the same for all the hospitals in the NSLIJ System, each hospital has a unique relationship with its community and the NSLIJ System in the support of its objectives. Objectives common to each hospital in the NSLIJ System include:

- o Foster recognition by the community as a comprehensive, quality, community-based acute care hospital.
- o Develop and integrate target programs that will complement existing clinical strengths.
- o Sustain relationships within historical markets.
- o Develop closer relationships with community physicians within the strategic market area.
- o Develop closer relationships with other healthcare providers and community based organizations within the strategic market area.
- o Develop financially viable inpatient programs to sustain the hospital.
- o Provide the community with health education and promotion activities utilizing physicians and other staff members.

### ***Coordinated Clinical Leadership***

Clinical programs that are currently coordinated across the health system by single appointed clinical leadership, in addition to the aforementioned administrative services, are: Behavioral Health, Cancer Care Services, Cardiovascular Services, Children's Health Services including Satellite Pediatric Specialty Centers, Continuing Care – Home Care, Continuing Care – Hospice, Continuing Care – Rehabilitation, Continuing Care – Skilled Nursing, Diagnostic Imaging Services, Emergency Services, Laboratory Services, Physical Medicine and Rehabilitation, Radiation Oncology, Research, Neurosciences, Orthopedics, Urology and Women's Health Services. Centralized services and clinical integration provide economies-of-scale and standardized quality care while helping to establish branding of the NSLIJ System. In addition, integrated management aligns hospital and the NSLIJ System strategic plans.

In 2004, a joint senior management administrative team was appointed to oversee the vision of “One Hospital with Two Campuses” for NSUH-M and LIJMC, the two flagship tertiary hospitals. A joint medical director was appointed to serve as the liaison between medical staff and administration at both hospitals, ensuring that physicians get the support they need to care for their patients safely, efficiently and effectively. The majority of departments or divisions have been unified under the leadership of a single chair who oversees the coordination and standardization of care for both the NSUH-M and LIJMC campuses.

### *Centers of Excellence*

The NSLIJ System is currently expanding centers of excellence system-wide in neurosciences, tertiary cardiac care, women’s health, cancer, and orthopedics. The Center for Advanced Medicine and The Institute for Orthopedic Science described below; the Katz Women’s Hospital described in the site sections of LIJMC and NSUH-M; and the Harvey Cushing Institutes of Neuroscience described in “*Research*” are also part of this strategy.

#### *Center for Advanced Medicine (“CFAM”)*

In 2005, NSLIJ commenced creating a new 450,000-square-foot Article 28 state-of-the-art outpatient treatment center known as the North Shore-Long Island Jewish Health System Center for Advanced Medicine (“CFAM”) at IPark in Lake Success, New York. CFAM is located across from LIJMC’s campus and two miles from NSUH-M’s campus.

An ambulatory surgery center was the first program opened within CFAM in the summer of 2005. The 23,000-square-foot facility includes four state-of-the-art operating rooms and five pre-surgical testing consultation rooms. Refer to “*PART 4 – THE PLAN OF FINANCE – The Series 2009 Projects*” regarding the expansion of pre-surgical testing and the addition of two operating rooms.

A stand alone 37,000 square-foot ambulatory cancer center called the Monter Cancer Center opened in spring 2006. The Monter Cancer Center features 32 private chemotherapy treatment stations with 23 exam and consultation rooms, physician offices, social work and support services, nutrition counseling, a bone marrow-stem cell transplant program, a patient education center, and a conference room with high-tech teleconferencing abilities. The Monter Cancer Center houses all of the comprehensive outpatient hematology-oncology programs formerly based at the Don Monti Cancer Center at NSUH-M.

In July 2006, a 15,700-square-foot diagnostic imaging center specializing in outpatient services was opened. The new imaging center features 16-slice CT scanning, a SPECT/CT, MRI, PET scanning, a Panorama 1.0 Tesla open MRI which is compatible with the NSLIJ System’s picture archiving communications system, combined PET/CT scanning, ultrasound, X-ray radiography and nuclear medicine.

In February 2007, the Smith Institute for Urology (the “Smith Institute”) opened at CFAM. The 18,500 square-foot Smith Institute provides medical and surgical care in all aspects of adult and pediatric urology with care provided by international leaders in the areas of endourology, kidney and ureteral calculi, incontinence, laparoscopy, neurourology, prostate cancer, bladder cancer, renal cell carcinoma, testicular cancer, interstitial cystitis, prostatitis, infectious diseases and benign prostatic hyperplasia. Housed within the Smith Institute are state-of-the-art centers for treating the gamut of urological diseases, including centers focusing on pelvic pain and men’s health.

Also in February 2007, CFAM consolidated breast imaging services previously offered by NSUH-M and LIJMC at two separate outpatient locations. The new centralized facility, The Schlanger/Gottlieb/Partners Breast Imaging Center (the “Breast Imaging Center”) includes 7,500 square feet of space and is expected to help reduce patient waiting times for mammography and other breast services.

In the winter of 2009, a 6,200-square-foot state-of-the-art Bioskills Education Center opened to bring the latest operative techniques to physicians, fellows, residents, nurses and surgical technologists and allow practice of the latest procedures using cadaveric specimens. Coupled with the most advanced technologies in video and endoscopic surgical equipment, the Bioskills Education Center will support surgical training, continuing medical education and research.

### ***The Institute for Orthopedic Science***

A major goal of the NSLIJ System is to serve as a destination for patients seeking world-class, comprehensive orthopedic care. In late 2006, the NSLIJ System formed The Institute for Orthopedic Science (“The Orthopedic Institute”) to bring together the expertise of more than 200 orthopedic specialists many of whom are nationally and internationally recognized in the treatment of the entire spectrum of musculoskeletal disorders. By bringing together the orthopedic programs of the NSLIJ System’s hospitals in Long Island, Queens and Staten Island, The Orthopedic Institute shares best practices, coordinates quality measurement and coordinates continuum of care from diagnosis to surgery to rehabilitation. The Orthopedic Institute focuses on advancing scientific research and professional education.

For the **Harvey Cushing Institutes of Neuroscience** refer to “*Research*” herein.

### **Research**

Research is a vital component of the operations of the NSLIJ System, which per the National Institutes of Health (“NIH”) database is in the top six percent (6%) of research institutions worldwide that receive support from the NIH. The Feinstein Institute for Medical Research (“The Feinstein Institute”), an Other NSLIJ System Entity shown in the “Organizational Chart”, is one of the fastest growing biomedical research institutes in the country. The Feinstein Institute is located in Manhasset, New York adjacent to NSUH-M. The Feinstein Institute was incorporated in 1983 and is an integral part of the NSLIJ System. Due to this unique relationship, The Feinstein Institute’s investigators have access to hundreds of thousands of patients, positioning The Feinstein Institute as a national leader in translational research. The Feinstein Institute has a staff of approximately 700 researchers conducting more than 1,500 ongoing research projects. During the year ended December 31, 2007, these studies received funding from federal, state and private funding agencies, totaling \$67.0 million in multi-year awards.

The completion of an expansion project in fall 2008 at the Boas Marks Building in Manhasset, New York will further enhance the prestige of The Feinstein Institute and its ability to recruit scientific leaders. The new facilities, which encompass more than 55,000 square feet, feature a conference center, a new lab and clinical research space where patients with Alzheimer’s, Parkinson’s and other neurological diseases can help scientists learn more about disease processes and find new cures.

As part of its global mission of advancing translational research, The Feinstein Institute in April 2008 signed a collaborative agreement with the renowned Karolinska Institute (“Karolinska”) in Sweden so Karolinska graduates can conduct post-doctoral research in New York and scientists from The Feinstein Institute can study at Karolinska's laboratories in Stockholm. The Karolinska is one of the most prestigious research centers in the world – the home of the Nobel Prize in Physiology or Medicine. Over a period of 100 years, five scientists from the Karolinska Institute have been awarded this highest honor in science. In May 2009, Dr. Kevin Tracey, CEO of The Feinstein Institute, received an honorary doctorate from the Karolinska Institute for his research on using a pacemaker to stimulate the vagus nerve to control immune system response, as well as related work that led to experimental immune-system taming drugs.

The Feinstein Institute’s investigators work to cure human disease. This is the driving force behind all of their activities which include conducting basic science experiments and clinical investigations; establishing technology transfer standards; and teaching graduate school courses, investigative medicine seminars and community outreach programs. The Feinstein Institute’s

investigators hold patents for experimental drugs that are in various stages of clinical and preclinical testing for arthritis, cancer, cardiac disease, sepsis, shock, trauma and other inflammatory conditions.

The Feinstein Institute's principal investigators are internationally acclaimed authorities in their scientific and medical fields. They have won prestigious awards, belong to exclusive scientific and medical honor societies, and are invited worldwide to lecture about their research. Discoveries made at The Feinstein Institute have been published in the most prestigious scientific and medical journals, such as *Science*, *Nature*, *Nature Medicine*, *Lancet*, *The New England Journal of Medicine*, *The Journal of Experimental Medicine*, *the Journal of Clinical Investigation*, and the *Proceedings of the National Academy of Sciences USA*. The Feinstein Institute offers a high quality research environment — one that encourages collaboration among basic science and clinical investigators. Such collaborations drive success in translational research, which brings about some of the most significant advances in medicine and treatment options for patients. The Feinstein Institute has several unique infrastructure elements that create a quality environment:

- A world-class Biostatistics Unit provides investigators with statistical support from start to finish, including study design, data collection and results analysis.
- A state-of-the-art cyclotron and Food and Drug Administration-approved radiochemistry facility manufactures radiopharmaceuticals on site for use in The Feinstein Institute's positron emission tomography ("PET") suite.
- An NIH-funded Early-Phase Schizophrenia Center focuses on understanding the development of and best treatments for schizophrenia.
- An NIH-funded General Clinical Research Center offers investigators state-of-the-art facilities for designing, implementing and conducting clinical research studies and a central location for coming face-to-face with the volunteers and patients involved in their research studies.
- A Laboratory of Medicinal Biochemistry, which complements The Feinstein Institute's drug discovery efforts, develops and streamlines preclinical testing methods.
- A Laboratory of Medicinal Chemistry, which functions as a collaborative institutional group, develops novel small molecules based upon the mechanisms of disease discovered by Feinstein Institute investigators.
- The international, peer-reviewed biomedical science journal, *Molecular Medicine*, published by The Feinstein Institute which is ranked in the top 20th percentile of all research journals, is committed to reporting the fast-breaking developments in molecular medicine that will make personalized medicine a reality.
- The Elmezzi Graduate School of Molecular Medicine, (an Other NSLIJ System Entity, which is staffed and operated by The Feinstein Institute), offers recent medical school graduates a unique opportunity to earn a PhD degree in molecular medicine, with the vision of pursuing a career in translational research. The school is accredited by the New York State Board of Regents to grant PhDs in molecular medicine to physicians who successfully complete the three-year program.
- The Tissue Donation Program supports biomedical research by collecting, storing and distributing to scientists biological samples, a service that allows our scientists to focus their efforts on research rather than developing an individualized method for obtaining biological materials for their studies.
- The Feinstein Institute is the NIH grant-receiving entity for the Obligated Group hospitals and various Other NSLIJ System Entities, though research is also conducted in laboratories on the LIJMC campus, at the Center for Clinical Research and Technology in Staten Island and at other locations within the NSLIJ System. LIJMC is a charter member of the Biomedical Research Alliance of New York and a founding member of the Academic Medicine Development Company, both of which are collaborative clinical research organizations.

## **Harvey Cushing Institutes of Neuroscience**

In 2006, the NSLIJ System commenced plans to create the Harvey Cushing Institutes of Neuroscience with a mission to provide state-of-the-art medical care while contributing to advances in research and education from which an improved understanding of the causes, prevention and treatment of disease can come. Upon completion, it will comprise a continuum of clinical and investigative neuroscience programs and evolving neuroscience institutes in specific clinical areas.

### **Quality Management**

The NSLIJ System is committed to creating a culture of quality and patient safety and working collaboratively with local, state and national organizations to promote an agenda that underscores clinical excellence and patient safety utilizing transparency, education, communication, and objective measures.

A three year strategic plan for 2009-2011 that aims to achieve outcomes that consistently meet or exceed customer expectations throughout the NSLIJ System has been developed through the NSLIJ Institute of Clinical Excellence. Guiding principles of the strategic plan include providing patient centered care and prioritizing patient safety, ensuring that care is delivered in a timely, efficient, and equitable way. The plan emphasizes developing a culture of safety where two-way communication exists without barriers, and where human errors are managed appropriately. The five strategic imperatives outlined in the plan include the following:

- Reduce unnecessary variation and overuse in care;
- Improve care coordination and patient safety;
- Integrate the continuum of care;
- Improve population health; and
- Increase stakeholder trust by engaging patients and families.

Initiatives include increased use of evidence based medicine and national protocols, reduction of healthcare acquired infections, and deployment of the Collaborative Care Model including Team STEPPS deployment. Team STEPPS is a Collaborative Care Model developed by the Department of Defense which is comprised of best practices and strategies that have proven to move organizational culture to an integrated practice model centered on the patient. This model has been implemented throughout the NSLIJ System's perinatal services. Team STEPPS will continue to be implemented across the entire NSLIJ System throughout 2009 and 2010.

An updated executive scorecard will be used to track performance indicators such as Centers for Medicare and Medicaid Services ("CMS") Appropriate Care Scores, 30 Day Readmission Rates (All Cases and Heart Failure), referrals to Homecare and Risk Adjusted Mortality. There has been a 10.48% decrease in mortality for the NSLIJ System from 2005 to the first half of 2008 according to Premier's database.

In addition, a comprehensive occurrence tracking system for serious adverse and sentinel events was developed to identify trends and patterns across the NSLIJ System and to ensure that these events are reported to the appropriate agency in accordance with New York State requirements and Joint Commission standards.

The NSLIJ System believes that patients should make informed decisions utilizing process and outcome data. Quality performance data and infection rates are available on the NSLIJ System's website.

Coordinated programs in Infection Control, Stroke, Perinatal Safety, Pressure Ulcers and Rapid Response Teams for Cardiac Arrest have enhanced quality, reduced risk and improved patient outcomes. The NSLIJ System's Center for Learning and Innovation and Patient Safety Institute (refer to "Center for

Learning and Innovation”) work to further enhance education, knowledge transfer and team building for employees.

### **Achievements in Quality and Patient Safety**

The NSLIJ System physicians have taken the lead in improving patient safety through several innovative programs including the “Who’s in Charge” and “Physician Activity and Outcome Report” initiatives. The “Who’s in Charge” initiative identifies the physician accountable for patient care to both patients and their family members, as well as to other members of the healthcare team. The “Physician Activity and Outcome Report” (“PAOR”) is a risk-adjusted and peer benchmarked tool that was developed both to evaluate physician performance and to provide physicians with actionable information that can be used to improve care.

The NSLIJ System participates in the Hospital Quality Incentive Demonstration (“HQID”), a “pay-for-performance” demonstration project of Premier Healthcare Alliance in association with CMS to encourage improvements to hospital quality and to report selected quality indicators publicly. The first three years of the project, which commenced in 2003, provided public recognition and annual quality incentive payments to top performing hospitals that successfully used evidence based, widely accepted clinical treatments and measures to care for patients with heart attack, heart failure, coronary artery bypass graft, pneumonia and hip/knee replacement. The HQID project was extended for three more years to test additional measures, including more than 30 new outcome measures, as well as new incentive models including the recognition of improvement, as suggested by the Medicare Payment Advisory Commission (“MedPAC”).

By integrating and standardizing care processes with benchmarks, the NSLIJ System achieved dramatic improvement in all five clinical areas. For the NSLIJ System hospitals participating in the HQID project, the average Composite Quality Score (CQS), an aggregate of all quality measures within each clinical area, improved by 12.48% over the project’s first three years.

Quality Awards: The NSLIJ System and several Obligated Group Members and Other NSLIJ System Hospitals won 2008 Healthcare Association of NYS (“HANY”) Awards for their care approaches with various programs and were recognized as 2008 Island Peer Review Organization for Medicare (“IPRO”) honorees for Quality Assurance projects which implemented quality improvements.

In 2006, HANY awarded its sixth annual Pinnacle Award for Quality and Patient Safety to the NSLIJ System. The award recognized the NSLIJ System’s efforts to dramatically reduce hospital-associated infections over two years using standardized processes, vigorous monitoring and performance analysis across nine hospitals, which represented 22 intensive care units and 330 total hospital beds. As a result of its “Targeting Zero Hospital-Associated Infections by Standardizing Practices” project, the NSLIJ System attained zero hospital associated infections in many areas of the programs in a short time and impacted quality dramatically throughout the NSLIJ System.

Home Health Compare Data released by Medicare and the New York State Department of Health (“NYSDOH”) in 2008 showed that the three Medicare certified home health agencies of the Home Care Network (North Shore Home Care, LIJ Medical Center Home Care and Franklin Hospital Home Care) scored at or above the state and national averages for 12 measures that provide information about patients’ physical health and whether their ability to perform basic daily activities improved. In 2008, Medicare compared home health data nationally and in New York State with 304 other certified home health agencies. In addition to patients learning to manage their medications, the Medicare outcomes include activities such as managing post operative wound care, pain management and reducing hospitalization rates.

Refer to individual site sections for additional “Awards”; “Future Plans” for Clinical Information System (“CIS”) and “Center for Learning and Innovation” for more information.

## Workforce

### Medical Staff

The following is a summary of the medical staff of the Obligated Group, including the number of active physicians, the percentage that are board certified, and the average age of the active physicians as of April 2009.

|          | <u>Active Medical Staff</u> | <u>% Board Certified</u> | <u>Average Age of Active Medical Staff</u> |
|----------|-----------------------------|--------------------------|--|
| TOTAL(1) | 4,986                       | 87.0%                    | 50   |

- (1) Total number of active physicians at all facilities are counted only once and do not include cross credentialing hospital affiliations. 815 of the total are faculty as discussed in the following “Physician and Ambulatory Network Services”.

*Source: Medical Staff offices of Members of the Obligated Group*

### Physician and Ambulatory Network Services

The NSLIJ System’s Physician and Ambulatory Network Services (“PAANS”) comprises physicians who offer services to pediatric and adult patients in all specialties. The physician business services provided by the PAANS organization include revenue cycle services, physician practice management, finance, information technology, human resources, quality and ambulatory nursing, and operational support. PAANS comprises 1,142 faculty physicians for the NSLIJ System. Of these, 815 physicians are faculty of the Obligated Group Members.

PAANS is an integrated component of the NSLIJ System and its hospitals and is not incorporated as a separate business entity. It is an integration of administration and faculty acting as partners in fulfilling objectives consistent with the mission of the NSLIJ System. The PAANS organization includes all faculty and clinical practitioners employed by the NSLIJ System and its hospitals. The PAANS organization maintains an oversight committee which provides sponsorship and support for the activities of the faculty practice.

### Nursing

The NSLIJ System has not been affected by the nursing shortage to the same extent as other hospitals in the country and has a lower vacancy rate than the national average. The average vacancy rate for the NSLIJ System was 5.0% for fiscal year 2007 and 4.8% for fiscal year 2008. These rates compare favorably to the most recent available statistics of a national average of 8.5% in 2007 according to the most recent report released by the American Hospital Association in July 2008 and a statewide, New York City and Long Island average of 8.8%, 8.2% and 8.1%, respectively in 2007 according to *Falling Short: A Workforce in Decline, Workforce Advocacy Survey Results, Nursing and Allied Health Professionals* published by The Healthcare Association of New York State (hereinbefore defined, “HANYYS”) in 2008. The NSLIJ System’s average RN turnover rate was 9.0% for fiscal year 2007 and 8.0% for fiscal year 2008. These rates compare favorably to New York State, New York City and Long Island 2007 RN turnover rates of 13.0%, 9.8% and 11.3%, respectively according to the same HANYYS report. According to the NSLIJ System’s Chief Nurse Executive, across the NSLIJ System, the RN ages range from 20 to 70 years of age with the average age being approximately 44 years old. The largest group of nurses falls between 36 and 50 years of age.



The NSLIJ System creates a practice environment, which attracts and retains well-qualified nurses by fostering high regard for nurses and providing quality care. Furthermore, The NSLIJ System has initiated many programs to retain and recruit nurses. These include access to advanced education, a clinical ladder program for career advancement, mentoring and childcare programs.

To help ease new graduates as well as experienced medical surgical nurses into Specialty Nursing areas, the NSLIJ System began a Critical Care Nurse Fellowship in June 2005, an Emergency Department Nurse Fellowship Program in September 2006 followed by a Pediatric Emergency Department and a Pediatric ICU Fellowship Program in September 2007. The fellows are hired as full-time nurses with comparable pay and benefits. The Fellowship Program consists of three semesters. Each semester is tailored in scope and duration specific to the patient population. During the three semesters, the NSLIJ System enlists various educational modalities including on-line critical care core curricula and emergency department core curricula, specialty lectures, mentoring by Master Fellows and program coordinators, clinical simulation and one-to-one mentoring by an associate fellow. After one year, the nurses graduate from the Fellowship program and commit to working for the NSLIJ System for another year. The investment in recruiting and intensively educating fellows has yielded savings in advertising costs as well as a reduction in the turnover rate and an increase in retention.

The NSLIJ System's Center for Learning and Innovation Institute for Nursing offers an array of continuing education programs. In 2001, the NSLIJ System commenced a Registered Nurse On-Site Education program. To assist the nursing staff to advance their education, the NSLIJ System currently has contracts with Molloy College, Adelphi University and CW Post (Long Island University) to offer their Masters and Bachelors Nursing programs in the NSLIJ System facilities. These programs have agreed to defer payment for courses to the end of each semester and all courses taken on the hospital premises are at a discounted tuition rate. The NSLIJ System also has an on-site nursing education program for an Associate Degree in Nursing with Nassau Community College. In addition, the NSLIJ System has an affiliation with Farmingdale State College which offers an Associate Degree in Nursing at the college.

Among the many university affiliations that the NSLIJ System has developed with nursing schools is the affiliation with the Case Western Reserve University Frances Payne Bolton School of Nursing ("Case") in Cleveland, Ohio. More than 50 advance practice nurses from the NSLIJ System hospitals are now enrolled in the doctor of nursing practice ("DNP") at Case. Established in the fall of 2006, Case faculty members teach courses either in Ohio or in Connecticut. To date, 19 NSLIJ DNPs have graduated from the program.

## **Labor Relations of the Obligated Group Members**

### ***Long Island Jewish Medical Center***

LIJMC is a member of the League of Voluntary Hospitals and Homes ("the League"). Local 1199SEIU United Healthcare Workers East (SEIU abbreviation for Service Employees International Union) ("1199") represents 43% of LIJMC's full-time equivalent employees. The League and 1199 have reached a tentative Memorandum of Agreement to modify their current collective bargaining agreement which will extend it from year 2011 to year 2015. The Memorandum of Agreement has been ratified by the full union membership, and the League's Executive Board of Directors will vote to ratify after Labor Day. Management considers its relations with its employees to be good.

### ***North Shore University Hospital***

#### ***Manhasset Campus-The Sandra Atlas Bass Campus***

NSUH-M has no collective bargaining agreements with any unions, and management considers its relations with its employees to be good.

#### ***Syosset Campus***

NSUH-S has collective bargaining agreements with two unions: the New York State Nurses Association (“NYSNA”), and Local 1199SEIU United Healthcare Workers East. NYSNA comprises 28% of NSUH-S’ full-time equivalent employees, and 1199 comprises 42% of NSUH-S’ full-time equivalent employees. NYSNA’s contract expires March 31, 2011, and 1199’s contract expires September 30, 2011. Management considers its relations with its employees to be good.

#### ***Glen Cove Hospital***

GCH has no collective bargaining agreements with any unions and management considers its relations with its employees to be good.

#### ***Plainview Hospital***

PVH has collective bargaining agreements with two unions: the New York State Nurses Association (“NYSNA”) and Local 1199SEIU United Healthcare Workers East. NYSNA comprises 23% of PVH’s full-time equivalent employees, and 1199 comprises 51% of PVH’s full-time equivalent employees. NYSNA’s contract expires March 31, 2011, and 1199’s contract expires September 30, 2011. Management considers its relations with its employees to be good.

#### ***Forest Hills Hospital***

FHH has collective bargaining agreements with two unions: Local 1199SEIU United Healthcare Workers East and Local 94-94A/Local 1456. FHH is a member of the League. 1199 represents 79% of FHH’s full-time equivalent employees. The League and 1199 have reached a tentative Memorandum of Agreement to modify their current collective bargaining agreement which will extend it from year 2011 to year 2015. The Memorandum of Agreement has been ratified by the full union membership, and the League’s Executive Board of Directors will vote to ratify after Labor Day. The contract of Local 94-94A/Local 1456, which covers less than 2% of FHH’s full-time equivalent employees, expires on December 31, 2011. Management considers its relations with its employees to be good.

#### ***North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation***

CECR has no collective bargaining agreements with any unions and management considers its relations with its employees to be good.

### **Employee Benefit Plans**

Each Member of the Obligated Group, Southside and Franklin is a participating employer in a noncontributory, defined benefit pension plan, the North Shore-Long Island Jewish Health System Cash Balance Plan (the “Cash Balance Plan”) sponsored by NSUH, which covers a significant portion of the employees at each such institution. Each Member of the Obligated Group, Southside and Franklin is also a participating employer in a tax deferred annuity plan (the “403(b) Plan”).

Contributions to the Cash Balance Plan and the 403(b) Plan are funded by the Members of the Obligated Group, Southside and Franklin as required by the Employee Retirement Income Security Act of 1974 (“ERISA”) as amended under the Pension Protection Act of 2006 (PPA) and The Worker, Retiree

and Employer Recovery Act of 2008 (WRERA) and as recommended on the basis of annual actuarial projections.

Effective January 1, 2001, the Finance Committee for NSLIJ adopted a funding policy designed to minimize the volatility of future pension plan contributions.

Under the PPA, pension plans are required to attain a 100% funded level in a shorter period of time than was permitted under the prior law. WRERA provided for certain technical corrections to PPA and pension funding relief due to the current economic crisis.

Future funding contributions will depend upon the duration of the economic downturn and the impact of any additional funding relief legislation. Certain benefit restrictions such as the amount payable under the plan as a lump sum may take effect during 2009 as a result of the impact of the economic downturn on the funded status of the plan.

Refer to *“Management’s Discussion and Analysis”* for historical and current funding status.

Refer to Huntington Hospital Association and Staten Island University Hospital for information regarding their Employee Benefit Plans in *“OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION”* herein.

### **Center for Learning and Innovation**

The NSLIJ System’s Center for Learning and Innovation (“CLI”), created in January 2002, is a “corporate university” that has evolved into a national model for workforce development and organizational learning in a healthcare environment. Working with GE Healthcare Solutions, the Ritz-Carlton Hotel Company and the Harvard School of Public Health, CLI fosters growth and lifelong learning among employees and advances the NSLIJ System’s strategic and business goals. Through education, knowledge transfer and team-building, CLI is helping both administrative and clinical healthcare professionals acquire new skills while equipping them to be strategic and proactive. Prior to CLI’s inception, the NSLIJ System had to look outside to fill open positions within the organization. Today, it is very rare for any recruiting department to have to look further than within the enterprise’s own walls to identify talent.

By employing continuous improvement methodologies such as Six Sigma and the philosophy of kaizen (Japanese philosophy that focuses on continuous improvement throughout all aspects of life) in the programs offered through the corporate university, the NSLIJ System has been able to demonstrate increased efficiency, standardization and cost savings. Furthermore, this culture of continuous learning has empowered employees to strive for more by making their growth a key to the future of the organization.

The NSLIJ System’s commitment to ongoing clinical education is evidenced by its November 2007 ranking by the Accreditation Council of Continuing Medical Education (“ACCME”), which placed the NSLIJ System in the top eight percent of all continuing medical education (“CME”) providers in the country with an “Accreditation with Commendation.” The rating, the highest available to a CME provider, is reserved for truly exceptional programs that demonstrate exemplary compliance in multiple areas. It entitles the NSLIJ System to a six-year term of exemplary accreditation as a CME provider for physicians.

CLI opened a Patient Safety Institute (“PSI”) in March 2006, as part of its efforts to train employees in clinical safety. PSI was established to reduce the unacceptable rate of medical errors and hospital acquired infections that are found with varying frequency across the healthcare industry. The PSI features full-scale patient simulators comprised of computer-based interactive technology and digitally-enhanced mannequins.

CLI also oversees the Physician Leadership Institute which is designed to support personal and professional growth in physicians of the health system. The institute includes: a physician orientation program; the Physician's Resource Network ("PRN") that provides education, consultation and support to physicians dealing with the stresses of medical practice, as well as with emotional, behavioral and addictive problems; executive leadership and proactive leadership courses offered through an affiliation with Cornell University; an office manager program to support the physician's staff; and a number of computer courses targeted to medical professionals. For information on The BioSkills Education Center for surgical training refer to "*Center for Advanced Medicine*".

Presented below are some courses CLI offers for professional development and to meet the NSLIJ System's business needs in specialties with shortages (for nursing programs refer to "*Nursing*" section):

- Medical Technician education programs including an Electroneurodiagnostic/Electroencephalography ("END/EEG") 15-month Technician Certificate Program in conjunction with the State University of New York, Farmingdale and a Master of Science Degree in Cardiovascular Perfusion offered by the Department of Biomedical Sciences at Long Island University's C.W. Post Campus at Brookville in conjunction with the Department of Cardiovascular and Thoracic Surgery at NSUH and LIJMC.
- Continuing education courses for registered respiratory therapists
- Basic sterile processing education program
- Management courses
- High Potential Development Program for Emerging, Team and Operational Leaders

## **Medical Education**

The NSLIJ System sponsors more than 90 accredited medical residency and fellowship training programs educating well over 1,200 future practicing physicians. The NSLIJ System also sponsors graduate training for programs in general and pediatric dentistry, oral and maxillofacial surgery, oral pathology and podiatric medicine and surgery. In addition the NSLIJ System trains in excess of 500 students from our major medical school affiliations with Albert Einstein College of Medicine, New York University, SUNY Downstate, SUNY Stony Brook and the New York College of Osteopathic Medicine as well as the many other students from medical, dental and podiatric schools across the country and overseas.

The majority of the NSLIJ System's residency and student teaching programs are based at the tertiary facilities of LIJMC (which includes LIJ, SCH and ZHH), NSUH and SIUH. In addition, FHH sponsors an internal medicine program, and GCH, PVH and Southside each are involved in teaching medical school students and sponsor graduate programs in Family Practice.

In conjunction with regional colleges and universities, the NSLIJ System's entities provide clinical instruction and training to numerous allied professionals in a wide variety of fields such as behavioral specialists, clinical nutrition, clinical pharmacy, clinical psychology, clinical x-ray, community/school psychology, creative arts therapy, dental assisting, educational counseling, food service management, healthcare administration, health education, human genetics, lab technology, library science, licensed practical nursing, medical biology, medical laboratory technology, medical records administration, medical secretarial, neuro-psychology, nuclear medicine technology, occupational therapy, pathology, perfusion techniques, pharmacy technology, physical therapy, physician assistants, radiation therapy technology, radiology technology, registered nursing (undergraduate and advanced practice), rehabilitation counseling, respiratory therapy, social work, special education, speech pathology/audiology, surgical technology and ultrasound technology.

## **Hofstra University School of Medicine in Partnership with North Shore-Long Island Jewish Health System**

In March 2008, Hofstra University, a major university on Long Island, and the NSLIJ System entered into a joint academic agreement to work in close collaboration to develop an allopathic medical school to be called Hofstra University School of Medicine in partnership with North Shore – Long Island Jewish Health System (“Medical School”). Management of the NSLIJ System expects the Medical School partnership to enhance the national prestige, reputation and visibility of the NSLIJ System. Consequently, the university partnership may enhance recruitment of faculty, leadership, researchers, residencies and fellowships; increase the NSLIJ System’s competitiveness for grants and referrals for patient care; and enhance integration of clinical and translational science.

Dr. Lawrence Smith, Senior Vice President and Chief Medical Officer of the NSLIJ System, was appointed to be the founding Dean of the Medical School, which plans to admit its first class in 2011. The school is currently pursuing preliminary accreditation from the Liaison Committee on Medical Education and New York State.

Hofstra University, in October 2007, kicked off a \$150-million fundraising campaign for its new Medical School, which is expected to cost \$100 million to construct. The new Medical School has received a \$25-million capital grant from the state to provide the school's initial funding. The \$25-million grant will help offset capital costs. An additional \$75 million is needed for construction and \$50 million for scholarships.

Through 2017, the NSLIJ System will provide up to \$50 million to Hofstra University, as reimbursement for a portion of the Medical School’s annual costs. The System is not required to provide any funds to Hofstra University that have not yet been spent in connection with the Medical School. In 2008, the NSLIJ System reimbursed Hofstra University \$1.75 million for actual costs related to the development of the Medical School.

Currently the NSLIJ System and Hofstra University are jointly developing the new Medical School’s curriculum. When the school opens it will become the third medical school on Long Island, joining SUNY Stony Brook School of Medicine and New York Institute of Technology's College of Osteopathic Medicine in Old Westbury. The Medical School will not only stress to its students the importance of having a strong foundation of medical knowledge but will also emphasize the need to possess strong and effective communications skills and the ability to think critically and work effectively with patients and other providers. Unlike many traditional medical programs, the new Medical School plans to establish a comprehensive, patient-centered program that focuses on health care needs of the surrounding community. Training will involve a more patient-centric approach including more case studies, team-based learning and hands-on care.

The final Medical School buildings will be located on the 11-acre Hofstra University campus in Hempstead, Long Island. The Medical School's temporary headquarters will be housed on the Hofstra campus in what was the former training facilities for the New York Jets football team. Renovations on the temporary site are planned to begin in the fall of 2009 with groundbreaking for the new building planned to commence after the school receives accreditation from the Liaison Committee for Medical Education and New York State to enroll its first class of 30 – 40 students in the fall of 2011. Eventually the school expects to have 100 students in each year of training for a total student body of about 400 students.

### **Licensure and Accreditation**

The Members of the Obligated Group are each licensed by the New York State Department of Health (“NYSDOH”) and have obtained three-year accreditation from the Joint Commission (JC) following unannounced surveys throughout 2008. The Obligated Group Members are also certified by

the United States Department of Health and Human Services for participation in the Medicare and Medicaid programs.

Each Member of the Obligated Group has received a determination letter from the Internal Revenue Service indicating that it has been qualified as a charitable exempt organization described in Section 501(c)(3) of the Code.

### **Philanthropy**

North Shore-Long Island Jewish Health System Foundation (an Other NSLIJ System Entity) (as hereinafter defined, the “Foundation”) conducts fundraising efforts for the NSLIJ Obligated Group and Other NSLIJ System Entities within the NSLIJ System for capital projects and to support certain designated programs at the benefiting institutions. At the end of fiscal year 2005, the NSLIJ System completed its successful New Century Campaign to raise approximately \$300 million to fund various planned projects and programs, as well as to build an endowment. The campaign exceeded expectations as the Foundation was successful in raising \$370 million in pledges and cash.

Refer to *Management’s Discussion and Analysis for the Six Months ended June 30, 2009* for updated fundraising information and information on the NSLIJ System’s current capital campaign. For the Obligated Group’s cumulative share of the Foundation’s unexpended pledges receivable and cash and updated fundraising refer to *Management’s Discussion and Analysis* and *Appendix B-1(a) Management’s Introduction to the Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007* and *Appendix B-1(b) Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007*.

As stated in a press release issued by the NSLIJ System on December 15, 2008 and previously posted on DAC, the NSLIJ System’s financial exposure with Madoff Securities is limited to \$5.7 million, which represented a contribution from a single donor, who stipulated that the funds be invested with Madoff. The \$5.7 million equates to less than one percent of the NSLIJ System’s total investment portfolio. The donor who contributed the funds has graciously agreed to reimburse the NSLIJ System for any financial loss.

### **Community Programs**

Through a range of community health and public education programs, the NSLIJ System touches more than 125,000 community residents each year and addresses major public health priorities, such as diabetes, heart disease, and obesity. Every year, a wide array of community seminars, health screening programs, continuing medical education courses and other programs on disease prevention, wellness, and health enhancement are offered. The initiatives highlighted below reflect some of the NSLIJ System’s many contributions to improving the health of community residents.

The NSLIJ System’s Health Care Access Center helps to enroll patients in publicly - subsidized health insurance programs. To increase reach into the community, the NSLIJ System works with numerous community partners to provide targeted education and training sessions to those communities most in need.

In order to treat vulnerable community residents, The Mobile Health Long Island program was created to provide both medical and dental care to underserved populations. Each year, Mobile Health Long Island chronicles 3,000 medical visits and 2,000 dental procedures.

The NSLIJ System’s Healthy Aging Programs include serving as the medical partner for six Naturally Occurring Retirement Communities (“NORCs”), a House Calls program, Telehealth initiatives, and a Senior Navigator Helpline. Our programs focus on: aging safely at home; improving access to medical services; and cross training clinicians to increase the pool of practitioners with care management

skills for the senior population. To date, our programs have touched the lives of over 4,500 seniors across our service area.

Safe Kids is organized as a group of regional coalitions and chapters across New York State. Within the New York region, NSLIJ is the lead organization for Nassau County and has been instrumental in reinvigorating the local Queens chapter and working with the Nassau County and NYC/Staten Island coalitions. Over the past 5 years, through a combination of outreach, education, and advocating for legislation, the NYS Safe Kids Coalition led by NSLIJ, reduced the number of childhood injuries/deaths from preventable accidents.

As the designated Tobacco Cessation Center for Nassau and Suffolk Counties, the Center for Tobacco Control (“CTC”) provides tobacco cessation services, tobacco prevention services, and innovative research on smoking dependence. Annually, over 3,700 individuals receive free treatment, and the program hosts frequent educational forums for adults and school age children. Program participants have smoking cessation rates that are almost double the national average.

The NSLIJ System assists “safety-net providers”. In 2006, the NSLIJ System was the only area hospital to respond to a request for a cooperative clinical arrangement with the Nassau University Medical Center, Nassau County’s only public safety net hospital. To date the NSLIJ System has worked to strengthen their inpatient service programs and clinical leadership. In Suffolk County, the NSLIJ System provides, under management contract, clinical services at two county-owned health centers.

The NSLIJ System is a regional and national leader in disaster preparedness and invests in the infrastructure needed for large-scale emergencies. Along with training over 4,000 first responders across the region, the Center for Emergency Medical Services (“CEMS”) is a state and federal planning resource on weapons of mass destruction.

### **Financial Assistance Policy**

The NSLIJ System is committed to providing accessible, quality medical services regardless of an individual’s financial circumstances. To further its mission of providing the highest quality of care to all patients, regardless of their ability to pay, the NSLIJ System launched a major initiative in 2004 to offer care at reduced fees for individuals and families who lack insurance and cannot afford to pay out of pocket. The centerpiece of this far-reaching community health advocacy plan is a financial assistance policy that establishes reduced fees for needy patients seeking medically necessary inpatient, outpatient, emergency, ancillary, ambulatory, primary or specialty care at the NSLIJ System facilities. Commencing in 2004, eligibility was based on income and family size and was available for families earning up to three times the federal poverty level. Commencing May 2008 eligibility is based on income and family size and is available for families earning up to five times the federal poverty level. The NSLIJ System now has one of the most generous financial assistance programs in New York State and one of the most progressive in the United States. Individuals are also screened for Medicaid and other government-subsidized insurance programs like Child Health Plus and Family Health Plus. The NSLIJ System’s policy exceeds the requirements for providing financial assistance to low-income, uninsured patients enacted by the New York State Legislature.

In addition, the NSLIJ System is expanding outreach programs to underserved communities and the working poor in Nassau and Queens Counties.

### **Swap and Debt Policy**

The NSLIJ System has adopted a formal interest rate swap policy. The policy provides guidelines for the execution and management of all System swaps (including those of the Obligated Group). The policy sets forth permitted instruments, counterparty considerations and risk analysis. The policy specifically provides that swaps and other similar financial products not be used for speculation but rather for interest rate risk management.

It should be noted that the NSLIJ System and the Obligated Group have historically followed debt and derivatives strategies that minimize certain risks to the organization. The result is a debt structure that limits interest rate risk and many of the risks inherent in most variable rate financing structures, such as auction risk, put or remarketing risk, renewal risk, etc. Other than the proposed variable rate demand note financing for the Series 2009B, C and D Bonds, the only underlying variable rate bonds that the Obligated Group has outstanding are the \$123 million Series 2007B (Floating Rate) Bonds. The interest rate on these bonds is a LIBOR based rate set by formula monthly. The bonds do not subject the Obligated Group to any auction, put or remarketing risk. The Series 2007B Bonds were swapped to fixed at the time of issuance. Also refer to “PART 1- Additional Indebtedness”.

Refer to “*Management’s Discussion and Analysis*” for further information on the swaps.

## **The NSLIJ System Risk Management and Insurance Program**

The NSLIJ System’s Risk Management Department oversees a vigorous Risk Management and Insurance Program that encompasses all the NSLIJ System Hospitals and Entities.

An active risk management program is utilized system-wide to identify and reduce risk. Potential risk is assessed and remediated on an ongoing basis in all areas. This is supported by input from the NSLIJ System’s insurers, insurance broker, and third party administrators. Management of risk is a high priority, and Risk Management works closely with numerous departments within the System to identify and reduce risk.

The Insurance Program is comprehensive and broad in scope. We utilize insurers that have been reviewed and recommended by our broker. Limits and coverage are reviewed on a routine basis.

Three of the basic components of the program are outlined below:

### **1 - Professional Liability Program**

The NSLIJ System maintains a Professional Liability Program that is comprised of insurance purchased in the commercial market and insurance through our wholly owned captive, Regional Insurance Company Ltd. Currently, primary coverage is purchased with limits of \$1 million per medical incident \$50 million annual aggregate. Excess insurance with total limits of \$51.5 million per incident is provided by Regional Insurance Company and commercial re-insurers. This program encompasses all the NSLIJ System Hospitals and Entities.

The program is reviewed twice a year by NSLIJ’s outside actuary.

NSLIJ also has established self-insured trust funds providing coverage for those hospitals for the years they did not purchase primary or excess medical malpractice insurance. The self-insurance fund liabilities have been actuarially determined and include provisions for losses, accumulated investment income, net of claims and expenses paid.

### **2 - Commercial General Liability Program**

The NSLIJ System maintains a fully insured program with primary and excess carriers. Currently the limits of insurance afforded are \$106 million per occurrence with a \$108 million annual aggregate. This program also encompasses all the NSLIJ System Hospitals and Entities.

### **3- Property Program**

Property Insurance is maintained with a current limit of \$1 billion per occurrence. Broad policy terms have been negotiated.



## **Investment Policy**

The Investment Committee of the Obligated Group monitors, in conjunction with investment consultants (who do not manage any investment of funds), the investment performance of, and provides the investment guidelines and investment policy for, the Obligated Group's operating, retirement (Cash Balance Plan and defined contribution plans), and endowment funds. The Investment Committee regularly reviews the asset allocation of these funds in relation to the cash flow requirement of the funds and reviews the performance of each professional investment manager compared against an appropriate benchmark index. The portfolios are structured to generate adequate yield while minimizing risk and volatility. In addition, the Investment Committee reviews the retirement funds annually for compliance with ERISA guidelines concerning investment options and rates of return. Independent firms manage the investment of all funds under the guidelines established by the Investment Committee.

In March 2009, the policy target allocation was revised for the operating funds to be 40% cash; 40% fixed income; 15% (+/-5) in a diversified composite of domestic equities, international equities and REITS; and 5% (+/-5) funds of hedge funds with low performance volatility and low correlation to the equity markets. Previously, the target asset allocation had been 20% cash; 40% fixed income; 30% in a diversified composite of domestic equities, international equities and REITS; and 10% funds of hedge funds with low performance volatility and low correlation to the equity markets.

The policy target asset allocation for the Cash Balance Plan is: 51% (+/- 5) in a diversified composite of domestic equities, international equities and REITS; 20% fixed income; 20% funds of hedge funds with low performance volatility and low correlation to the equity markets; 1% credit opportunities fund; 5% private equity secondary funds; and 3% cash. The policy target asset allocation for the endowment funds is 56% (+/- 5) in a diversified composite of domestic equities, international equities and REITS; 20% fixed income; 20% funds of hedge funds with low performance volatility and low correlation to the equity markets; 1% credit opportunities fund; and 3% private equity secondary funds.

For additional information, please see *Philanthropy* herein.

## **Future Plans**

In addition to the projects described herein and financed with a portion of the proceeds of the Series 2009A Bonds and Series 2009B, C and D Bonds, the Obligated Group Members have additional plans for the enhancement of their services, which plans are in various stages of design and implementation. These major projects include the renovation and expansion of various facilities and services, as well as the acquisition of additional equipment and software applications at each of the Obligated Group facilities.

The NSLIJ System including the Obligated Group currently anticipates continuing its commitment to high quality facilities with routine capital spending that approximates recent historical annual levels plus several major projects. The plan for new and replacement equipment, information technology and major capital projects aggregates approximately \$1.56 billion from 2009-2013 of which the Obligated Group's share is \$1.2 billion. These capital expenditures equate to 152% of Depreciation and \$312 million per year for the NSLIJ System and \$240 million per year for the Obligated Group. The foregoing projects include those projects being funded with proceeds of the Series 2009A Bonds and Series 2009B, C and D Bonds. It is anticipated that these capital investment needs will be funded approximately 55% from operations, 20% from donations and 25% from debt. In light of the current economic environment, management is carefully monitoring the commencement of projects.

The capital investment plan includes the NSLIJ System's implementation of an enterprise-wide, integrated clinical information system ("CIS") which is well underway. The CIS initiative will provide the tools to streamline workflows and integrate quality care delivery across the NSLIJ System. This

multi-year, phased project began in mid-2006 and will continue to 2013. Clinicians representing all sites within the NSLIJ System are involved in the design, testing and implementation.

The Obligated Group anticipates that a significant portion of the major projects will be funded with monies raised from a \$500 million capital campaign, which is currently in its third year. The scope and/or anticipated schedule of these planned Obligated Group projects will depend, in part, upon the timing and extent to which donations are received as well as the requisite regulatory approvals.

No new borrowings other than for the Series 2009A Bonds and Series 2009B, C and D Bonds are planned however the System may continue its practice of bridging donor projects with bank lines and utilizing leases primarily for equipment subject to rapidly changing technology and for facility needs in community settings. (See “*North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis*” herein for a discussion of annual capital expenditures and the funding sources of such annual capital expenditures.)

Management may explore certain tax-exempt and taxable financing opportunities in the future to the extent cash generated from operations is sufficient to support debt service thereon and such financings are permissible under the additional indebtedness restrictions set forth in the Master Trust Indenture. (See “*Appendix E-Summary of Certain Provisions of the Master Trust Indenture and the 2009 Supplemental Indentures*” for information regarding additional indebtedness.)

The full range of capital expenditures previously described will be made only if funds available from donations and cash generated from operations are sufficient to support such expenditures or the financing thereof. Management of the Members of the Obligated Group believes that current financial performance is sufficient to support the capital expenditures outlined herein.

## **Litigation**

Various claimants have asserted professional malpractice liability claims against the Members of the Obligated Group. The claims are in various stages of processing and some may ultimately be brought to trial. The outcome of these actions cannot be predicted with certainty by management or by counsel to the respective insurance companies handling such matters. It is the opinion of the management of each Member of the Obligated Group, based on prior experience, that adequate insurance and/or self-insurance reserves are maintained to provide for all significant professional malpractice liability losses which may arise.

Included among the pending malpractice liability claims are nine Federal court and two State court cases filed regarding surgery performed on patients suffering from Chiari malformation, which is a congenital malformation of the skull that can cause various neurological symptoms. Plaintiffs claim the named physicians and a Member of the Obligated Group were negligent in the care and treatment of the patients, and assert claims for large sums of monetary damages. These cases have been recently filed and served – the time to answer the complaints and/or move against the complaints has been extended until mid-September. Discovery has not commenced, and it is too early to provide a meaningful analysis of the claims; however the claims will be vigorously defended.

The Members of the Obligated Group are also defendants in various commercial and other actions. Although the outcome of any such claim or action, or any pending or threatened claim of which the Members have knowledge, cannot be currently determined, the Obligated Group’s management is of the opinion that the eventual liability there from, if any, will not have a material adverse effect on the financial position of the Obligated Group or on its ability to make required debt service payments.

Please also refer to “PART 9-RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP- Regulatory Reviews, Audits and Investigations”.

## Governance

NSLIJ HCI and each Member of the Obligated Group are separate New York not-for-profit corporations governed by a separate Board of Trustees. Notwithstanding the separate corporate organization of each Member of the Obligated Group, the individuals who comprise the Board of Trustees of NSLIJ HCI also comprise the Board of Trustees for each Member of the Obligated Group, as well as NSLIJ. In addition, the Chief Executive Officer of NSLIJ HCI and of each Member of the Obligated Group is an ex-officio member of the Board of Trustees of NSLIJ HCI and each Member of the Obligated Group, with voting powers. The trustees are divided into three (3) classes whose members serve for overlapping three-year terms.

### *The Boards of Trustees of NSLIJ, NSLIJ HCI and the Obligated Group Members*

The following is a list of the members of the Board of Trustees of NSLIJ, NSLIJ HCI and each Member of the Obligated Group, including their business affiliations/occupations, as of June 16, 2009.

| <u>Trustee Name</u>  | <u>Occupation</u>   |
|----------------------|---|
| Richard S. Abramson  | Senior Vice President and National Managing Director,<br>Bernstein Investment Research and Management |
| William Achenbaum    | Chairman/CEO, Gansevoort Hotel Group, WSA Management, Ltd.  |
| John Alexander       | Chairman/CEO, Northfield Bank   |
| Ira I. Altfeder      | President, Imperial-Harvard Label, Inc.   |
| Philip S. Althelm    | Executive Vice President, Five Star Electric Corp.  |
| Stanley A. Applebaum | Stanley A. Applebaum, Esq .   |
| Michael L. Ashner    | President/CEO, Winthrop Financial Associates  |
| Beverly VP. Banker   | Businesswoman   |
| Morton M. Bass       | President, Morton M. Bass, P.C.   |
| Frank J. Besignano   | Retired Businessman   |
| Patricia Bloomgarden | Businesswoman   |
| Eric S. Blumencranz  | Partner/Executive Vice President, BWD Group, LLC  |
| Roger A. Blumencranz | President, BWD Group, LLC   |
| David Blumenfeld     | Principal, Blumenfeld Development Group, LTD  |
| Edward Blumenfeld    | President, Blumenfeld Development Group, LTD  |
| E. Steve Braun       | Director, Colliers ABR, Inc.  |
| Dayton T. Brown, Jr. | Chairman, Dayton T. Brown, Inc.   |
| Mark Broxmeyer       | President, Fairfield Properties   |
| Allen E. Busching    | Partner, B&B Capital Corp.  |
| Rudolph C. Carryl    | CEO and Chief Investment Officer, Carryl Capital Management   |
| Robert W. Chasanoff  | Partner, Chasanoff Properties   |
| Alan Chopp           | Compliance Officer, Sentosa Care LLC  |
| Mark Claster         | President, Carl Marks & Co., Inc.   |
| Barry H. Cohen, MD   | Partner, North Shore Internal Medicine Associates, PC   |
| Diana F. Colgate     | Civic Leader  |
| Daniel C. de Roulet  | President, Patrina Corporation  |
| Lorinda de Roulet    | Retired Businesswoman   |
| Thomas E. Dooley     | Senior Executive Vice President, Chief Administrative Officer and<br>Chief Financial Officer, Viacom  |
| Michael J. Dowling   | President and CEO, North Shore-Long Island Jewish Health System                                       |
| Melvin Dubin         | Chairman of the Board, Slant/Fin Corp.  |
| Toni J. Elliott      | Managing Director Wealth Management and Branch Manager Citicorp<br>Center, Smith Barney Citigroup*    |
| Michael A. Epstein   | Partner, Weil, Gotshal & Manges, LLP  |
| Leonard Feinstein    | Co-Chairman, Bed, Bath & Beyond   |
| Michael E. Feldman   | Partner, Proskauer Rose LLP   |
| Anthony C. Ferreri   | President and CEO, Staten Island University Hospital  |

| <u>Trustee Name</u>      | <u>Occupation</u>  |
|--------------------------|--|
| Arlene Lane Fisher       | Retired Businesswoman  |
| Eugene B. Friedman, M.D. | Park Pediatrics, LLP   |
| Sy Garfinkel             | President, Sykel Enterprises Co., Inc.                                       |
| Anthony T. Giaccone      | Intermarket Insurance Agency, Inc.   |
| Lloyd M. Goldman         | President, BLDG Management Company   |
| Richard D. Goldstein     | Chairman and CEO, AEP Capital LLP  |
| J. Joaquin Gonzalez      | Senior Program Manager, The Port Authority of NY & NJ                        |
| Ann Gottlieb             | Civic Leader   |
| Albert L. Granger, DDS   | Endodontist, Albert L. Granger, DDS, PLLC                                    |
| Alan I. Greene           | Managing Director, Neuberger Berman LLC                                      |
| James R. Greene          | Director and Treasurer of the David and Alan Greene Family Foundation, Inc.  |
| Stanley Grey             | Retired Businessman  |
| Henry L. Hackmann        | Businessman  |
| Amy M. Hagedorn          | President, The Horace Hagedorn Foundation                                    |
| Stephen L. Hammerman     | Former Deputy Commissioner of Legal Matters, NYCPD                           |
| Ira Hazan                | Former President, Isaac Hazan & Company, Inc.                                |
| Gedale B. Horowitz       | Senior Managing Director, Citigroup*   |
| Richard A. Horowitz      | Chairman, P&F Industries, Inc.   |
| M. Allan Hyman           | Senior Partner, Certilman Balin Adler & Hyman                                |
| Mark Jacobson            | President, Grocery Hauler, Inc.  |
| Jeffrey Jurick           | CEO and President, The Jurick Group, Inc.                                    |
| Lyn Jurick               | Former Secretary/Treasurer, Fala Direct Marketing, Inc.                      |
| Arthur Kalish            | Attorney, retired from Paul, Weiss, Rifkind Wharton & Garrison               |
| Steven L. Kantor         | Managing Director, Credit Suisse First Boston                                |
| David M. Katz            | Partner, Sterling Equities, Inc.   |
| Michael Katz             | Executive Vice President, Sterling Equities, Inc.                            |
| Saul B. Katz             | President, Sterling Equities, Inc.   |
| Lisa A. Kaufman          | Businesswoman  |
| Robert Kaufman           | President, William Kaufman Organization LTD                                  |
| Cary Kravet              | President, Kravet Inc.   |
| Stanley Kreitman         | Chairman of the Board, Signature Bank  |
| Seth Kupferberg          | Principal, Kepco Inc.  |
| Jeffrey B. Lane          | Chief Executive, Modern Bank   |
| Curt N. Launer           | Managing Director, Sagent Advisors, Inc.                                     |
| Kevin F. Lawlor          | President and CEO, Huntington Hospital                                       |
| Michael S. Leeds         | Vice President, Sales and Marketing, Executive Fliteways, Inc.               |
| David W. Lehr            | David W. Lehr, Esq.  |
| Jonathan W. Leigh        | President, Long Island Hearing and Speech Society                            |
| Sylvia Lester            | Chairman, Patient Relations, North Shore University Hospital                 |
| Arthur S. Levine         | CEO, Tahari. Levine.LLC  |
| Stuart R. Levine         | Chairman and CEO, Stuart Levine & Associates, LLC                            |
| Seth Lipsay              | Managing Director, New World Realty Management, LLC                          |
| David S. Mack            | Senior Partner, The Mack Company   |
| William L. Mack          | Chairman and Founder, Area Property Partners and President, The Mack Company |
| Howard S. Maier          | President, Maier Ventures  |
| Bradley Marsh, D.P.M.    | Former Physician of Podiatry   |
| Jeffrey S. Maurer        | Partner/CEO Evercore Wealth Management LLC, former CEO U.S. Trust Company    |
| Ronald J. Mazzucco       | Ronald J. Mazzucco, Esq.   |
| F. J. McCarthy           | President, Site Selection Advisory Group, Inc.                               |
| Patrick F. McDermott     | Partner, McDermott & Thomas Associates                                       |

| <u>Trustee Name</u>      | <u>Occupation</u>  |
|--------------------------|--|
| Marilyn B. Monter        | Vice President, Holiday Organization, Inc. (On leave of absence from board.)                                 |
| Richard D. Monti         | Vice President, Crest Hollow Country Club  |
| Richard Murcott          | President and CEO, Murcott Merchandising   |
| Ralph A. Nappi           | President, North Shore-Long Island Jewish Health System Foundation   |
| Clyde I. Payne, Ed.D.    | Dean, School of Education, Dowling College   |
| Arnold S. Penner         | Arnold S. Penner Real Estate Investments   |
| John J. Raggio           | Vice President, Sealift Inc.   |
| Lewis S. Ranieri         | Chairman and CEO, Ranieri & Co., Inc.  |
| Jay R. Raubvogel         | Retired Businessman  |
| Angelo D. Reppucci, M.D. | Otolaryngology Facial Plastics LLP   |
| Corey Ribotsky           | Managing Member, The N.I.R. Group, LLC   |
| Dennis Riese             | Chairman and CEO, The Riese Organization   |
| Terry P. Rifkin, M.D.    | Great Neck Obstetrics & Gynecology, PC   |
| Gerald L. Roberts        | Special Consultant, Walter T. Gorman, P.E., P.C.   |
| Robert A. Rosen          | Chairman and CEO, Rosen Associates Management Corp.  |
| Alan S. Rosenberg, M.D.  | President, North Shore Cardiology and Internal Medicine Association  |
| Marcie Rosenberg         | Director of Development, Tilles Center for the Performing Arts<br>C.W. Post Campus of Long Island University |
| Robert D. Rosenthal      | Chairman and CEO, First Long Island Investors, LLC   |
| Bernard M. Rosof, M.D.   | President and CEO, Quality in Health Care Advisory Group LLC   |
| Jack J. Ross             | Managing Director, Waterfall Asset Management LLC  |
| Barry Rubenstein         | Managing Partner, Wheatley Partners  |
| Herbert Rubin            | President, Herzfeld & Rubin, P.C.  |
| Scott Rudolph            | Chairman and President, NBTY, Inc.   |
| Michael H. Sahn          | Senior Partner, Sahn Ward & Baker, PLLC  |
| Frank W. Scarangelo, Sr. | President, Scaran Oil Service Heating & Air Conditioning Co.   |
| Norman Schlanger         | Philanthropist, former New York Stock Exchange Member  |
| Irving Schneider         | Former Chairman and C.O.O., Helmsley-Spear, Inc.   |
| Lynn C. Schneider        | Retired Architect  |
| John M. Shall            | Partner, DeSantis, Kiefer & Shall, LLP   |
| Marc V. Shaw             | Senior Advisor to Governor Paterson, New York State Governor's Office  |
| Sean G. Simon            | Co-President, Ivy Asset Management Corporation   |
| Richard Sims             | Vice President, Scarlett   |
| Michael C. Slade         | Retired. Former Senior Vice President, NBTY, Inc.  |
| Phyllis Hill Slater      | President, Hill Slater Group   |
| Howard D. Stave          | Howard D. Stave, Esq.  |
| Edwin R. Stein           | Retired Attorney   |
| Russell Stern            | President, Norca Corporation   |
| Maganlal Sutaria, M.D.   | Chairman, Interpharm Holdings, Inc.  |
| John B. Thomson, Jr.     | President, Thomson Holdings LLC  |
| Peter Tilles             | Former General Manager, The Tilles Investment Co.  |
| Sandra Tytel             | Philanthropist – Civic Leader  |
| Gerard F. Vitale, M.D.   | Chief, Division of Vascular Surgery, Glen Cove Hospital  |
| Nancy Waldbaum           | Philanthropist   |
| Gary Walter              | President, Theo. Walter Co., Inc.  |
| Howard Weingrow          | President, Stanoff Corporation   |
| Lewis M. Weston          | Managing Partner and Founder, WG Trading Co., L.P.   |
| Barbara Hrbek Zucker     | President, The Donald and Barbara Zucker Family Foundation   |
| Donald Zucker            | Chairman of the Board, Donald Zucker Company   |
| Roy J. Zuckerberg        | Retired, Formerly Senior Director of Goldman Sachs Group, Inc.   |

\* Citigroup is an underwriter of the 2009 Fixed Rate Bonds and Series 2009B, C and D Bonds.

### ***Executive Committees of the Boards of Trustees***

Each of NSLIJ, NSLIJ HCI and each Member of the Obligated Group has an Executive Committee which exercises all of the authority of the respective Board of Trustees (except as limited by applicable law) between meetings of such Board. The Executive Committee meets monthly and the Board of Trustees meets four times a year, in addition to the annual meeting. The individuals who comprise the Executive Committee of the Board of NSLIJ also comprise the Executive Committee of the Board of NSLIJ HCI and of each Member of the Obligated Group. The Chief Executive Officer of NSLIJ, NSLIJ HCI and of each Member of the Obligated Group is an ex-officio voting member of the Executive Committee of the Board of each such corporation. The Executive Committee of the Board of each such corporation consists of the following persons:

|                      |                        |                        |
|----------------------|------------------------|------------------------|
| Richard S. Abramson  | Gedale B. Horowitz     | F.J. McCarthy          |
| Roger A. Blumencranz | Arthur Kalish          | Patrick F. McDermott   |
| Mark Claster         | Saul B. Katz, Chairman | Ralph A. Nappi         |
| Michael J. Dowling   | Cary Kravet            | Robert D. Rosenthal    |
| Michael A. Epstein   | Jeffrey B. Lane        | Bernard M. Rosof, M.D. |
| Lloyd M. Goldman     | Seth Lipsay            | Barry Rubenstein       |
| Richard D. Goldstein | William L. Mack        | Donald Zucker          |
| Amy M. Hagedorn      | Ronald J. Mazzucco     | Roy J. Zuckerberg      |

The corporate officers of NSLIJ, NSLIJ HCI and the Members of the Obligated Group are:

|                         |  |
|-------------------------|--|
| Saul B. Katz            | Chairman of the Board of Trustees                              |
| Michael J. Dowling      | President and Chief Executive Officer                          |
| Richard D. Goldstein    | Chairman-Elect   |
| William L. Mack         | Vice Chairman  |
| Barry Rubenstein        | Vice Chairman  |
| Alan I. Greene          | Treasurer  |
| Donald Zucker           | Secretary  |
| Kathleen Gallo, Ph.D.   | Senior Vice President and Chief Learning Officer               |
| Howard B. Gold          | Senior Vice President, Managed Care and Business Development   |
| Jeffrey A. Kraut        | Senior Vice President, Strategic Planning and Marketing        |
| Robert S. Shapiro       | Senior Vice President and Chief Financial Officer              |
| Lawrence G. Smith, M.D. | Senior Vice President and Chief Medical Officer                |
| Mark J. Solazzo         | Senior Vice President and Chief Operating Officer              |
| Eugene S. Tangney       | Senior Vice President and Chief Administrative Officer         |
| Keith C. Thompson       | Senior Vice President, General Counsel and Assistant Secretary |
| Harry E. Gindi          | Assistant Secretary  |

### **Board Chair**

**Saul B. Katz**, *Chairman of the Board of Trustees of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Mr. Katz is the Co-Founder, President and Chief Operating Officer of Sterling Equities, Inc. in Great Neck, New York. He was elected President of the New York METS in August of 2002 after being a shareholder since 1980 and after serving on the Board of Directors since 1986. Mr. Katz is also the President and a partner of the Brooklyn Baseball Company, which owns the Brooklyn Cyclones. Mr. Katz serves on the boards of the Brooklyn College Foundation and the Jewish Association for the Services of the Aged and is the Chairman of the Real Estate Committee of the UJA. Mr. Katz also sits on the Board of Renewable Environmental Solutions, a partnership of Changing World Technologies and ConAgra foods that is focused on turning agricultural waste into fuel. As the first Chairman of NSLIJ following the 1997 merger of the North Shore Health System and Long Island Jewish Medical Center, he chaired the board for four years until 2000. Mr. Katz was recognized as the 15<sup>th</sup> Most Influential Long Islander in the April 16, 2009 *Long Island Press 7<sup>th</sup> Annual Power List Edition* of “The 50 Most

Influential Long Islanders of 2009". He is a Certified Public Accountant and graduated from Brooklyn College.

### **Executive Staff**

**Michael J. Dowling**, *President, Chief Executive Officer and Board Member of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Since January 2002, Mr. Dowling has been President and Chief Executive Officer of NSLIJ, NSLIJ HCI and of each Member of the Obligated Group. Prior to his appointment as President and Chief Executive Officer, Mr. Dowling served as NSLIJ's Executive Vice President and Chief Operating Officer from October 1997 to January 2002, overseeing development, planning and operations following the merger of North Shore Health System ("NSHS") and LIJMC. Prior to his appointment as Executive Vice President and Chief Operating Officer, Mr. Dowling served as Senior Vice President of Hospital Services at NSHS from July 1995 to October 1997.

Prior to joining NSHS in 1995, Mr. Dowling was a Senior Vice President at Empire Blue Cross/Blue Shield from January 1995 to July 1995. Mr. Dowling served in New York State government for 12 years, including seven years as chief advisor to former New York State Governor Mario Cuomo. From July 1993 to December 1994, Mr. Dowling was Commissioner of Social Services for the State of New York. Prior to his appointment as social services commissioner, he was Director of Health, Education and Human Services for the State of New York. In that capacity, he had direct operating responsibility for state agencies that accounted for 70 percent of the state budget, including the Departments of Health, Social Services, Mental Health, Substance Abuse, Education, Aging, Mental Retardation, Youth, Insurance and Veterans Affairs. Prior to commencing his service with the State in 1983, Mr. Dowling was a professor of Social Policy and Assistant Dean of the Fordham University Graduate School of Social Services. He was also the Director of the Westchester campus of Fordham University in Tarrytown, New York. In the fall of 2006, Mr. Dowling served on the healthcare advisory team of Governor-Elect Spitzer's transition team.

Mr. Dowling is past Chairman of the Greater New York Hospital Association, the Healthcare Association of New York State ("HANYS") and the League of Voluntary Hospitals and Homes of New York. He is currently Chairman of the National Center for Healthcare Leadership ("NCHL"). He is also a member of the Board of Directors of the Harvard University Trust Symposium Steering Committee, the Long Island Association Board of Directors, the Adelphi University President's Advisory Council, the Biomedical Research Alliance of New York Board, the Holocaust Center of Nassau County and the North America Board of the Smurfit School of Business at University College Dublin, Ireland. He is also an instructor at the Center for Continuing Professional Education at the Harvard School of Public Health.

In the August 24, 2009 issue of *Modern Healthcare*, Mr. Dowling was recognized as 61<sup>st</sup> in the annual "100 Most Powerful People in Healthcare" national recognition survey. Mr. Dowling ranked higher on the Top 100 than any other New York-based hospital executive. Mr. Dowling was also named one of the Ten Most Influential Leaders on Long Island in the December 19, 2008 issue of *Long Island Business News*. Most recently, Mr. Dowling was recognized as the 30<sup>th</sup> Most Influential Long Islander in the April 16, 2009 issue of the *Long Island Press 7<sup>th</sup> Annual Power List Edition* of "The 50 Most Influential Long Islanders of 2009".

Mr. Dowling earned his undergraduate degree from University College in Cork, Ireland and his Master's Degree from Fordham University. He also has an Honorary Doctorate from Hofstra University.

**Lawrence G. Smith, MD**, *Senior Vice President and Chief Medical Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group as well as Dean of Hofstra University School of Medicine which is in partnership with the NSLIJ System.* Dr. Smith joined NSLIJ in May 2005 as Chief Academic Officer and Senior Vice President of Academic Affairs to oversee NSLIJ's graduate medical education and medical student education programs, as well as academic faculty appointments. He was appointed Senior Vice President and Chief Medical Officer in September 2006. As Chief Medical Officer, Dr.

Smith is NSLIJ's senior physician with administrative oversight for all clinical programs, faculty practice, department chairs, quality management and The Feinstein Institute for NSLIJ.

In March 2008 Dr. Smith was appointed to be also the founding dean of the Hofstra University School of Medicine being developed in partnership with the NSLIJ System. As the medical school's first dean, Dr. Smith is working closely with academic leaders in shaping the educational framework at the school-including the development of a curriculum and the selection of faculty-and moving the accreditation process forward. Dr. Kenneth Abrams, SVP of Clinical Operations and Associate Chief Medical Officer, assists Dr. Smith so Dr. Smith can balance his activities as chief medical officer and dean of the medical school.

Prior to assuming his position at NSLIJ, Dr. Smith served at Mount Sinai School of Medicine in Manhattan as dean and chairman of medical education, director of Mount Sinai's Institute for Medical Education, professor of medicine and an attending physician. Prior to joining Mount Sinai in 1994, Dr. Smith served as SUNY Stony Brook's director of education and clinical affairs for the department of medicine, a senior attending physician at Stony Brook University Hospital and program director of the hospital's Internal Medicine Residency Program. He earned his medical degree from NYU School of Medicine, along with a Bachelor of Science degree in physics from Fordham University. He participated in the Harvard Macy Institute's Program for Leaders in Medical Education and the Stanford Faculty Development Program for medical Educators in the area of medical decision making. He is on the Board of Directors of the American Board of Internal Medicine, a Regent of the American College of Physicians, a former president of the Association of Program Directors in Internal Medicine, and is affiliated with numerous professional and scientific societies.

**Mark J. Solazzo**, *Senior Vice President and Chief Operating Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Mr. Solazzo has overall responsibility for operational objectives and scope of services necessary for the delivery of high quality medical care. He is responsible for the operational management of the tertiary, community, and specialty hospitals of the NSLIJ System. In addition, Mr. Solazzo is responsible for managing the NSLIJ System's two nursing homes and the health care related businesses. Prior to holding his present position, Mr. Solazzo was Senior Vice President and Chief of Staff from 1999. Before joining the health system, he held a number of senior level positions working on health and social services issues in the New York State Department of Social Services, where he worked for 15 years. He was responsible for the New York State's Child Assistance Program, which earned Harvard University's Innovations in Government award. He is a member of the American College of Health Care Executives. He earned an undergraduate degree from Fordham University, and a master's degree in business administration, with a specialization in health systems management, from Union College in Schenectady, NY.

**Robert S. Shapiro**, *Senior Vice President and Chief Financial Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* In his current capacity, which he has held since August 2000, Mr. Shapiro has overall responsibility for the treasury, financial and strategic planning, and financial reporting functions. He also serves as the administrative contact for several committees of the Board of Trustees. Prior to holding his present position, Mr. Shapiro has held the positions of Vice President Financial Operations and Director of Finance/Assistant Administrator since joining North Shore Health System in 1984. Mr. Shapiro received his Bachelor of Science degree from the State University of New York at Binghamton in 1975. Mr. Shapiro began his career as a Senior Accountant with Blue Cross and Blue Shield of Greater New York from 1976 to 1978. In 1978, he was a supervisor with Touche Ross & Company, before being appointed Assistant Director of Finance at Maimonides Medical Center in 1981. Mr. Shapiro is a Certified Public Accountant and a Fellow of the Healthcare Financial Management Association.

**Keith C. Thompson**, *Senior Vice President, General Counsel and Assistant Secretary of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Mr. Thompson joined NSLIJ in 1999. Mr. Thompson, a member of the New York and Washington, D.C. Bars, received his undergraduate degree from the University of Illinois, and law and business degrees from the University of Pennsylvania and



Harvard University, respectively. After being associated with the law firm of White & Case in New York and in Washington, D.C., he was a Senior Vice President of Nabisco Brands, Inc. before joining The New York Hospital in 1988 as Senior Vice President and General Counsel. After the merger of New York Hospital and The Presbyterian Hospital in 1997, he became a Senior Vice President of the merged New York Presbyterian Hospital and, prior to joining NSLIJ, he also served as General Counsel of the New York Presbyterian Healthcare Network.

**Eugene Tangney**, *Senior Vice President, Chief Administrative Officer and Administrative Chief of Staff to the President and Chief Executive Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Effective September 1, 2007, Mr. Tangney became senior vice president and chief administrative officer. Mr. Tangney has strategic, operational, and financial oversight of a number of the NSLIJ System departments including procurement, facility management, information technology, real estate services, and government affairs. He also continues to serve as Administrative Chief of Staff to the President and Chief Executive Officer. In his most recent prior position as Vice President and Administrative Chief of Staff, which he held from February 2005 to September 2007, Mr. Tangney provided administrative support to the CEO; ensured development and execution of the NSLIJ System's strategic objectives; assisted the CEO with the organizational development of the senior management team; and acted as an external liaison to the public, private and government sectors. Prior to that from November 1997 to February 2005, Mr. Tangney served as Vice President of Health System Operations and Administrative Director for The Center for Emergency Medical Services ("CEMS").

Before coming to NSLIJ in November 1997, he was employed by Catholic Medical Center's Mary Immaculate Hospital where he managed the pre-hospital care services division and several other support service departments within the medical center. Mr. Tangney currently serves on the United States Department of Health and Human Services Healthcare Systems Preparedness Advisory Group and NY-2 Disaster Medical Assistance Team. Mr. Tangney was recently elected to the American Hospital Association Regional Policy Board # 2 and serves on the Community Advisory Board of the Long Island Blood Services. Mr. Tangney received a bachelor's degree in healthcare administration from Long Island University and completed both The Results Based Leadership Program and Cycle of Leadership Program at the University of Michigan's Ross School of Business.

**Kathleen Gallo, R.N., Ph. D., M.B.A.** *Senior Vice President and Chief Learning Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Dr. Gallo is responsible for leadership development throughout the organization, the creation and implementation of a comprehensive learning strategy, and the development of a new human resources architecture that transforms the role of human resources into a strategic business partner. Within the NSLIJ System, Dr. Gallo has served as System Director for Emergency Medicine and Vice President for Emergency Medical Services. She has more than 25 years experience in emergency nursing, having held a variety of clinical and administrative positions in tertiary care hospitals on Long Island. Dr. Gallo was an examiner for the Malcolm Baldrige Quality Award Program from 2003 through 2005. She is currently Chair of the Dean's Advisory Committee, School of Nursing, State University of New York at Stony Brook. She is a member of the Advisory Council of Research and Continuous Improvement, the National Center for Healthcare Leadership, HANYS Statewide Human Resource Advisory Council, Chief Learning Officer Magazine Editorial Advisory Board, Health Care Executive Forum, Faculty, Strategic HR Leadership Program, Institute for Transformational Leadership in Healthcare, NCHL, University of Pennsylvania (Wharton and The Graduate School of Education) Executive Program in Work-Based Learning Leadership Advisory Board, and a member of the National Institute for Healthcare Leadership. She has held several regional and national seats for emergency medical services and emergency nursing and has authored articles on trauma, nursing research and Leadership Development.

Dr. Gallo received her BSN at Regents College, University of the State of New York, an MS in Nursing degree from the State University of New York at Stony Brook, a Ph.D. in Nursing from Adelphi University in Garden City, New York and a Masters in Business Administration also from Adelphi University. Dr. Gallo was inducted into the 2005 Hall of Fame at Adelphi University School of Nursing,

received the 2005 Distinguished Alumni Award from State University of New York at Stony Brook, is included in the 2005-2006 Empire Who's Who of Executives and Professionals and was designated Professional of the Year (2007 – 2008) by Cambridge Who's Who.

**Howard B. Gold**, *Senior Vice President Managed Care and Business Development of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group*. Mr. Gold earned a bachelor's degree from SUNY at Buffalo in 1973 and an MA from the Graduate Faculty, New School for Social Research. He joined NSLIJ as Senior Vice President in 1995. Prior to that, he was Vice President - Vice Provost for Strategic Planning at the New York Hospital - Cornell Medical Center. From 1991 to 1993, Mr. Gold was the Executive Director of the State of New York's Health Care Advisory Board. Beginning in 1978, Mr. Gold held increasingly responsible positions in the New York State Office of Mental Retardation and Development Disabilities leaving in 1991, after serving as the Deputy Commissioner, Office of Policy and Planning.

**Jeffrey A. Kraut**, *Senior Vice President for Strategic Planning and Marketing of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group*. Mr. Kraut is responsible for coordinating the planning, marketing and web-related activities of the strategic business units of the NSLIJ System, as well as the development of its network of providers through mergers, acquisition, or affiliated relationships. He is also responsible for planning the development of the new medical school in partnership with Hofstra University and serves as Associate Dean for Strategy Planning in the School of Medicine. Prior to the merger of NSHS and LIJMC, Mr. Kraut served as the LIJMC Vice President for Strategic Planning. Mr. Kraut joined LIJMC in 1994.

Mr. Kraut was formerly the Vice President for Planning and Policy at the State University of New York Health Sciences Center at Brooklyn (Downstate Medical Center) and served as a manager of the Health Care Strategy Development Group at KPMG Peat Marwick and as Vice President at RMR Health Management Consultants, Inc.

He was appointed as a member of the NYS Hospital Review and Planning Council, (which oversees the health planning, regulatory and Certificate of Need activities in New York State), in 2004 and elevated to Chair by the NYS governor in 2007.

Mr. Kraut is an active leader in many regional planning initiatives; in 2008 he was appointed to the Long Island Regional Planning Council and is chairman of the Long Island Patient Information Exchange (LIPIX), a subgroup of the Regional Health Information Organization (RHIO). He serves on the Board of Directors of the Nassau-Suffolk Hospital Council, Sustainable Long Island, and is a member of the Board of Advisors of Erase Racism. Mr. Kraut is an active member of the *Long Island Index* which produces an indicator report which stimulates regional solutions for the future of Long Island and *Vital Signs*, a report of the health and social status of Long Island published by Adelphi University. Mr. Kraut was the past president of the New York Society for Health Planning from 1993 to 1994.

Mr. Kraut received a Master of Business Administration from the Baruch College - Mount Sinai School of Medicine of the City University of New York where he served as an Adjunct Lecturer. He received his Bachelor of Arts degree from the State University of New York at Stony Brook.

**Ralph A. Nappi**, *President of NSLIJ Foundation and board member NSLIJ HCI, NSLIJ and of each Member of the Obligated Group*. Mr. Nappi has been associated with NSUH for more than three decades. He is a former Chairman of the Board of Trustees of NSUH. In addition to being a member of the Executive Committee of the Board of Trustees of the NSLIJ System, Mr. Nappi is Chairman of The Feinstein Institute. Mr. Nappi serves on the Board of Directors of Variety Children's Lifeline. He is Vice Chair of the Volunteer Trustees of Not-for-Profit Hospitals. Mr. Nappi is a former member of the Board of Governors of Healthcare Trustees of New York State, Board of Overseers of Cornell University Medical College and the Board of Directors of the Nassau-Suffolk Health Systems Agency. He was a founding Director of the Don Monti Memorial Research Foundation. In addition, Mr. Nappi is a past Chairman of the Institute for Student Achievement, the Nassau County HIV Commission, and Vice

Chairman of the Ryan White Planning Council. Mr. Nappi is a graduate of Hofstra University and Brooklyn Law School. From 1959 through 1990, he was actively involved in the practice of law.

**Kenneth J. Abrams, MD**, *Senior Vice President of Clinical Operations and Associate Chief Medical Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Dr. Abrams joined NSLIJ in 2008 as Senior Vice President of Clinical Operations. Dr. Abrams is responsible for both quality and patient safety initiatives across the NSLIJ System's facilities. These responsibilities include coordinating clinical operations to better manage patient care and establishing consistent treatment protocols and billing guidelines. Dr. Abrams also serves as the NSLIJ System's Associate Chief Medical Officer, which allows Dr. Smith to balance his activities as chief medical officer of the NSLIJ System and dean of the medical school that NSLIJ is developing in partnership with Hofstra University.

Board certified in anesthesiology, Dr. Abrams was previously the patient safety officer and chairman for anesthesiology and perioperative medicine at AtlantiCare Regional Medical Center in Pomona, NJ. Dr. Abrams has held numerous academic appointments; most recently he was associate professor of anesthesiology at Mount Sinai School of Medicine. A graduate of Tel Aviv University's Sackler School of Medicine in Israel, Dr. Abrams completed the residency training program in anesthesiology at the Albert Einstein College of Medicine/Montefiore Medical Center in the Bronx. He also received his MBA from the Zicklin School of Business at Baruch College in New York.

In addition, Dr. Abrams has authored a number of publications and book chapters, and has lectured and presented at several hospitals, clinical forums and conferences. Currently, he serves as an adjunct member of the Committee on Communications with the American Society of Anesthesiologists and is a member of the Training and Education Committee of the Anesthesia Patient Safety Foundation. Previously, he served on the Board of Directors of the New York State Society of Anesthesiologists.

**Joseph Cabral**, *Senior Vice President and Chief Human Resources Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Mr. Cabral is responsible for partnering with the NSLIJ System leadership to translate the organization's strategic and operating plans into action through its workforce. He heads all Human Resources ("HR") functions, develops and executes innovative strategies for the NSLIJ System's total workforce. HR's mission is to attract, develop and retain exceptional talent by providing the knowledge, resources and work environment that are necessary for optimal performance. Mr. Cabral has more than 15 years of experience creating and implementing methodologies that enhance cultural and organizational change. Prior to joining the NSLIJ System in 2004, Mr. Cabral was the Corporate Director of Human Resources at New York Presbyterian Hospital until 2004 and was head of Employment and Diversity at Children's Hospital in Boston until 2002. He has been cited by *Time*, *Monster.com*, *HR Magazine*, and other industry publications for his expertise in HR best practices. Mr. Cabral received his Bachelor of Arts degree in Human Services Management from the University of Massachusetts and his Masters of Science degree in Quality Systems Management from The National Graduate School in Massachusetts. He was an adjunct professor in HR Management at the University of Massachusetts. He also served as a Baldrige Examiner and currently serves as a trustee for the 1199SEIU National Benefits Fund, the fourth largest Taft-Hartley pension plan in the country.

**Greg S. Radinsky**, *Chief Corporate Compliance Officer of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group.* Mr. Radinsky joined NSLIJ as the Chief Corporate Compliance Officer in 2007. Mr. Radinsky began his career as a healthcare fraud and abuse attorney for the Office of Inspector General for the United States Department of Health and Human Services. In 2002, he joined Medtronic and worked in various legal, compliance and business positions. Immediately prior to joining NSLIJ, Mr. Radinsky served as Vice President and Assistant General Counsel for Broadlane Inc., a leading healthcare procurement company. He also served as a Vice Chair to the Healthcare Group Purchasing Industry Initiative, an organization dedicated to promote and monitor best ethical business practices in the healthcare group purchasing industry. Mr. Radinsky, a member of the Washington, D.C. and Missouri Bars, received his undergraduate degree from Tufts University, *magna cum laude*, his law

degree from the Saint Louis University School of Law, *magna cum laude*, and his business degree from the Kellogg School of Management.

**Maureen T. White**, *Senior Vice President-Chief Nurse Executive of NSLIJ HCI, NSLIJ and of each Member of the Obligated Group*. Ms. White has held her current position since April 1999. Prior to her current position, Ms. White was Vice President for Patient Care Services of NSUH from 1998-April 1999 and LIJMC from 1996 to April 1999. Prior to 1996, Ms. White held the following positions at LIJMC: Associate Director - LIJ Hospital; Administrator for Patient Care Services - Finance and Systems; Assistant Administrator for Nursing - Finance and Systems; Nursing Care Coordinator - Intensive Care and Open Heart Surgery Units; Assistant Nursing Care Coordinator - Intensive Care and Open Heart Surgery Units; and Registered Nurse - Intensive Care and Open Heart Surgery Units. Prior to joining LIJMC, Ms. White was In-service Coordinator - Intensive Care and Coronary Care Units at Good Samaritan Hospital in West Islip, New York from 1976-1977. Ms. White received a Bachelor of Arts degree and a Bachelor of Science degree in Nursing from Molloy College and an MBA from Fordham University.

## Utilization Statistics for North Shore-Long Island Jewish Obligated Group

|   | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|---|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|   | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>                           |                                       |             |             |                                  |             |
| Discharges (excl. Nursery) (1)                    | 135,809                               | 136,494     | 138,708     | 69,441                           | 71,605      |
| Patient Days (excl. Nursery) (2)                  | 886,134                               | 880,252     | 877,061     | 442,212                          | 444,736     |
| Average Length of Stay (in Days) (2)              | 6.52                                  | 6.45        | 6.32        | 6.37                             | 6.21        |
| Average Daily Census                              | 2,428                                 | 2,412       | 2,396       | 2,430                            | 2,457       |
| Licensed Beds (excl. Nursery)                     | 2,783                                 | 2,824       | 2,826       | 2,826                            | 2,832       |
| Beds Available (3)                                | 2,551                                 | 2,583       | 2,548       | 2,548                            | 2,615       |
| Percentage of Occupancy (3)                       | 95.0%                                 | 93.9%       | 93.8%       | 94.9%                            | 94.6%       |
| <br>  |                                       |             |             |                                  |             |
| Normal Newborn Discharges                         | 12,955                                | 13,218      | 13,199      | 6,512                            | 6,694       |
| Total Discharges (1)                              | 148,764                               | 149,712     | 151,907     | 75,953                           | 78,299      |
| <br>  |                                       |             |             |                                  |             |
| <b><u>Outpatient</u></b>                          |                                       |             |             |                                  |             |
| Emergency Room Visits (4)                         | 150,614                               | 157,668     | 166,489     | 81,688                           | 102,805     |
| Emergency Room Admissions                         | 77,689                                | 80,340      | 82,985      | 41,580                           | 44,056      |
| Total ER Encounters (4)                           | 228,303                               | 238,008     | 249,474     | 123,268                          | 146,861     |
| Clinic Visits (incl. psychiatry day hospital) (5) | 351,498                               | 322,412     | 307,892     | 157,184                          | 150,096     |
| Ambulatory Surgery Visits                         | 70,305                                | 69,940      | 69,300      | 34,861                           | 34,305      |
| Other Outpatient Visits and Encounters (6)        | 357,495                               | 412,055     | 432,478     | 214,427                          | 220,016     |

- (1) Increase in Discharges in 2009 primarily due to two hospitals within the LIJMC and FHH service areas closing in February 2009. As a result, these hospitals are providing services to the patients from the communities previously serviced by the closed providers.
- (2) Average Length of Stay improvements due to management initiatives.
- (3) Beds available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Emergency Room Visits and Encounters increased due to the opening of four additional emergency room beds in July 2008 at LIJMC, physician recruitment efforts at LIJMC and management initiatives to improve Emergency Room throughput at LIJMC. Additionally, volume increased in 2009 as a result of the closure in February 2009 of two hospitals within the service areas of NSUH-M, FHH and LIJMC and a novel H1N1 flu virus outbreak in the second quarter of 2009.
- (5) Clinic Visits declined due to the closure of the LIJMC Queens Day Center in 2006 and GCH's methadone substance abuse drug treatment program in September 2007 for cost savings. In 2008 NSUH-M transitioned mental health related services to LIJMC and other appropriate care providers in the community.
- (6) In April 2006, NSUH-M moved ambulatory chemotherapy services previously provided in the hospital to the Monter Cancer Center at CFAM located across from LIJMC. In July 2006, a 15,700 square-foot diagnostic imaging center specializing in outpatient services was opened at CFAM. In February 2007, a breast imaging center was opened at CFAM to consolidate breast imaging services previously offered by NSUH-M and LIJMC at two separate outpatient locations. Also contributing to the growth were PVH's new Hyperbaric Wound Program that began in June 2007 and expansion of their interventional radiology program. 2006 volume is not comparable to 2007 and subsequent years because in 2006: a) at NSUH-M visits instead of procedures were tabulated for particular services; and b) LIJMC radiology visits were counted in Faculty Practice and in subsequent years LIJMC radiology visits were included in Other Outpatient Visits and Encounters.

*Source: NSLIJ Finance Department*

## Payer Mix for North Shore-Long Island Jewish Obligated Group

### Percent of Gross Revenue (Inpatient and Outpatient)

|                    | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                    | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| Medicare*          | 44%                                   | 43%         | 42%         | 42%                              | 41%         |
| Medicaid           | 12%                                   | 13%         | 13%         | 13%                              | 13%         |
| Commercial         | 38%                                   | 39%         | 39%         | 39%                              | 39%         |
| Self Pay and Other | 6%                                    | 5%          | 6%          | 6%                               | 7%          |
| Total              | 100%                                  | 100%        | 100%        | 100%                             | 100%        |

\* Includes Medicare managed care.

*Source: NSLIJ Finance Department*

### Combined Statements of Operations

The following Combined Statements of Operations of the Obligated Group for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited interim combined financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The 2007 and 2008 data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein.

Certain 2006 amounts in the Combined Statements of Operations have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such reclassifications include: 1) the separate presentation of the \$1.4 million Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously included in the Change in Net Unrealized Gains and Losses; and 2) the reclassification of certain \$10.6 million physician practice revenue previously reported in Other Operating Revenue. In addition, \$41.8 million Investment Income, the \$20.9 million Change in Net Unrealized Gains and Losses and the \$1.4 million Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments were reclassified from Operating Revenue to Non-Operating Gains and Losses.

Certain 2007 amounts in the Combined Statements of Operations have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such reclassifications include: 1) the reclassification of certain \$10.3 million physician practice revenue previously reported in Other Operating Revenue; and 2) the separate presentation of the (\$4.7 million) Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously reported in the Change in Net Unrealized Gains and Losses.

**North Shore - Long Island Jewish Obligated Group  
Combined Statements of Operations**

(In Thousands)

|  | <b>Audited</b>                 |                  |                    | <b>Unaudited</b>                 |                  |
|--|--------------------------------|------------------|--------------------|----------------------------------|------------------|
|  | <b>Year Ended December 31,</b> |                  |                    | <b>Six Months Ended June 30,</b> |                  |
|  | <b>2006</b>                    | <b>2007</b>      | <b>2008</b>        | <b>2008</b>                      | <b>2009</b>      |
| Operating revenue:   |                                |                  |                    |                                  |                  |
| Net patient service revenue – hospital and nursing facilities                              | \$2,319,404                    | \$2,441,916      | \$2,608,519        | \$1,274,687                      | \$1,381,690      |
| Physician practice revenue   | 297,327                        | 296,182          | 329,768            | 153,536                          | 190,345          |
| Other operating revenue  | 44,082                         | 48,200           | 51,486             | 25,164                           | 29,203           |
| Net assets released from restrictions used for operations                                  | 54,826                         | 51,060           | 44,953             | 25,883                           | 16,980           |
| Total operating revenue  | <u>2,715,639</u>               | <u>2,837,358</u> | <u>3,034,726</u>   | <u>1,479,270</u>                 | <u>1,618,218</u> |
| Operating expenses:  |                                |                  |                    |                                  |                  |
| Salaries   | 1,250,935                      | 1,340,762        | 1,412,324          | 698,917                          | 755,552          |
| Employee benefits  | 346,756                        | 355,296          | 381,111            | 192,589                          | 212,237          |
| Supplies and expenses  | 855,087                        | 932,570          | 1,019,564          | 466,731                          | 507,037          |
| Bad debt expense   | 101,009                        | 50,281           | 54,129             | 26,385                           | 31,300           |
| Depreciation and amortization  | 99,458                         | 98,420           | 102,688            | 52,046                           | 54,248           |
| Interest   | 37,661                         | 36,611           | 34,053             | 17,230                           | 18,886           |
| Total operating expenses   | <u>2,690,906</u>               | <u>2,813,940</u> | <u>3,003,869</u>   | <u>1,453,898</u>                 | <u>1,579,260</u> |
| Excess of operating revenue over operating expenses  | 24,733                         | 23,418           | 30,857             | 25,372                           | 38,958           |
| Non-operating gains and losses:  |                                |                  |                    |                                  |                  |
| Contributions, net of fundraising activities   | 66                             | 3,456            | 493                | 266                              | 49               |
| Investment income (losses)   | 41,849                         | 60,446           | (10,669)           | 9,902                            | 6,176            |
| Change in net unrealized gains and losses  | 20,877                         | (14,486)         | (105,049)          | (28,341)                         | 29,190           |
| Change in fair value of interest rate swap agreements designated as derivative instruments | 1,421                          | (4,696)          | (14,436)           | (274)                            | 9,046            |
| Loss on refinancing and refunding of long-term debt  | –                              | (8,815)          | –                  | –                                | –                |
| Total non-operating gains and losses   | <u>64,213</u>                  | <u>35,905</u>    | <u>(129,661)</u>   | <u>(18,447)</u>                  | <u>44,461</u>    |
| Excess (deficiency) of revenue and gains and losses over expenses                          | <u>\$ 88,946</u>               | <u>\$ 59,323</u> | <u>\$ (98,804)</u> | <u>\$ 6,925</u>                  | <u>\$ 83,419</u> |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

## **Combined Statements of Financial Position**

The following Combined Statements of Financial Position of the Obligated Group as of December 31, 2006, 2007 and 2008 have been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data as of June 30, 2009 is derived from the unaudited interim combined financial statements. The unaudited interim combined financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of its financial position. The 2007 and 2008 data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein. The June 30, 2009 data should be read in conjunction with the unaudited interim combined financial statements’ related notes and other financial information included as Appendix B-2 to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein.



**North Shore - Long Island Jewish Obligated Group**  
**Combined Statements of Financial Position**

(In Thousands)

|  | <b>Audited<br/>December 31,<br/>2006</b> | <b>Audited<br/>December 31,<br/>2007</b> | <b>Audited<br/>December 31,<br/>2008</b> | <b>Unaudited<br/>June 30,<br/>2009</b> |
|--|--|--|--|--|
| <b>Assets</b>  |  |  |  |  |
| Current assets:  |  |  |  |  |
| Cash and cash equivalents  | \$106,317                                | \$128,041                                | \$178,900                                | \$284,072                              |
| Marketable securities and other investments  | 418,975                                  | 454,945                                  | 433,271                                  | 517,554                                |
| Accounts receivable for services to patients –<br>hospital and nursing facilities, net of<br>allowance for doubtful accounts | 231,609                                  | 243,581                                  | 262,476                                  | 276,884                                |
| Accounts receivable for physician practice<br>services, net  | 35,446                                   | 32,403                                   | 30,894                                   | 37,073                                 |
| Assets limited as to use, current portion  | 35,352                                   | 27,394                                   | 92,812                                   | 27,872                                 |
| Other current assets   | 60,099                                   | 53,686                                   | 61,178                                   | 71,742                                 |
| <b>Total current assets</b>  | <b>887,798</b>                           | <b>940,050</b>                           | <b>1,059,531</b>                         | <b>1,215,197</b>                       |
| Due from affiliates, net   | 31,388                                   | 49,246                                   | 78,916                                   | 65,354                                 |
| Assets limited as to use, net of current portion   | 243,997                                  | 318,491                                  | 232,992                                  | 224,939                                |
| Property, plant and equipment, net   | 845,189                                  | 946,390                                  | 1,065,357                                | 1,061,661                              |
| Other assets   | 75,208                                   | 70,058                                   | 38,902                                   | 38,266                                 |
| <b>Total assets</b>  | <b>\$2,083,580</b>                       | <b>\$2,324,235</b>                       | <b>\$2,475,698</b>                       | <b>\$2,605,417</b>                     |
| <b>Liabilities and net assets</b>  |  |  |  |  |
| Current liabilities:   |  |  |  |  |
| Short-term borrowings  | \$ 39,100                                | \$8,700                                  | \$136,767                                | \$115,358                              |
| Accounts payable and accrued expenses  | 147,430                                  | 190,633                                  | 204,587                                  | 211,057                                |
| Accrued salaries and related benefits  | 147,934                                  | 184,087                                  | 185,562                                  | 196,218                                |
| Current portion of capital lease obligations   | 894                                      | 1,325                                    | 1,300                                    | 1,668                                  |
| Current portion of long-term debt  | 46,847                                   | 24,404                                   | 27,394                                   | 25,449                                 |
| Current portion of estimated payable to third<br>party payers  | 77,220                                   | 100,062                                  | 148,845                                  | 165,643                                |
| <b>Total current liabilities</b>   | <b>459,425</b>                           | <b>509,211</b>                           | <b>704,455</b>                           | <b>715,393</b>                         |
| Accrued retirement benefits, net of current portion  | 113,442                                  | 119,003                                  | 237,028                                  | 246,147                                |
| Capital lease obligations, net of current portion  | 20,878                                   | 21,259                                   | 21,076                                   | 21,130                                 |
| Long-term debt, net of current portion   | 568,025                                  | 652,073                                  | 633,834                                  | 629,535                                |
| Malpractice insurance liabilities  | 7,259                                    | 40,590                                   | 121,212                                  | 144,137                                |
| Other long-term liabilities  | 95,328                                   | 108,615                                  | 143,792                                  | 139,996                                |
| <b>Total liabilities</b>   | <b>1,264,357</b>                         | <b>1,450,751</b>                         | <b>1,861,397</b>                         | <b>1,896,338</b>                       |
| Commitments and contingencies  |  |  |  |  |
| Net assets:  |  |  |  |  |
| Unrestricted   | 633,879                                  | 665,766                                  | 410,033                                  | 500,285                                |
| Temporarily restricted   | 159,951                                  | 181,886                                  | 176,394                                  | 180,762                                |
| Permanently restricted   | 25,393                                   | 25,832                                   | 27,874                                   | 28,032                                 |
| <b>Total net assets</b>  | <b>819,223</b>                           | <b>873,484</b>                           | <b>614,301</b>                           | <b>709,079</b>                         |
| <b>Total liabilities and net assets</b>  | <b>\$2,083,580</b>                       | <b>\$2,324,235</b>                       | <b>\$2,475,698</b>                       | <b>\$2,605,417</b>                     |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

**North Shore - Long Island Jewish Obligated Group  
Financial Ratios**

|   | <b>Year Ended December 31,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2007</b>                    | <b>2008</b> |
| Days Cash on Hand   | 80                             | 79          |
| Long Term Debt/Cash Flow*   | 3.6                            | 5.3         |
| Debt to Capitalization<br>(Capitalization = Debt + Unrestricted and<br>Temporarily Restricted Net Assets) | 46%                            | 58%         |

\* Excluding the Change in Net Unrealized Gains and Losses in 2007 and 2008, the net Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments in 2007 and 2008, and the non-cash Loss on Refinancing and Refunding of Long-Term Debt in 2007.

*Source: NSLIJ Finance Department*

**Management’s Discussion and Analysis for the Years ended December 31, 2008 and December 31, 2007 and the Six Months ended June 30, 2009**

Management’s Discussion and Analysis contains “forward-looking statements” within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended (the “Exchange Act”), and Section 27A of the United States *Securities Act of 1933*, as amended (the “Securities Act”). The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Obligated Group and NSLIJ expressly disclaim any obligation or undertaking to issue any updates or revisions to those forward-looking statements if or when their expectations change, or events, conditions or circumstances on which such statements are based occur.

For further information regarding potential events affecting future cash balances, see “PART 9 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP”.

Please refer to Appendix B-1(a) Management’s Introduction to the Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors, Appendix B-1(b) Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors and Appendix B-2 Unaudited Interim Combined Financial Statements for the Six Months Ended June 30, 2009 as well as the Combined Statements of Operations, Combined Statements of Financial Position, Summaries of Historical Revenue and Expenses and Utilization Statistics within “PART 8 - THE OBLIGATED GROUP”.

**Management’s Discussion and Analysis for the Six Months ended June 30, 2009 for the North Shore-Long Island Jewish Obligated Group**

*Please note that certain amounts previously reported for the six months ended June 30, 2008 have been reclassified to conform to the 2009 presentation. Such reclassifications include: 1) the separate presentation of the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously included in the Change in Net Unrealized Gains and Losses; and 2) the reclassification of certain physician practice revenue previously reported in Other Operating Revenue. In addition, Investment Income, the Change in Net Unrealized Gains and Losses and the*

*Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments were reclassified from Operating Revenue to Non-Operating Gains and Losses.*

*For an explanation of the Series 2007A and 2007B Bonds, please refer to Management's Discussion and Analysis for the year ended December 31, 2007.*

## **COMBINED STATEMENTS OF OPERATIONS OVERVIEW**

Operational improvements led to the Obligated Group reporting \$39.0 million Operating Income (defined as Excess of Operating Revenue over Operating Expenses which excludes Total Non-Operating Gains and Losses) for the six months ended June 30, 2009. This represented an improvement of \$13.6 million compared to the six months ended June 30, 2008. Consequently, the operating margin improved from 1.7% for the six months ended June 30, 2008 to 2.4% for the six months ended June 30, 2009.

For the six months ended June 30, 2009, growth in Total Operating Revenue outpaced the growth in Total Operating Expenses primarily as a result of an increase in inpatient acute care discharges, increased case mix at several of the hospitals, growth in various outpatient services, an increase in payment rates, revenue cycle initiatives and management of expenses in relation to revenue and volume. The closure of two hospitals in the service areas of LIJMC, FHH and NSUH-M contributed to the revenue growth. Expense reductions, as a result of a supply chain initiative to reduce supply expense, the adoption of best practices and the implementation of utilization initiatives for medical and surgical supplies and pharmaceuticals, helped control the growth rate of supplies and expenses.

Investment returns as a result of improving market conditions contributed to the Obligated Group reporting an Excess of Revenue and Gains and Losses over Expenses ("Net Income") of \$83.4 million for the six months ended June 30, 2009, an improvement of \$76.5 million compared to the six months ended June 30, 2008. Excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments, the Obligated Group's Net Income and excess margin were \$45.2 million and 2.8%, respectively for the six months ended June 30, 2009 versus \$35.5 million and 2.4%, respectively for the six months ended June 30, 2008.

## **OPERATING INCOME RESULTS**

### **Total Operating Revenue**

Total Operating Revenue for the six months ended June 30, 2009 increased 9.4% compared to the six months ended June 30, 2008. The components of Total Operating Revenue are discussed below.

### **Patient Revenue**

The Obligated Group's core business consists of Net Patient Service Revenue and Physician Practice Revenue (collectively referred to as "Total Patient Revenue"). Total Patient Revenue for the six months ended June 30, 2009 grew 10.1% over the six months ended June 30, 2008 as a result of an increase in inpatient acute care discharges, an increase in case mix at several of the hospitals, growth in certain outpatient services, an increase in payment rates and revenue cycle initiatives. The closure of two hospitals in the service area of LIJMC, FHH and NSUH-M contributed to the growth in Total Patient Revenue. The majority of the Obligated Group Members continue to operate at or near capacity.

Outpatient revenue, which is included in Net Patient Service Revenue, increased 13.1% compared to the same period last year. This increase was due primarily to increased payment rates, revenue cycle initiatives, and an increase in revenue generated from emergency room visits, radiation oncology, ambulatory chemotherapy, and diagnostic imaging. A major focus of the Obligated Group is the expansion of outpatient ambulatory services as evidenced by the continued expansion of CFAM in Lake Success, New York. Since its opening in the summer of 2005, outpatient visits at this location have

grown in clinical programs such as ambulatory surgery, diagnostic imaging, interventional radiology and ambulatory chemotherapy.

#### **Other Operating Revenue and Net Assets Released from Restrictions Used for Operations**

The major components of Other Operating Revenue of \$29.2 million and \$25.2 million for the six months ended June 30, 2009 and 2008, respectively, are hospital grants/contracts, cafeteria and vending machine sales, and other miscellaneous items. Other Operating Revenue increased \$4.0 million from the prior year primarily as a result of grants/contracts and physician incentive payments received for patient satisfaction initiatives with certain managed care companies included in miscellaneous income. Net Assets Released from Restrictions used for Operations of \$17.0 million and \$25.9 million for the six months ended June 30, 2009 and 2008, respectively, consist of research grants and temporarily restricted revenue, which cover related expenses.

#### **Total Operating Expenses**

Total Operating Expenses for the six months ended June 30, 2009 increased 8.6% compared to the same period last year as a result of an increase in labor related costs (salaries, benefits and nursing agency fees), supplies and expenses excluding nursing agency fees, malpractice insurance and interest expense.

For the six months ended June 30, 2009, Salaries and Employee Benefits of \$967.8 million plus \$5.9 million of nursing agency fees (included in Supplies and Expenses) were 8.3% above the prior year's \$891.5 million Salaries and Employee Benefits plus \$7.5 million nursing agency fees. The increase was primarily due to patient severity as measured by case mix at several hospitals, an increase in inpatient and outpatient volume, normal cost of living adjustments, investments in physicians, initiatives to support service and quality, and an increase in pension expense and major medical expense. The increase in pension expense relates primarily to the impact of adverse market conditions on the assets of the pension plan during the fourth quarter of 2008. The increase in major medical expense is attributed to increased enrollment and the frequency of high dollar claims. In addition to the above factors, New York State imposed a tax on employers in certain counties to fund operating deficits at the Metropolitan Transit Authority (the "MTA"). All the members of the Obligated Group were assessed this MTA tax effective March 2009.

Supplies and Expenses (excluding nursing agency fees previously mentioned) for the six months ended June 30, 2009 increased 9.1% from the same period last year. This increase is primarily attributable to supply usage associated with the increased volume and case mix at several hospitals, continued investment in information technology and malpractice insurance expense. A large portion of supply usage is either reimbursed as "pass-throughs" or covered by payments related to increased case mix included in net patient service revenue.

Expense reductions as a result of a supply chain initiative to reduce supply expense and adopt best practices, which began in the last quarter of 2007, continue to benefit the hospitals in the NSLIJ System. A second phase of the supply chain effort, which involves utilization initiatives for medical and surgical supplies as well as pharmaceuticals, helped control the growth rate of supplies and expenses.

Interest expense of \$18.9 million for the six months ended June 30, 2009 increased by \$1.7 million compared to the same period last year primarily as a result of additional short-term borrowings to fund capital expenditures anticipated to be financed with the Series 2009A Bonds and Series 2009B, C and D Bonds.

#### **Total Uncompensated Care (Bad Debts and Charity Care)**

Together, Charity Care and Bad Debt Expense represent Uncompensated Care. The estimated cost of Total Uncompensated Care increased \$5.5 million with a total cost of \$50.9 million for the six months

ended June 30, 2009 compared to \$45.4 million for the same period last year. The estimated cost of total uncompensated care remained constant as a percentage of Total Patient Revenue.

### **Combining Operating Results**

NSUH's Operating Income for the six months ended June 30, 2009 improved by \$9.0 million to \$27.7 million compared to the same period last year. Improvements relate principally to an increase in general, orthopaedic and cardiac surgical volume at NSUH-M, increased payment rates, increased case mix, increased outpatient revenue attributable to higher volume in interventional radiology, ambulatory chemotherapy and diagnostic imaging as well as continued revenue cycle improvements. Expense reductions as a result of supply chain initiatives that began in the fourth quarter of 2007 as well as supply expense and pharmaceutical utilization initiatives contained the growth rate in supplies and expenses and partially offset increases in malpractice insurance expense. In addition, length of stay initiatives contributed to the operating improvements at NSUH-M and NSUH-S. NSUH-M continues to invest in quality initiatives, technology, physicians, and patient/physician service as well as pursue opportunities to further increase surgical volume.

LIJMC's Operating Income remained relatively flat at \$10.0 million for the six months ended June 30, 2009 compared to the same period last year. Net Patient Service Revenue increased 8.0% as a result of increased medicine volume, payment rates, revenue cycle initiatives, and outpatient radiation oncology revenue; the benefits of which were partially offset by a decline in surgical discharges. Total Operating Expenses increased by 7.9% primarily as a result of investments in quality initiatives, technology, physicians and patient/physician service as well as malpractice insurance and interest expense. The increase in interest expense relates to short-term borrowings for the new Katz Women's Hospital and campus modernization. Increases in Total Operating Expenses were mitigated by supply chain, supply expense utilization and length of stay initiatives. Management is pursuing opportunities to increase surgical volume and contain operating expenses in relation to revenue.

FHH's Operating Income for the six months ended June 30, 2009 improved by \$4.5 million to \$3.9 million compared to an Operating Loss of \$0.6 million for the six months ended June 30, 2008. This improvement was primarily the result of increased inpatient discharges, emergency room visits and case mix associated with the closing of two nearby hospitals in February 2009.

PVH's Operating Loss improved by \$0.8 million for the six months ended June 30, 2009 to a loss of \$0.2 million compared to the same period in the prior year as a result of increased surgical volume, case mix and physician billing revenue, as well as management initiatives to reduce average length of stay and contain expenses. Management remains focused on managing expenses and improving the operating margin.

CECR's Operating Income improved by \$0.5 million for the six months ended June 30, 2009 to \$0.7 million compared to the same period in the prior year primarily as a result of a favorable payer mix and higher payment rates attributable to increased case mix resulting from the continuing shift from long term care to rehabilitation services.

GCH's Operating Loss increased by \$1.26 million to a loss of \$3.13 million for the six months ended June 30, 2009 from a loss of \$1.87 million for the six months ended June 30, 2008 as a result of increases in Total Operating Expenses outpacing increases in Total Operating Revenue. Net Patient Service Revenue increased 4.0% from the prior year as a result of increased medicine and rehabilitation volume, the benefits of which were partially offset by a decrease in higher weighted surgical volume. Total Operating Expenses increased 4.5% as a result of investments in quality initiatives, technology, and patient service, as well as malpractice insurance expense. Increases in Total Operating Expenses were mitigated by supply chain, supply expense utilization and length of stay initiatives. Management is pursuing opportunities to increase surgical volume, further increase rehabilitation volume, and contain operating expenses in relation to revenue.

The Obligated Group continues to invest in technology, including clinical software, to: 1) remain competitive; 2) maintain an advantage regarding physician satisfaction and retention; and 3) improve clinical and operational processes. In addition, management is making strategic investments in physicians who support key service lines and staff to support various other service and quality initiatives.

### **TOTAL NON-OPERATING GAINS AND LOSSES**

The Obligated Group reported a \$44.5 million Total Non-Operating Gain for the six months ended June 30, 2009 compared to an \$18.4 million loss for the same period last year, an improvement of \$62.9 million. The \$44.5 million Total Non-Operating Gain was driven by the positive Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments due to improving market conditions during the six months ended June 30, 2009.

Non-Operating Gains and Losses are comprised of the following: 1) net unrestricted Investment Income, 2) unrestricted Change in Net Unrealized Gains and Losses, 3) Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments, and 4) unrestricted Contributions, Net of Fundraising Activities.

#### *Net Unrestricted Investment Income*

For the six months ended June 30, 2009, the Obligated Group recorded net unrestricted Investment Income of \$6.2 million which was \$3.7 million less than the prior year. The decrease was primarily attributable to realized losses. The following table provides a summary of net unrestricted Investment Income for the six months ended June 30, 2008 and 2009.

|                                | <u>2008</u>     | <u>2009</u>     | <u>Change</u>     |
|--------------------------------|-----------------|-----------------|-------------------|
| Interest and dividend income   | \$ 9,868        | \$ 10,739       | \$ 871            |
| Net realized gains and losses  | (1,166)         | (4,979)         | (3,813)           |
| Equity investment gains*       | 1,200           | 416             | (784)             |
| Unrestricted Investment Income | <u>\$ 9,902</u> | <u>\$ 6,176</u> | <u>\$ (3,726)</u> |

\* Equity investment gains relate to assets accounted for under the equity method of accounting which are included in Other Assets.

#### *Unrestricted Change in Net Unrealized Gains and Losses*

Mark-to-market adjustments resulted in the Obligated Group recording a positive unrestricted Change in Net Unrealized Gains and Losses on investments of \$29.2 million for the six months ended June 30, 2009 compared to a negative change of \$28.3 million for the six months ended June 30, 2008.

#### *Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments*

In July and August 2007, the Obligated Group entered into four forward-starting floating-to-fixed interest rate swaps with an aggregate notional value of \$100 million with Citibank and UBS as counterparties. The swaps' commencement date is January 15, 2010 with a final term date of May 1, 2038. The Obligated Group anticipated issuing tax-exempt bonds to fund approximately \$300 million of new projects in 2009 and elected to hedge its interest rate cost to the extent of \$100 million. The change in fair value of these interest rate swaps resulted in an unrealized gain of \$9.0 million and an unrealized loss of \$0.3 million for the six months ended June 30, 2009 and 2008, respectively. To date, no collateral has been required to be posted with regard to these swap agreements.

For information on the swaps related to the Series 2007B Bonds, refer to *Changes in Unrestricted Net Assets*.

*Unrestricted Contributions, Net of Fundraising Activities* were de minimis for the comparative periods.

**EXCESS MARGIN AND NET INCOME EXCLUDING NON-CASH NON-OPERATING GAINS AND LOSSES**

Excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments (collectively defined, “Non-Cash Non-Operating Gains and Losses”), the Obligated Group reported \$45.2 million Net Income excluding Non-Cash Non-Operating Gains for the six months ended June 30, 2009.

Net Income excluding Non-Cash Non-Operating Gains and Losses improved \$9.6 million compared to the six months ended June 30, 2008. Consequently, the excess margin excluding Non-Cash Non-Operating Gains and Losses improved from 2.4% for the six months ended June 30, 2008 to 2.8% for the six months ended June 30, 2009.

| (Dollars in Thousands)   | <u>Six Months Ended 6/30/08</u> | Excess Margin* | <u>Six Months Ended 6/30/09</u> | Excess Margin* |
|--|---------------------------------|----------------|---------------------------------|----------------|
| Excess of Revenue and Gains and Losses over Expenses (“Net Income ”)   | \$6,925                         |                | \$83,419                        |                |
| Plus Negative/Less Positive Change in Net Unrealized Gains and Losses  | \$28,341                        |                | (\$29,190)                      |                |
| Plus Negative/Less Positive Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments | 274                             |                | (\$9,046)                       |                |
| <b>Net Income excluding Non-Cash Non-Operating Gains and Losses</b>  | <b>\$35,540</b>                 | <b>2.4%</b>    | <b>\$45,183</b>                 | <b>2.8%</b>    |

\* Net Income excluding Non-Cash Non-Operating Gains and Losses / Total Operating Revenue + Non-Operating Income excluding Non-Cash Non-Operating Gains and Losses

**CHANGES IN UNRESTRICTED NET ASSETS**

Other changes in Unrestricted Net Assets outlined in this section increased Unrestricted Net Assets by \$6.8 million for the six months ended June 30, 2009. When taking this increase and the Net Income of \$83.4 million into consideration, Unrestricted Net Assets increased by \$90.2 million for the six months ended June 30, 2009 compared to a \$7.2 million increase last year.

Other changes in Unrestricted Net Assets for the six months ended June 30, 2009 consist of: increases related to a \$9.4 million positive Change in Fair Value of Interest Rate Swap Agreements Designated as Cash Flow Hedges (swap agreements which are a perfect hedge for the Series 2007B Bonds); reductions for \$4.5 million in Transfers to Affiliates and Reserves for Borrowings by Affiliates; a \$1.3 million increase related to the net Change in Fair Value of Endowment Assets; and a \$0.6 million increase in Net Assets Released from Restrictions for Capital Asset Acquisitions.

The interest rate swap agreements which commenced May 31, 2007 with the Obligated Group and Citibank as counterparties, are a perfect hedge for the Series 2007B Bonds, and therefore, the change in fair value of such interest rate swap agreements is included in other changes in Unrestricted Net Assets. For reference, on the day the Series 2007B Bonds were priced, the Obligated Group entered into two

forward floating-to-fixed rate swaps on the Series 2007B Bonds. These swaps commenced May 31, 2007 with one swap of \$53.370 million having a final term date of May 1, 2018 in which NSLIJ pays 4.172% and one swap of \$69.895 million having a final term date of May 1, 2033 in which NSLIJ pays 4.373%. Refer to *PART 6 - ESTIMATED SOURCES AND USES OF FUNDS* in the *Series 2007A and 2007B Bonds Official Statement*. To date, no collateral has been required to be posted with regards to these swap agreements.

The net Change in Fair Value of Endowment Assets represents the change in the difference between the fair value of assets associated with individual donor-restricted endowment funds and the level that the donors require the Obligated Group retain as funds of perpetual duration since December 31, 2008. The decline in the fair value of the assets below the original corpus is required to be recorded as a reduction of Unrestricted Net Assets in the combined Statement of Operations as the net Change in Fair Value of Endowment Assets. For the six months ended June 30, 2009, as a result of improving market conditions, the endowment assets experienced investment gains that increased the fair value of the endowment assets (although still below the level that the donors require to retain as funds of perpetual duration). As a result of the improvement in the fair value of endowment assets, the Obligated Group recorded an increase in Unrestricted Net Assets.

Net Assets Released from Restrictions for Capital Asset Acquisitions relate primarily to the release of temporarily restricted assets to support capital projects in accordance with capital plans.

Transfers to affiliates and reserves for borrowings by affiliates for the six months ended June 30, 2009, which reflect mainly funding of The Feinstein Institute, decreased by \$3.0 million to \$4.5 million compared to the six months ended June 30, 2008 primarily as a result of a reduction in support necessary for Southside. Transfers to the Feinstein Institute were in line with the budgeted amount.

Southside's Net Loss improved by \$0.9 million to \$2.4 million for the six months ended June 30, 2009 from the Net Loss of \$3.3 million for the six months ended June 30, 2008. Management continues to focus on expense reduction initiatives and increasing volume with an active physician recruitment program. Southside's cash flow was \$0.7 million negative for the six months ended June 30, 2009. (Cash flow is defined as Net Loss excluding the Change in Net Unrealized Gains and Losses plus Depreciation less principal payments and capital expenditures.) Despite the negative cash flow, Southside did not require cash support for the six months ended June 30, 2009 due to the timing of other operating cash flows. Capital investment necessary to secure future revenue opportunities and renovate clinical and patient care areas at Southside is within NSLIJ System's five-year plan for Southside which commenced in the fall of 2005. Refer to "Update on Contingent Financial Commitments to Third Parties by NSLIJ HCI or the Foundation or NSLIJ (which are not Members of the Obligated Group)" herein.

#### *Update on Pension and Other Postretirement Liability Adjustments*

For the year ended December 31, 2008, the Obligated Group recorded a reduction in Unrestricted Net Assets of \$134.8 million associated with Pension and Other Postretirement Liability Adjustments. This adjustment relates to investment losses incurred by the assets included in the pension trust and was made in accordance with the provisions of the Financial Accounting Standards Board Statement No. 158, which requires the Obligated Group to recognize the funded status (i.e., the difference between the projected benefit obligations ("PBO") and the fair value of the plan assets) of its defined benefit and postretirement plans in the combined statement of financial position with a corresponding adjustment to Unrestricted Net Assets.

The Obligated Group's Cash Balance Plan's funded status at December 31, 2008 dropped to approximately 64% as a result of a decline in the market value of pension plan assets. The estimated funded status of the Cash Balance Plan at June 30, 2009 updating for the current PBO, market value of plan assets, and discount rate was approximately 70%.



**Update on Contingent Financial Commitments to Third Parties by NSLIJ HCI or the Foundation or NSLIJ (which are not Members of the Obligated Group)** Also refer to “*OTHER NSLIJ SYSTEM HOSPITALS’ SUPPLEMENTAL INFORMATION*” herein.

1. Southside: From October 2004 through September 2008, the monthly debt service payments of Southside were paid by NSLIJ HCI in fulfillment of NSLIJ HCI’s obligation under its partial Southside Guaranty of 1998 Southside Bonds. Since October 2008, Southside has been making its monthly debt service payments. While the September 2008 payment satisfied NSLIJ HCI’s guarantee obligation with respect to the 1998 Southside Bonds, the NSLIJ System presently intends to advance funds as necessary to Southside to meet Southside’s obligations without making or assuming any commitment to continue such advances.

Approximately \$4.0 million in principal and interest remain to be paid by the Foundation over the next four years under payments intended to cover the majority of the debt service on local IDA Southside bonds issued in 2002. Refer to “*Philanthropy*” and “*OTHER NSLIJ COMMONLY MANAGED HOSPITALS*” sections herein.

2. Franklin: NSLIJ HCI guarantees up to a cumulative \$10.0 million of regularly scheduled principal and interest payments on certain tax-exempt bonds issued for the benefit of Franklin by the Town of Hempstead Industrial Development Agency in 2002. To date, there have been no demands under this guarantee.

Franklin’s Net Loss improved \$0.3 million over the prior year as Franklin reported a Net Loss of \$1.0 million for the six months ended June 30, 2009 versus a Net Loss of \$1.3 million for the six months ended June 30, 2008. The improvement resulted primarily from increased surgical cases and cost containment in relation to volume. Franklin’s management continues to implement revenue cycle initiatives and contain costs in relation to volume and revenue. In addition, management is focused on increasing volume through expansion of existing programs, development of new programs and active pursuit of affiliations with new physician practices. For the six months ended June 30, 2009, Franklin was \$0.7 million cash flow negative; however, Franklin did not require cash support for the six months ended June 30, 2009 due to the timing of other operating cash flows. (Cash flow is defined as Net Loss excluding the Change in Net Unrealized Gains and Losses plus Depreciation less principal payments and capital expenditures.)

3. Staten Island University Hospital: In settlement of United States Department of Health and Human Services, Office of the Inspector General liabilities, SIUH agreed to make a one-time payment in 2008 of \$76.5 million. SIUH funded the amount with a \$60.0 million loan from a bank and the remaining balance from operating cash. NSLIJ (the ultimate corporate parent of SIUH and the Obligated Group Members) has guaranteed repayment of SIUH’s eight-year bank loan (which has a balloon due in year eight reflecting agreed upon fifteen-year amortization) as well as SIUH’s two related variable to fixed interest rate swaps with the two counterparties Toronto Dominion and JPMorgan Chase. To date, there have been no draws on these guarantees, and no collateral has been required to be posted.

## ***COMBINED STATEMENTS OF FINANCIAL POSITION***

### **Cash and Liquidity**

Unrestricted Cash and Cash Equivalents (\$284.1 million) and Marketable Securities and Other Investments (\$517.6 million) increased by \$189.5 million from December 31, 2008. The growth was a result of profitable operations; improved investment returns; reclassification of certain assets previously classified in Assets Limited as to Use; and management utilizing a rigorous strategic capital allocation process. Management’s strategic capital allocation process balances capital expenditures within the context of operations, capital market conditions affecting investment performance, fundraising and debt capacity. During the first quarter of 2009, restrictions on certain assets previously classified in Assets Limited as to Use were satisfied, and consequently certain assets were reclassified into Unrestricted Cash

and Cash Equivalents and Marketable Securities and Other Investments at June 30, 2009. In addition, management-designated restrictions related to \$13.0 million of depreciation funds in Assets Limited as to Use were removed.

Due to the increase in Cash and Cash Equivalents and Marketable Securities and Other Investments and including the depreciation funds noted above at June 30, 2009, days cash on hand increased by 20 days to 99 days at June 30, 2009 from 79 days at December 31, 2008, and the cushion ratio using maximum annual debt service (“MADS”) prior to the Series 2009A Bonds, the Series 2009E Bonds and the Series 2009B, C and D Bonds improved to 13.1:1 at June 30, 2009 compared to 9.9:1 at December 31, 2008. Furthermore, with a \$27.2 million net decrease in debt and the increase in Cash and Cash Equivalents, Marketable Securities and Other Investments plus depreciation funds noted above, the cash to debt ratio at June 30, 2009 improved to 103% from 75% at December 31, 2008.

### **Accounts Receivable**

Days of hospital and physician net revenue in accounts receivable decreased to 36 days at June 30, 2009 from 37 days at December 31, 2008.

### **Accounts Payable and Accrued Expenses**

Days in accounts payable increased to 75 days at June 30, 2009 from 73 days at December 31, 2008.

### **Property, Plant and Equipment**

Management continues to monitor and manage capital spending in relation to operations, capital market conditions affecting investments, fundraising and debt capacity. Capitalized expenditures were \$49.3 million for the six months ended June 30, 2009 compared to \$102.9 million for the six months ended June 30, 2008. Of the \$49.3 million expended, \$17.6 million was paid through operations; \$0.6 million was paid from donations, grants and fundraising; \$11.2 million was financed from the proceeds of prior bond issues; and \$19.9 million was financed with bridge loans. The Members of the Obligated Group continue to strategically invest their capital to meet the ongoing needs of their respective communities. However, in light of the current economic environment, management is monitoring carefully the commencement of projects. Consequently, capital expenditures as a percentage of depreciation and amortization were 91% at June 30, 2009 compared to 214% at December 31, 2008.

### **Debt**

Outstanding long-term and short-term debt decreased by \$27.2 million at June 30, 2009 from December 31, 2008 primarily as a result of the repayment of certain short-term unsecured borrowings. Of the \$115.4 million short term unsecured borrowings outstanding at June 30, 2009, the Obligated Group anticipates repaying \$72.6 million at the Series 2009A Bonds and the Series 2009B, C and D Bonds closing or soon thereafter. The remaining bridge loans are anticipated to be repaid from the proceeds of long-term debt or donations.

Debt service coverage of MADS prior to the Series 2009A Bonds, Series 2009E Bonds and the Series 2009B, C and D Bonds improved to 2.8:1 at June 30, 2009 compared to 2.6:1 as of December 31, 2008 (excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments).

Furthermore, leverage as measured by long-term debt to cash flow improved to 4.8:1 (excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments) for the six months ended June 30, 2009 from 5.3:1 for the year ended December 31, 2008 (excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments). At

June 30, 2009, leverage as measured by debt to capitalization decreased to 54% from 58% at December 31, 2008 as a result of the \$27.2 million net decrease in borrowings.

### **Fundraising**

For the six months ended June 30, 2009, \$20.3 million in new pledges and/or cash was received by the NSLIJ System as part of their fundraising efforts. Of the \$20.3 million, \$13.7 million was in pledges and \$6.6 million was in cash. A five-year \$500 million capital campaign for the NSLIJ System commenced in September 2006. While the target has not been revised, the timeframe to raise pledges has been extended beyond five years. Of the \$20.3 million raised for the six months ended June 30, 2009, \$6.5 million is for the capital campaign. Through June 30, 2009, the capital campaign has raised \$119.1 million in pledges and cash.

As of June 30, 2009, the Obligated Group's cumulative share of the Foundation's unexpended pledges receivable and cash was \$99.0 million (which is reflected in the combined financial statements of the Obligated Group as \$3.2 million in unrestricted pledges and cash in Other Assets and \$95.8 million in temporarily restricted pledges and cash for capital projects or programs in Assets Limited as to Use).

### ***SUMMARY***

For the six months ended June 30, 2009, the Obligated Group improved its Operating Income by \$13.6 million to \$39.0 million with an operating margin of 2.4% and generated \$45.2 million Net Income excluding Non-Cash Non-Operating Gains and Losses. Operating Income improvements occurred at each of the Obligated Group Members, except for GCH as described earlier. Revenue improvements associated with continued revenue cycle initiatives and expense reductions as a result of a supply chain initiative continue to benefit the hospitals in the NSLIJ System.

The balance sheet liquidity indicators of Cash and Cash Equivalents, Marketable Securities and Other Investments, days cash on hand and the cushion ratio improved. Furthermore, debt service coverage and leverage improved compared to the same ratios at December 31, 2008.

The Obligated Group continues to focus on improving profitability in the face of challenges and factors pressuring operating margins and capital markets. Management is focused on reducing operating expenses with supply chain initiatives and operational efficiency efforts, as well as creating additional volume through enhanced capacity, improved utilization and physician recruitment efforts. The Obligated Group continues to invest in strategic capital projects and technology, including clinical software, to: 1) remain competitive; 2) maintain an advantage regarding physician satisfaction and retention; and 3) improve clinical and operational processes. In addition, the Obligated Group is making strategic investments in physicians who support key service lines and staff to support various other service and quality initiatives. Management continues to monitor strategic capital needs in relation to operations, capital market conditions affecting investment returns, fundraising and debt capacity.

### **Management's Discussion and Analysis for the Year ended December 31, 2008 for the Obligated Group**

*Please note that certain previously reported 2007 amounts in the combined financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications include: 1) the separate presentation of the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously included in the Change in Net Unrealized Gains and Losses; and 2) the reclassification of certain physician practice revenue previously reported in Other Operating Revenue. In addition, Investment Income, the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments were reclassified from Operating Revenue to Non-Operating Gains and Losses. Amounts reported in Management's Discussion and Analysis and the Combined Statements of Operations for the year ended December 31, 2007 have*

*been reclassified to reflect these changes. For comparative combining results, refer to the Combining Statement of Operations in the audited combined financial statements for the year ended December 31, 2008.*

*For an explanation of the Series 2007A and 2007B Bonds, refer to Management's Discussion and Analysis for the year ended December 31, 2007 herein.*

## **COMBINED STATEMENTS OF OPERATIONS OVERVIEW**

Operational improvements resulted in Operating Income (defined as Excess of Operating Revenue over Operating Expenses which excludes Total Non-Operating Gains and Losses) increasing by \$7.44 million from \$23.42 million in 2007 to \$30.86 million in 2008. Consequently, the operating margin improved from 0.8% for the year ended December 31, 2007 to 1% for the year ended December 31, 2008.

In 2008, growth in Total Operating Revenue outpaced the growth in Total Operating Expenses. Total Operating Revenue grew over the prior year as a result of an increase in inpatient acute discharges, an increase in case mix at several of the hospitals, growth in certain outpatient revenue, an increase in payment rates and revenue cycle initiatives. Reductions in medical/surgical supplies and pharmaceutical expenses attributable to a supply chain initiative helped control the growth rate of Total Operating Expenses.

A decline in investment returns as a result of adverse market conditions offset the improved Operating Income. As a result, the Obligated Group reported a Deficiency of Revenue and Gains and Losses over Expenses ("Net Loss") of \$98.8 million for the year ended December 31, 2008. Excluding the Change in Net Unrealized Gains and Losses and Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments, the Obligated Group had Net Income of \$20.7 million for the year ended December 31, 2008. (Refer herein for comparative results of the year ended December 31, 2007.)

## **OPERATING INCOME RESULTS**

### **Total Operating Revenue**

Total Operating Revenue for the year ended December 31, 2008 increased 7.0% from Total Operating Revenue for the year ended December 31, 2007. The components of Total Operating Revenue are discussed below.

### **Patient Revenue**

The Obligated Group's core business consists of Net Patient Service Revenue and Physician Practice Revenue (hereinbefore collectively defined, "Total Patient Revenue"). Total Patient Revenue grew 7.3% over the prior year as a result of an increase in inpatient acute discharges, an increase in case mix at several of the hospitals, growth in certain outpatient revenue, an increase in payment rates and revenue cycle initiatives. The majority of the Obligated Group Members continue to operate at or near capacity.

Outpatient revenue, which is included in Net Patient Service Revenue, increased 2.7% from the prior year. This increase was due primarily to increased payment rates and an increase in revenue generated from emergency room visits, radiation therapy visits and ambulatory services, which were partially offset by a reduction in outpatient cardiac catheterizations. A major focus of the Obligated Group is the expansion of outpatient ambulatory services as signified by the opening of CFAM in Lake Success, New York. Since its opening in the summer of 2005, outpatient visits at this location have grown in clinical programs such as ambulatory surgery, diagnostic imaging, interventional radiology and ambulatory chemotherapy.

### **Other Operating Revenue and Net Assets Released from Restrictions Used for Operations**

The major components of Other Operating Revenue of \$51.5 million and \$48.2 million for the years ended December 31, 2008 and 2007, respectively, are hospital grants/contracts, cafeteria and vending machines sales, and other miscellaneous items. Other Operating Revenue increased \$3.3 million from the prior year due primarily to an increase in cafeteria and vending machine sales and other miscellaneous items. Net Assets Released from Restrictions used for Operations of \$45.0 million and \$51.1 million for the years ended December 31, 2008 and 2007, respectively, consist of research grants and temporarily restricted revenue, which cover related expenses.

### **Total Operating Expenses**

Total Operating Expenses for the year ended December 31, 2008 increased 6.7% from Total Operating Expenses for the year ended December 31, 2007 as a result of an increase in labor related costs (salaries, benefits and nursing agency fees) and an increase in Supplies and Expenses, excluding nursing agency fees.

For the year ended December 31, 2008, Salaries and Employee Benefits of \$1.79 billion plus \$16.1 million of nursing agency fees (included in Supplies and Expenses) were 6.0% above the prior year's Salaries and Employee Benefits of \$1.70 billion plus \$11.2 million of nursing agency fees. The increase was primarily due to patient severity as measured by case mix at several hospitals, an increase in inpatient and outpatient volume, investments in physicians, normal cost of living adjustments and initiatives to support service and quality.

Supplies and Expenses (excluding nursing agency fees previously mentioned) for the year ended December 31, 2008 increased 8.9% from the prior year. This increase is primarily attributable to malpractice insurance expense described later in *One-Time Adjustments to Operating Income*, the continued investment in information technology, and supply usage associated with the increased volume and case mix at several hospitals. A large portion of supply usage is either reimbursed as "pass-throughs" or covered by payments related to increased case mix included in net patient service revenue.

Reductions in medical/surgical supplies and pharmaceutical expenses attributable to cost reduction and utilization initiatives helped control the growth rate of supplies and expenses. In 2007, management began a supply chain initiative with the intent to reduce supply expense and adopt best practices in the supply chain infrastructure. Expense reductions as a result of this initiative, which began in the last quarter of 2007, benefited the hospitals in the NSLIJ System throughout the year.

As a result of the refinancing and refunding of certain Series 1998 Bonds and lower interest rates, interest expense declined \$2.6 million from the year ended December 31, 2007. For an explanation of the Series 2007A and 2007B Bonds, refer to *Management's Discussion and Analysis for the year ended December 31, 2007*.

### **Total Uncompensated Care (Bad Debts and Charity Care)**

Together, Charity Care and Bad Debt Expense represent Uncompensated Care. The estimated cost of Total Uncompensated Care was relatively consistent with a total cost of \$83.1 million and \$83.8 million for the years ended December 31, 2008 and December 31, 2007, respectively.

### **Combining Operating Results**

NSUH's Operating Income improved \$6.5 million from last year excluding the positive net impact of the one-time adjustments described at the end of this section. Improvements relate principally to an increase in inpatient admissions including an increase in surgical discharges at NSUH-M and NSUH-S, increased emergency room visits, increased payment rates and increased outpatient revenue attributable to higher volume in radiation therapy, interventional radiology, chemotherapy and diagnostic imaging. The

increased admissions and higher outpatient volume helped offset lower cardiac service line volume relative to the year ended December 31, 2007. (Refer to *Management's Discussion and Analysis for the year ended December 31, 2007*.) Expense reductions as a result of supply chain initiatives that began in the fourth quarter of 2007 also contributed to the operating improvement at NSUH-M. (Refer to *Total Operating Expenses* section for further details on the initiatives.) NSUH-M continues to invest in quality initiatives, technology, physicians, and patient/physician service. In addition to developing cardiac service line growth to replace elective cardiac procedures now being performed at Southside, management is actively pursuing opportunities to continue to increase surgical volume at NSUH-M, including utilizing existing operating rooms more efficiently and creating incremental operating room capacity.

LIJMC's Operating Income improved by \$5.3 million from last year excluding the unfavorable net impact of the one-time adjustments described at the end of this section. This improvement primarily relates to an increase in medical and surgical volume, increased payment rates and an increase in outpatient revenue associated with increased emergency room visits and radiation therapy procedures. Emergency room throughput improved as a result of management efforts associated with patient flow activities and the opening of four additional emergency room beds in July 2008. In addition, as a result of supply chain initiatives and management initiatives to reduce length of stay, expense reductions were achieved.

Improvements at FHH primarily relate to increased payment rates, increased case mix driven by higher weighted medicine and surgical cases, and management of expenses in relation to volume.

Improvements at CECR primarily relate to a favorable payer mix and higher payment rates as a result of increased case mix due to the continuing shift from long term care to rehabilitation services.

PVH and GCH experienced declines in operating performance from the prior year primarily as a result of a reduction in inpatient and outpatient surgical procedures as well as fewer non-surgical inpatient acute care volume and fewer emergency room visits at PVH. Discharges and emergency room visits declined at PVH because a neighboring hospital had its emergency room on diversion during 2007. This diversion caused volume at PVH to increase temporarily during 2007, and volume has normalized for 2008. Discharges and emergency room visits at PVH have returned to historical levels. In addition to the factors impacting revenue at these hospitals, expenses increased in excess of revenue growth at GCH due to investments in technology and plant upgrades, and at PVH due to an increase in salaries and benefits and nursing agency fees. Management remains focused on bringing expenses in line with volume and revenue at GCH and PVH.

The Obligated Group continues to invest in technology, including clinical software, to: 1) remain competitive; 2) maintain an advantage regarding physician satisfaction and retention; and 3) improve clinical and operational processes. In addition, management is making strategic investments in physicians who support key service lines and staff to support various other service and quality initiatives.

#### **One-Time Adjustments to Operating Income**

The Obligated Group's combined Operating Income of \$30.9 million includes certain adjustments related to malpractice insurance expense, liabilities for non-union employees' compensated absences, and third party payer settlements. The net impact of these adjustments did not have a significant effect on the combined Operating Income of the Obligated Group; however, the net impact of these adjustments caused the Operating Income of NSUH to increase by \$10.7 million and the Operating Income of LIJMC to decrease by \$10.1 million. The Operating Income of the other Members of the Obligated Group was not materially impacted by the net of these adjustments. (Refer to *Changes in Unrestricted Net Assets* for the impact on Southside and Franklin.)

Based upon the December 31, 2008 malpractice actuarial valuation, the Obligated Group increased its estimate for medical malpractice losses for insured years dating back to 2002. The malpractice adjustment is associated with losses in excess of aggregate coverage on primary insurance layers, the severity and frequency of claims included in the excess layers of coverage, and estimates for losses that have occurred but not yet been reported, all of which increased the malpractice insurance liabilities at December 31, 2008. This malpractice adjustment was substantially offset by favorable adjustments related to compensated absences and settlements with third party payers. During the last quarter of 2008, the Obligated Group amended certain policies for non-union employees' compensated absences. These amendments reduced the maximum number of vested days employees are entitled to be paid upon termination, and as a result reduced the compensated absences liability and salary expense for the year ended December 31, 2008. Also during the last quarter, the Obligated Group settled certain outstanding managed care matters with various third party payers and updated estimates for third party liabilities which increased net patient service revenue and positively impacted Operating Income.

### **TOTAL NON-OPERATING GAINS AND LOSSES**

As a result of adverse market conditions, the Obligated Group reported a \$129.7 million Total Non-Operating Loss for the year ended December 31, 2008. This represented a negative change of \$165.6 million from the year ended December 31, 2007 when the Obligated Group reported a \$35.9 million Total Non-Operating Income. Excluding the Change in Net Unrealized Gains and Losses and Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments, the Total Non-Operating Loss for the year ended December 31, 2008 was \$10.2 million which was primarily driven by the unrestricted investment losses described in this section.

Non-Operating Gains and Losses are comprised of the following: 1) net unrestricted Investment Income (Losses), 2) unrestricted Change in Net Unrealized Gains and Losses, 3) Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments, and 4) Other Non-Operating Gains and Losses (unrestricted Contributions, Net of Fundraising Activities, and a non-cash Loss on Refinancing and Refunding of Long-Term Debt for the year ended December 31, 2007).

#### *Net Unrestricted Investment Income (Losses)*

For the year ended December 31, 2008, the Obligated Group recorded net unrestricted Investment Losses of \$10.7 million which was \$71.1 million less than the prior year income of \$60.4 million. The decrease was attributable to adverse market conditions. The following table provides a summary of net unrestricted Investment Income (Losses) for the years ended December 31, 2007 and 2008.

| (Dollars in Thousands)                  | 2007             | 2008              | Change             |
|---|------------------|-------------------|--------------------|
| Interest and dividend income            | \$ 24,898        | \$ 25,657         | \$ 759             |
| Net realized gains and losses           | 29,607           | (8,968)           | (38,575)           |
| Equity investment gains (losses) *      | 5,941            | (27,358)          | (33,299)           |
| Unrestricted Investment Income (Losses) | <u>\$ 60,446</u> | <u>\$(10,669)</u> | <u>\$ (71,115)</u> |

\* Equity investment gains (losses) relate to assets accounted for under the equity method of accounting which are included in Other Assets.

#### *Unrestricted Change in Net Unrealized Gains and Losses*

Mark-to-market adjustments resulted in the Obligated Group recording a negative unrestricted Change in Net Unrealized Gains and Losses on investments of \$105.0 million for the year ended December 31, 2008 compared to a negative change of \$14.5 million for the year ended December 31, 2007.

### *Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments*

Mark-to-market adjustments resulted in the Obligated Group recording a negative Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments of \$14.4 million for the year ended December 31, 2008 compared to a negative change of \$4.7 million for the year ended December 31, 2007.

In March 2007, the Obligated Group entered into a series of forward floating-to-fixed interest rate swaps of \$155 million to mitigate interest rate risk (excluding the credit spread) associated with the pending new money Series 2007A Bonds. On May 8, 2007, these swaps were terminated and the Obligated Group paid \$0.2 million from bond proceeds on May 31, 2007 to the counterparties. This amount represented the termination value as of the date of sale of the Series 2007A Bonds. Refer to “Part 6-Estimated Sources and Uses of Funds” in the *Series 2007A and 2007B Bonds Official Statement*.

In July and August 2007, the Obligated Group entered into four forward-starting floating-to-fixed interest rate swaps with an aggregate notional value of \$100 million with Citibank and UBS as counterparties. The swaps’ commencement date is January 15, 2010 with a final term of May 1, 2038. The swaps were entered into in anticipation of a new bond issue expected during 2009. The change in fair value of these interest rate swaps resulted in unrealized losses of \$14.4 million and \$4.7 million for the years ended December 31, 2008 and 2007, respectively. The Obligated Group anticipates issuing tax-exempt bonds to fund approximately \$300 million of new projects in 2009 and elected to hedge its interest rate cost to the extent of \$100 million. To date, no collateral has been required to be posted with regard to these swap agreements.

For information on the swaps related to the Series 2007B Bonds, refer to *Changes in Unrestricted Net Assets*.

### *Other Non-Operating Gains and Losses*

Other Non-Operating Gains and Losses include: 1) unrestricted Contributions, Net of Fundraising Expenses, of \$0.5 million and \$3.5 million for the years ended December 31, 2008 and December 31, 2007, respectively; and 2) an \$8.8 million non-cash Loss on Refinancing and Refunding of Long-Term Debt for the year ended December 31, 2007.

### **EXCESS MARGIN AND NET INCOME EXCLUDING NON-CASH NON-OPERATING GAINS AND LOSSES**

As mentioned in the Statement of Operations Overview earlier, a decline in investment returns as a result of adverse market conditions offset the improved Operating Income. As a result, the Obligated Group reported a Net Loss of \$98.8 million for the year ended December 31, 2008. Excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments (collectively defined, “Non-Cash Non-Operating Gains and Losses”), the Obligated Group had \$20.7 million Net Income excluding Non-Cash Non-Operating Gains and Losses.



Net Income excluding Non-Cash Non-Operating Gains and Losses declined \$66.6 million from last year. Consequently, the excess margin declined from 3.0% for the year ended December 31, 2007 to 0.7% for the year ended December 31, 2008.

| (Dollars in Thousands)   | <u>Year<br/>Ended<br/>12/31/07</u> | Excess<br>Margin* | <u>Year<br/>Ended<br/>12/31/08</u> | Excess<br>Margin* |
|--|------------------------------------|-------------------|------------------------------------|-------------------|
| Excess (Deficiency) of Revenue and Gains and Losses over Expenses (“Net Income (Losses)”) )              | \$59,323                           |                   | (\$98,804)                         |                   |
| Plus Non-Cash Loss on Refinancing and Refunding of Long-Term Debt  | \$ 8,815                           |                   | –                                  |                   |
| Plus Negative Change in Net Unrealized Gains and Losses  | \$14,486                           |                   | \$105,049                          |                   |
| Plus Negative Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments | \$4,696                            |                   | \$14,436                           |                   |
| <b>Net Income excluding Non-Cash Non-Operating Gains and Losses</b>                                      | <b>\$87,320</b>                    | <b>3.0%</b>       | <b>\$20,681</b>                    | <b>0.7%</b>       |

\* Net Income excluding Non-Cash Non-Operating Gains and Losses / Total Operating Revenue + Non-Operating Income (excluding Change in Net Unrealized Gains and Losses, Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments and Non-Cash Loss on Refinancing and Refunding of Long-Term Debt)

### **CHANGES IN UNRESTRICTED NET ASSETS**

Other changes in Unrestricted Net Assets outlined in this section decreased Unrestricted Net Assets by \$156.9 million for the year ended December 31, 2008. When taking this decrease and the Net Loss of \$98.8 million into consideration, Unrestricted Net Assets decreased by \$255.7 million for the year ended December 31, 2008 compared to a \$31.9 million increase for the year ended December 31, 2007.

Other changes in Unrestricted Net Assets for the year ended December 31, 2008 consist of a reduction for Pension and Other Postretirement Liability Adjustments of \$134.8 million; a \$14.5 million negative Change in Fair Value of Interest Rate Swap Agreements Designated as Cash Flow Hedges (swap agreements which are a perfect hedge for the Series 2007B Bonds); an \$11.8 million reduction for Transfers to Affiliates and Reserves for Borrowings by Affiliates; an \$8.1 million increase for Net Assets Released from Restrictions for Capital Asset Acquisitions; and a reduction of \$3.9 million for the Change in Fair Value of Endowment Assets.

For the year ended December 31, 2008, the Pension and Other Postretirement Liability Adjustments primarily related to investment losses incurred by the assets included in the pension trust, which reduced Unrestricted Net Assets by \$134.8 million. The reduction was in accordance with the provisions of Financial Accounting Standard Board Statement No. 158, which require the Obligated Group to recognize the funded status (i.e., the difference between the fair value of the plan assets and the projected benefit obligations) of its defined benefit and postretirement plans in the combined statements of financial position with a corresponding adjustment to Unrestricted Net Assets.

The Obligated Group’s Cash Balance Plan’s funded status at December 31, 2008 was approximately 64% as compared to the funded status of 90% at December 31, 2007. The decline in funded status arose in 2008 as a result of a decline in the market value of pension plan assets attributed to a large negative investment return. Management of the Obligated Group plans on increasing pension assets by approximately \$50 million by the end of 2009 in order to bring the funded percentage in excess of 70%.

The interest rate swap agreements which commenced May 31, 2007 with the Obligated Group and Citibank as counterparties are a perfect hedge for the Series 2007B Bonds, and therefore, the net change in fair value of such interest rate swap agreements is included in other changes in Unrestricted Net Assets. For reference, on the day the Series 2007B Bonds were priced, the Obligated Group entered into two forward floating-to-fixed rate swaps on the Series 2007B Bonds. These swaps commenced May 31, 2007 with one swap of \$53.370 million having a final term date of May 1, 2018 in which NSLIJ pays 4.172% and one swap of \$69.895 million having a final term date of May 1, 2033 in which NSLIJ pays 4.373%. Refer to *PART 6 ESTIMATED SOURCES AND USES OF FUNDS* in the *Series 2007A and B Bonds Official Statement*. To date, no collateral has been required to be posted with regard to these swap agreements.

Net Assets Released from Restrictions for Capital Asset Acquisitions relate primarily to the release of temporarily restricted assets to support capital projects in accordance with capital plans.

The Change in Fair Value of Endowment Assets represents the amount that the fair value of assets associated with individual donor-restricted endowment funds fell below the level that the donors require the Obligated Group to retain as funds of perpetual duration. In 2008, as a result of adverse market conditions, the endowment assets experienced investment losses that reduced the fair value of the endowment assets below the original corpus. The difference between the fair value of the assets and the original corpus is required to be recorded as a reduction of Unrestricted Net Assets in the Consolidated Statement of Operations as the Change in Fair Value of Endowment Assets.

Transfers to affiliates and reserves for borrowings by affiliates for the year ended December 31, 2008 and 2007, which reflect mainly funding of Southside and the Feinstein Institute, decreased by \$17.3 million primarily as a result of a reduction in support necessary for Southside's capital and debt service. Transfers to the Feinstein Institute were in line with the budgeted amount.

Southside's Net Loss improved \$7.7 million from the prior year as Southside reported a Net Loss of \$4.3 million for the year ended December 31, 2008 versus a Net Loss of \$12.0 million for the year ended December 31, 2007. The \$7.7 million improvement from the prior year reflects primarily favorable patient revenue trends, including cardiac services, a \$1.5 million unrestricted contribution, and a \$2.0 million favorable adjustment to Operating Income associated with the one-time adjustments described earlier in *One-Time Adjustments to Operating Income*. Management continues to focus on expense reduction initiatives and increasing volume with an active physician recruitment program.

Southside's cash flow was \$12.4 million negative for the year ended December 31, 2008. (Cash flow is defined as Net Loss excluding the Change in Net Unrealized Gains and Losses plus Depreciation less principal payments and capital expenditures.) Despite the negative cash flow, the cash amount actually transferred was less than the \$12.4 million due to the timing of other operating cash flows. Capital investment necessary to secure future revenue opportunities and renovate clinical and patient care areas was within the NSLIJ System's five-year plan for Southside which commenced in the fall of 2005.

**Update on Contingent Financial Commitments to Third Parties by NSLIJ HCI or the Foundation or NSLIJ (which are not Members of the Obligated Group)** Refer to *OTHER NSLIJ SYSTEM HOSPITALS' SUPPLEMENTAL INFORMATION* herein.

1. Southside: From October 2004 through September 2008, the monthly debt service payments of Southside were paid by NSLIJ HCI in fulfillment of NSLIJ HCI's obligation under its partial Southside Guarantee of 1998 Southside Bonds. Since October 2008, Southside has been making its monthly debt service payments. While the September 2008 payment satisfies NSLIJ HCI's guarantee obligation with respect to the 1998 Southside Bonds, the NSLIJ System presently intends to advance funds as necessary to Southside to meet Southside's obligations without making or assuming any commitment to continue such advances. Approximately \$4.7 million in principal and interest remain to be paid by the North

Shore-Long Island Jewish Health System Foundation (hereinafter defined, "Foundation") over the next four years under payments intended to cover the majority of the debt service on local IDA Southside Bonds issued in 2002.

2. Franklin: NSLIJ HCI guarantees up to a cumulative \$10 million of regularly scheduled principal and interest payments on certain tax-exempt bonds issued for the benefit of Franklin by the Town of Hempstead Industrial Development Agency in 2002. To date, there have been no demands under this guarantee.

Franklin's Net Loss improved \$0.9 million over the prior year despite a reduction in Operating Income of \$2.0 million related to the one-time adjustments described earlier in *One-Time Adjustments to Operating Income*. Franklin reported a Net Loss of \$3.8 million for the year ended December 31, 2008 versus a Net Loss of \$4.7 million for the year ended December 31, 2007. The improvement resulted from increased revenue for inpatient and outpatient surgical cases and cost containment in relation to existing volume. Franklin's management continues to implement revenue cycle initiatives and to work to contain costs in relation to existing volume and revenue. In addition, management is focused on increasing volume through expansion of existing programs, development of new programs and active pursuit of affiliations with new physician practices. For the year ended December 31, 2008, Franklin was \$4.6 million cash flow negative. (Cash flow is defined as Net Loss excluding the Change in Net Unrealized Gains and Losses plus Depreciation less principal payments and capital expenditures.) Despite the negative cash flow, Franklin did not require cash support for the year ended December 31, 2008 due to the timing of other operating cash flows.

3. Staten Island University Hospital: In settlement of United States Department of Health and Human Services, Office of the Inspector General liabilities, SIUH agreed to make a one-time payment in 2008 of \$76.5 million. SIUH funded the amount with a \$60.0 million loan from a bank and the remaining balance from operating cash. NSLIJ (the ultimate corporate parent of SIUH and the Obligated Group Members) has guaranteed repayment of SIUH's eight-year bank loan (which has a balloon due in year eight reflecting agreed upon fifteen-year amortization) as well as SIUH's two related variable to fixed interest rate swaps with the two counterparties Toronto Dominion and JPMorgan Chase. To date, there have been no draws on these guarantees, and no collateral has been required to be posted.

## ***COMBINED STATEMENTS OF FINANCIAL POSITION***

### **Cash and Liquidity**

Unrestricted Cash and Cash Equivalents (\$178.9 million) and Marketable Securities and Other Investments (\$433.3 million) increased by \$29.2 million from December 31, 2007 principally as a result of Net Income excluding Non-Cash Non-Operating Gains and Losses and management utilizing a rigorous strategic capital allocation process. Management's strategic capital allocation process balances capital expenditures within the context of operations, capital market conditions affecting investment performance, fundraising and debt capacity. No short-term bridge borrowings for capital expenditures expected to be incurred prior to the anticipated bond issue in 2009 are included in unrestricted Cash and Cash Equivalents and Marketable Securities and Other Investments. Refer to *Debt*.

With the increase in Cash and Cash Equivalents, Marketable Securities and Other Investments, the cushion ratio improved to 9.9:1 at December 31, 2008 compared to 9.4:1 at December 31, 2007. With a \$112.6 million net increase in debt and a \$29.2 million net increase in Cash and Cash Equivalents, Marketable Securities and Other Investments, the cash to debt ratio at December 31, 2008 declined to 75% from 82% at December 31, 2007. Days cash on hand only decreased by one day to 79 days at December 31, 2008 from 80 days at December 31, 2007 despite a significant reduction in cash balances attributed to adverse capital market conditions. This reduction of only one day was achieved as a result of improved Operating Income and management's rigorous cash management process that incorporates a strategic capital allocation process described previously. Management intends to continue this rigorous cash management process in order to build additional liquidity on the balance sheet.

### **Accounts Receivable**

Days of hospital and physician net revenue in accounts receivable remained constant at 37 days at December 31, 2008 and at December 31, 2007.

### **Accounts Payable and Accrued Expenses**

Days in accounts payable decreased to 73 days at December 31, 2008 from 75 days at December 31, 2007.

### **Property, Plant and Equipment**

Management continues to monitor and manage capital spending in relation to operations, capital market conditions affecting investments, fundraising and debt capacity. Capitalized expenditures were \$220.2 million for the year ended December 31, 2008 compared to \$197.5 million for the year ended December 31, 2007. Of the \$220.2 million expended, \$89.5 million was paid through operations, \$8.1 million was paid from donations, grants and fundraising; \$33.6 million was financed from the proceeds of prior bond issues and \$89.0 million was financed with bridge loans and a long-term borrowing to finance the strategic purchase of an office building near the entrance of LIJMC. The Members of the Obligated Group continue to strategically invest their capital to meet the ongoing needs of their respective communities. Capital expenditures as a percentage of depreciation and amortization were 214% at December 31, 2008 compared to 201% at December 31, 2007.

**Accrued Retirement Benefits:** Refer to *Changes in Unrestricted Net Assets*.

**Malpractice Insurance Liabilities:** Refer to *One-Time Adjustments to Operating Income*.

### **Debt**

Outstanding long-term and short-term debt increased by \$112.6 million at December 31, 2008 from December 31, 2007 as a result of short-term unsecured borrowings to bridge capital expenditures incurred and expected to be incurred prior to the anticipated bond issue in 2009 and an unsecured long-term borrowing to finance the strategic purchase of an office building near the entrance of LIJMC. The bridge loans are anticipated to be repaid from the proceeds of long-term debt or donations. The Obligated Group anticipates issuing bonds to fund approximately \$300 million of projects in 2009. A portion of the proceeds of the bond issue will be used to repay short-term borrowings utilized to bridge some of those \$300 million projects.

With the decline in investment income as a result of capital market conditions, debt service coverage of MADS decreased to 2.6:1 as of December 31, 2008 (excluding the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments) from 3.6:1 as of December 31, 2007 (excluding the Change in Net Unrealized Gains and Losses, the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments and the non-cash Loss on Refinancing and Refunding of Long-Term Debt).

Furthermore, as a result of the decline in investment income from adverse market conditions, leverage as measured by long-term debt to cash flow increased to 5.3:1 (excluding the change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments) for the year ended December 31, 2008 from 3.6:1 for the year ended December 31, 2007 (excluding the change in Net Unrealized Gains and Losses, the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments and the non-cash Loss on Refinancing and Refunding of Long-Term Debt). At December 31, 2008, leverage as measured by debt to capitalization increased to 58% from 46% at December 31, 2007 as a result of: 1) the \$112.6 million net increase in borrowings to bridge capital expenditures; 2) Pension and Other Postretirement Liability Adjustments of \$134.8 million; and 3) challenging capital market conditions impacting investment income, the Change in

## Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments.

### **Fundraising**

For the year ended December 31, 2008, \$80.4 million in new pledges and/or cash was received by the NSLIJ System as part of their annual fundraising efforts. Of the \$80.4 million, \$61.3 million was in pledges and \$19.1 million was in cash. A \$500 million capital campaign for the NSLIJ System commenced in September 2006. Of the \$80.4 million raised for the year ended December 31, 2008, \$28.7 million is for this capital campaign. Through December 31, 2008, the capital campaign has raised \$112.6 million in pledges and cash.

As of December 31, 2008, the Obligated Group's cumulative share of the Foundation's unexpended pledges receivable and cash was \$98.1 million (which is reflected in the combined financial statements of the Obligated Group as \$3.2 million in unrestricted pledges and cash in Other Assets and \$94.9 million in temporarily restricted pledges and cash for capital projects or programs in Assets Limited as to Use).

### ***SUMMARY***

For the year ended December 31, 2008, the Obligated Group improved its Operating Income by \$7.44 million to \$30.86 million with an operating margin of 1% and generated \$20.7 million Net Income excluding Non-Cash Non-Operating Gains and Losses. Operating Income improvements at NSUH-M, LIJMC (before one-time adjustments), FHH, and CECR, net of declines in operating performance at GCH and PVH, helped mitigate investment losses attributable to adverse capital market conditions.

Despite adverse capital market conditions which negatively impacted investment returns, the balance sheet liquidity indicators of Cash and Cash Equivalents, Marketable Securities and Other Investments and the cushion ratio improved. Days cash on hand only decreased one day from 80 days at December 31 2007 to 79 days at December 31, 2008 as a result of improved operations and management's rigorous strategic capital allocation process in the context of operations, capital market conditions affecting investment returns, fundraising and debt capacity. The decline in Investment Income resulted in debt service coverage of MADS decreasing from 3.6x to 2.6x for the years ended December 31, 2007 and December 31, 2008, respectively. Furthermore, leverage increased with a net increase in debt and challenging capital market conditions impacting Investment Income and Unrestricted Net Assets.

The Obligated Group continues to focus on improving profitability in the face of challenges and factors pressuring operating margins and capital markets. Management is focused on reducing operating expenses with supply chain initiatives and operational efficiency efforts, as well as creating additional volume through enhanced capacity, improved utilization and physician recruitment efforts. The Obligated Group continues to invest in strategic capital projects and technology, including clinical software, to: 1) remain competitive; 2) maintain an advantage regarding physician satisfaction and retention; and 3) improve clinical and operational processes. In addition, the Obligated Group is making strategic investments in physicians who support key service lines and staff to support various other service and quality initiatives. Management continues to monitor strategic capital needs in relation to operations, capital market conditions affecting investment returns, fundraising and debt capacity.

### **Management's Discussion and Analysis for the Year ended December 31, 2007 for the Obligated Group**

*Please note that certain previously reported 2007 and 2006 amounts in the combined financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications include: 1) the separate presentation of the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously included in the Change in Net Unrealized Gains and Losses; and 2) the*

*reclassification of certain physician practice revenue previously reported in Other Operating Revenue. In addition, Investment Income, the Change in Net Unrealized Gains and Losses and the Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments were reclassified from Operating Revenue to Non-Operating Gains and Losses. Amounts reported in Management's Discussion and Analysis and the Combined Statements of Operations for the years ended December 31, 2007 and December 31, 2006 have been reclassified to reflect these changes. This reclassification does not impact previously reported Net Assets or the Excess of Revenue and Gains and Losses over Expenses.*

### **COMBINED STATEMENTS OF OPERATIONS OVERVIEW**

For the year ended December 31, 2007, the Obligated Group reported Operating Income (defined as Excess of Operating Revenue over Operating Expenses which excludes Total Non-Operating Gains and Losses) of \$23.4 million and Excess of Revenue and Gains over Expenses ("Net Income") of \$59.3 million. While Operating Income declined slightly from the prior year, the Obligated Group's Net Income (excluding the Change in Net Unrealized Gains and Losses, Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments and the Non-Cash Loss on Refinancing and Refunding of Long-Term Debt) increased \$20.7 million from the prior year primarily as a result of an increase in Unrestricted Investment Income resulting from an increase in investable assets and investment returns.

In 2007, growth in Total Operating Expenses slightly outpaced the growth in Total Operating Revenue. Consequently, Operating Income declined by \$1.3 million from the prior year, and the operating margin declined slightly from 0.9% to 0.8% for the years ended December 31, 2006 and December 31, 2007, respectively. An increase in case mix at many of the hospitals, improved outpatient volume (including an increase generated from ambulatory services) at some of the hospitals, as well as expense reductions at many of the hospitals, helped mitigate the impact of a decline in Operating Income at NSUH-M and FHH.

Total Operating Revenue grew over the prior year as a result of an increase in case mix at several of the hospitals, growth in certain outpatient revenue, an increase in payment rates and revenue cycle initiatives. In the last quarter of 2007, management began a supply chain initiative with the intent to reduce medical/surgical supplies and pharmaceutical expenses and adopt best practices in the supply chain infrastructure. Expense reductions associated with this initiative began in the last quarter of 2007 to reduce "supplies and expenses" and are expected to help control the growth rate of Total Operating Expenses at the hospitals in the NSLIJ System in 2008.

(Refer herein for comparative results of the year ended December 31, 2006.)

#### ***Series 2007A and B Bonds and Cash Defeasance***

On May 31, 2007, the Obligated Group issued Series 2007A and Series 2007B Bonds totaling \$284.8 million. Series 2007A Bonds were issued to: (i) finance or refinance projects for NSUH-M, LIJMC, GCH and FHH; (ii) pay a portion of the interest on the Series 2007A Bonds; (iii) fund a portion of the debt service reserve fund to secure the Series 2007A bonds; (iv) pay costs of issuance incurred in connection with the issuance of the Series 2007A bonds; and (v) make a de minimis termination payment in connection with certain interest rate swap agreements previously executed by Members of the Obligated Group as qualified hedges with respect to the Series 2007A Bonds.

Series 2007B Bonds were issued to: (i) refund all or a portion of the refundable bonds of the 1998 LIJMC bonds, 1998 North Shore Obligated Group bonds and 2003 North Shore-Long Island Jewish Obligated Group bonds; (ii) fund a portion of the debt service reserve fund to secure the Series 2007B Bonds; and (iii) pay costs of issuance incurred in connection with the 2007B Bonds. On May 8, 2007, the same day as the Series 2007B Bonds were priced, NSLIJ entered into two forward floating-to-fixed rate swaps on the Series 2007B Bonds. These swaps commenced May 31, 2007.

Concurrent with the issuance of the Series 2007A and B Bonds, the Obligated Group cash defeased \$59.2 million principal of the 1998 LIJMC bonds utilizing \$61.0 million provided by the Foundation. This created a more level overall debt profile and reduced Maximum Annual Debt Service (“MADS”) by 12% compared to fiscal year 2006. This defeasance combined with the Series 2007B Bonds advance refunding resulted in the LIJMC 1998 bonds being fully defeased.

## **OPERATING INCOME RESULTS**

### **Total Operating Revenue**

Total Operating Revenue for the year ended December 31, 2007 increased 4.5% from Total Operating Revenue for the year ended December 31, 2006. This growth is understated as a result of a reclassification of charity care versus bad debts for the year ended December 31, 2007. Had the updated financial assistance policy been in effect in 2006, Total Operating Revenue would have increased 6.6%. Refer to *Total Uncompensated Care*. The components of Total Operating Revenue are discussed below.

### **Patient Revenue**

The Obligated Group’s core business consists of Net Patient Service Revenue and Physician Practice Revenue (collectively referred to as “Total Patient Revenue”). Total Patient Revenue grew 4.6% over the prior year as a result of an increase in case mix at several of the hospitals, improved outpatient volume including an increase generated from ambulatory services, an increase in payment rates and revenue cycle initiatives. Had the updated financial assistance policy been in effect in 2006, Total Patient Revenue would have increased 6.9%. Refer to *Total Uncompensated Care*. The majority of the Obligated Group Members continue to operate at or near capacity.

Outpatient revenue, which is included in Net Patient Service Revenue, increased 5.5% from the prior year. Had the updated financial assistance policy been in effect in 2006, total outpatient revenue would have increased 9.9%. This increase was due primarily to revenue cycle initiatives, increased payment rates, and an increase in revenue generated from ambulatory services, which were partially offset by a reduction in outpatient cardiac catheterizations due primarily to the planned migration of cardiac services to Southside as described later. A major focus of the Obligated Group is the expansion of outpatient ambulatory services as signified by the opening of CFAM in Lake Success, New York. Since its opening in the summer of 2005, outpatient visits at this location have grown in clinical programs such as ambulatory surgery, diagnostic imaging, interventional radiology and ambulatory chemotherapy.

### **Other Operating Revenue and Net Assets Released from Restrictions Used for Operations**

The major components of Other Operating Revenue of \$48.2 million and \$44.1 million at December 31, 2007 and 2006, respectively, are hospital grants/contracts, cafeteria and vending machine sales, and other miscellaneous items. Other Operating Revenue increased 9.3% from the prior year due primarily to an increase in parking garage revenue. Net Assets Released from Restrictions used for Operations of \$51.1 million and \$54.8 million for the years ended December 31, 2007 and 2006, respectively, consist of research grants and temporarily restricted revenue, which cover related expenses. The decrease is driven primarily by a reduction in temporarily restricted assets, which directly corresponds with a reduction in operating expenses related to these funds.

### **Total Operating Expenses**

Total Operating Expenses for the year ended December 31, 2007 increased by 4.6% from Total Operating Expenses for the year ended December 31, 2006 as a result of an increase in labor related costs (salaries, benefits and nursing agency fees) and an increase in Supplies and Expenses excluding nursing agency fees. Had the updated financial assistance policy been in effect in 2006, Total Operating Expenses would have increased 6.7%. Refer to *Total Uncompensated Care*.

For the year ended December 31, 2007, salaries and employee benefits of \$1.7 billion plus \$11.2 million of nursing agency fees (included in Supplies and Expenses) were 6.4% above the prior year's Salaries and Employee Benefits of \$1.6 billion plus \$6.7 million of nursing agency fees. The increase was primarily due to patient severity as measured by case mix at several hospitals, an increase in outpatient volume, investments in physicians, normal cost of living adjustments and initiatives to support service and quality.

Supplies and Expenses (excluding nursing agency fees previously mentioned) for the year ended December 31, 2007 increased 8.6%. This increase is attributable primarily to the supply usage (blood and medical/surgical supplies including implants) associated with increased case mix at several hospitals, which was partially mitigated by a reduction in pharmaceuticals due to cost reduction and utilization initiatives. A large portion of supply usage is either reimbursed as "pass-throughs" or covered by payments related to increased case mix included in net patient service revenue. The Obligated Group's continued investment in information technology resulted in an increase in operating costs from the prior year. As discussed previously in *Statement of Operations Overview*, management has begun a supply chain initiative with the intent to reduce supply expense and adopt best practices in the supply chain infrastructure. Expense reductions associated with this initiative began in the last quarter of 2007 to reduce "supplies and expenses" and are expected to continue to benefit the hospitals in the NSLIJ System in the upcoming year.

Interest expense declined \$1.05 million from the year ended December 31, 2006 as compared to the year ended December 31, 2007.

#### **Total Uncompensated Care (Bad Debts and Charity Care)**

Based upon the ability to capture additional data regarding a patient's eligibility for charity care, management of the Obligated Group hospitals updated its financial assistance policy which resulted in the reclassification of charity care versus bad debts for the year ended December 31, 2007. This change neither impacted Operating Income nor coverage ratios since the outcome resulted in a reduction in both bad debt expense and net patient service revenue. The results of this policy update are reflected in the last quarter of this fiscal year. For further information, refer to Footnote 2 *Summary of Significant Accounting Policies-Charity Care* in the audit for the Obligated Group for the year ended December 31, 2007 (the "2007 audit").

The Obligated Group's audit does not include a reclassification of the 2006 amounts for the updated financial assistance policy. Line items which will not be comparable from fiscal 2006 to fiscal 2007 are Net Patient Service Revenue, Physician Practice Revenue, Total Operating Revenue, Bad Debt Expense and Total Operating Expenses. If the updated financial assistance policy had been in effect in 2006, these lines would be \$54.2 million less than in the 2006 column shown in the audited 2007 Combined Statements of Operations. Neither 2006 Operating Income nor coverage ratios would be impacted if 2006 were adjusted to be comparable.

Together, Charity Care and Bad Debt Expense represent Uncompensated Care. Estimated Total Uncompensated Care (bad debts and charity care) at cost per Footnote 2 in the 2007 audit increased from \$78.8 million for 2006 to \$83.8 million for 2007, respectively. This increase takes into account an adjustment so 2006 and 2007 can be compared taking into account the updated financial assistance policy in 2007.

#### ***Combining Operating Results***

Operating Income declined \$1.3 million from \$24.7 million to \$23.4 million as a result of declines in Operating Income at NSUH-M and FHH. With the exception of NSUH-M and FHH, Operating Income for most of the hospitals in the Obligated Group improved from the prior year. An increase in case mix at many of the hospitals, improved outpatient volume (including an increase generated from



ambulatory services) at some of the hospitals, as well as expense reductions at many of the hospitals, helped mitigate the impact of a decline in Operating Income at NSUH-M and FHH.

NSUH-M experienced a reduction (compared to the prior year) in Operating Income as a result of a decline in inpatient medical and surgical discharges; a reduction in cardiac service line volume; increased expenses in connection with the implementation of quality initiatives, technology, patient/physician services, and the recruitment of physicians. The decline in medical and surgical discharges relates primarily to an overall decline in discharges for the primary service market area as evidenced by data from the *Hospital Statistics and Service Utilization Report, Nassau Suffolk Hospital Council*. Cardiac service line volume decreased due to a reduction in inpatient cardiac interventions and outpatient cardiac catheterizations primarily as a result of Southside (a commonly managed hospital of the NSLIJ System, which is not a member of the Obligated Group) performing certain elective (non-emergency) cardiac procedures. Southside has been performing these elective cardiac procedures since the fourth quarter of 2006 for patients originating from Southside's service market area who previously traveled to NSUH-M for these services.

NSUH-M continues to invest in quality initiatives, technology, physicians, and patient/physician service. In addition to developing cardiac service line growth to replace elective cardiac procedures now being performed at Southside, management is actively pursuing opportunities to increase surgical volume at NSUH-M including utilizing existing operating rooms more efficiently and creating incremental operating room capacity. Furthermore, management began a supply chain initiative during the year with the intent to reduce supply expense and adopt best practices in the supply chain infrastructure. Expense reductions associated with this initiative began in the last quarter and are expected to benefit NSUH-M and the other hospitals in the NSLIJ System in the upcoming year.

FHH experienced a decline in Operating Income from the prior year primarily as a result of a decrease in inpatient volume, an increase in the allocation of corporate investments in information technology and increased malpractice insurance expense at FHH.

Improvements at LIJMC relate to an increase in cardiac surgery at Long Island Jewish Hospital ("LIJ") and an increase in the severity of cases at Schneider Children's Hospital ("SCH"). In addition, Zucker Hillside Hospital's margin improved due to an increase in psychiatric days as well as continued expense management.

Improvements at PVH relate to an increase in volume and case mix driven by an increase in higher weighted medicine and surgical cases as well as an increase in emergency room and private ambulatory visits. Discharges and emergency room visits at PVH benefited from a neighboring hospital having its emergency room on diversion during 2007. This diversion caused volume at PVH to increase temporarily during this time.

GCH's Operating Income improved as a result of cost containment in light of a decline in inpatient volume at GCH.

Improvements at CECR primarily relate to a favorable payer mix and higher payment rates as a result of increased case mix due to the continuing shift from long term care to rehabilitation services.

The Obligated Group continues to invest in strategic capital projects and technology, including clinical software, to: 1) remain competitive; 2) maintain an advantage regarding physician satisfaction and retention; and 3) improve clinical and operational processes. In addition, management is making strategic investments in physicians who support key service lines and staff to support various other service and quality initiatives.

## **TOTAL NON-OPERATING GAINS AND LOSSES**

The Obligated Group reported a \$35.9 million Total Non-Operating Gain for the year ended December 31, 2007. Several non-cash losses caused this net gain to be \$28.3 million lower than the \$64.2 million Total Non-Operating Gain reported for the year ended December 31, 2006. Excluding the Change in Net Unrealized Gains and Losses, Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments and the non-cash Loss on Refinancing and Refunding of Long-Term Debt, the Total Non-Operating Gain for the year ended December 31, 2007 was \$63.9 million versus \$41.9 million for the year ended December 31, 2006. The Total Non-Operating Gain excluding the non-cash items for the year ended December 31, 2007 was primarily driven by unrestricted Investment Income described in this section.

Non-Operating Gains and Losses are comprised of the following: 1) net unrestricted Investment Income (Losses), 2) Unrestricted Change in Net Unrealized Gains and Losses, 3) Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments, and 4) Other Non-Operating Gains and Losses (unrestricted Contributions, Net of Fundraising Activities, and a non-cash Loss on Refinancing and Refunding of Long-Term Debt for the year ended December 31, 2007).

### *Net Unrestricted Investment Income*

Net unrestricted Investment Income increased \$18.6 million from \$41.8 million for the year ended December 31, 2006 to \$60.4 million for the year ended December 31, 2007, primarily as a result of an increase in investable assets and investment returns.

The following table provides a summary of net unrestricted Investment Income for the years ended December 31, 2006 and 2007.

| (Dollars in Thousands)         | 2006     | 2007     | Change   |
|--------------------------------|----------|----------|----------|
| Interest and dividend income   | \$22,515 | \$24,898 | \$ 2,383 |
| Net realized gains and losses  | 12,078   | 29,607   | 17,529   |
| Equity investment gains*       | 7,256    | 5,941    | (1,315)  |
| Unrestricted Investment Income | \$41,849 | \$60,446 | \$18,597 |

\* Equity investment gains relate to assets accounted for under the equity method of accounting which are included in Other Assets.

### *Unrestricted Change in Net Unrealized Gains and Losses*

Mark-to-market adjustments resulted in the Obligated Group recording a negative Unrestricted Change in Net Unrealized Gains and Losses on investments of \$14.5 million for the year ended December 31, 2007 compared to a positive change of \$20.9 million for the year ended December 31, 2006. The Change in Net Unrealized Gains and Losses reflects fluctuations in the capital markets.

### *Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments*

Mark-to-market adjustments resulted in the Obligated Group recording a negative change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments of \$4.7 million for the year ended December 31, 2007 compared to a positive change of \$1.4 million for the year ended December 31, 2006.

For reference, the swap agreements for the year ended December 31, 2006 primarily pertain to the interest rate hedge entered into by the Obligated Group in 2004 with various counterparties with an initial notional amount of \$120 million. The purpose of the hedge was to lock in a desired level of interest

expense on the Series 2005A Bonds. These swap agreements were subsequently terminated October 18, 2006 with the conversion of the Series 2005A Bonds to tax-exempt fixed rates. The swap termination payment was funded by the Series 2005B Bonds issued October 18, 2006.

In March 2007, the Obligated Group entered into a series of forward floating-to-fixed interest rate swaps of \$155 million to mitigate interest rate risk (excluding the credit spread) associated with the pending new money Series 2007A Bonds. On May 8, 2007, these swaps were terminated and the Obligated Group paid \$0.2 million from bond proceeds on May 31, 2007 to the counterparties. This amount represented the termination value as of the date of sale of the Series 2007A Bonds.

In July and August 2007, the Obligated Group entered into four new forward-starting floating-to-fixed interest rate swaps with an aggregate notional value of \$100 million with Citibank and UBS as counterparties. The swaps' commencement date is January 15, 2010 with a final term of May 1, 2038. The swaps were entered into in anticipation of a new bond issue to be issued during 2009 to hedge its interest rate cost to the extent of \$100 million.

For information on the swaps related to the Series 2007B Bonds, refer to *Changes in Unrestricted Net Assets in Management's Discussion and Analysis for the Year ended December 31, 2008*.

#### *Other Non-Operating Gains and Losses*

Other Non-Operating Gains and Losses include: 1) unrestricted Contributions, Net of Fundraising Expenses, of \$3.5 million and \$0.07 million for the years ended December 31, 2007 and December 31, 2006, respectively; and 2) an \$8.8 million non-cash Loss on Refinancing and Refunding of Long-Term Debt for the year ended December 31, 2007 (as described in "Series 2007A and B Bonds and Cash Defeasance" herein).

As a result of the cash defeasance and Series 2007B Bonds advance refunding, a non-cash loss on refinancing and refunding of long-term debt of \$8.8 million was recorded. The non-cash loss represents the write-off of unamortized financing fees and premium, the premium paid on the defeasance/advance refunding of the bonds and present value of the additional escrow funding required for the high to low advance refunding. Several economic benefits offset this non-cash loss. First, MADS of the Obligated Group declined by a net amount of \$9 million after taking into account the additional new debt issued in May 2007. Consequently, the Obligated Group's debt capacity was enhanced with the resultant improvement in debt service coverage and the cushion ratio. Second, present value savings of the refunded bonds were approximately \$5 million. Finally, future debt service requirements were made more level to create a better match of assets and liabilities.

#### **EXCESS MARGIN AND NET INCOME EXCLUDING NON-CASH NON-OPERATING GAINS AND LOSSES**

A negative Change in Net Unrealized Gains and Losses, a negative Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments and non-cash Loss on Refinancing and Refunding of Long-Term Debt (collectively defined, "Non-Cash Non-Operating Gains and Losses") caused the Obligated Group to report an Excess of Revenue and Gains and Losses over Expenses ("Net Income") of \$59.3 million for the year ended December 31, 2007 which was \$29.6 million lower than the prior year. Excluding the Non-Cash Non-Operating Gains and Losses, Net Income increased \$20.7 million from the prior year primarily as a result of an increase in Unrestricted Investment Income.

Consequently, the excess margin increased from 2.4% for the year ended December 31, 2006 to 3.0% for the year ended December 31, 2007.

| (Dollars in Thousands)   | <u>Year Ended</u><br><u>12/31/06</u> | Excess<br>Margin* | <u>Year Ended</u><br><u>12/31/07</u> | Excess<br>Margin* |
|--|--------------------------------------|-------------------|--------------------------------------|-------------------|
| Excess of Revenue and Gains and Losses over Expenses (“Net Income”)  | \$ 88,946                            |                   | \$ 59,323                            |                   |
| Plus Non-Cash Loss on Refinancing and Refunding of Long-Term Debt  | –                                    |                   | \$ 8,815                             |                   |
| Plus Negative Change/Less Positive Change in Net Unrealized Gains and Losses   | \$(20,877)                           |                   | \$ 14,486                            |                   |
| Plus Negative Change/ Less Positive Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments | \$ (1,421)                           |                   | \$ 4,696                             |                   |
| <b>Net Income excluding Non-Cash Non-Operating Gains and Losses</b>  | <b>\$ 66,648</b>                     | <b>2.4%</b>       | <b>\$87,320</b>                      | <b>3.0%</b>       |

\* Net Income excluding Non-Cash Non-Operating Gains and Losses / Total Operating Revenue + Non-Operating Gains excluding Non-Cash Non-Operating Gains and Losses

### Capitalization

The following table sets forth the Obligated Group’s historical capitalization ratios as of December 31, 2007 and 2008 with the pro forma capitalization ratio, assuming the Series 2009A Bonds, Series 2009E Bonds and Series 2009B, C and D Bonds were issued resulting in a net increase in debt of \$270,160,000 (1).

#### North Shore - Long Island Jewish Obligated Group Capitalization (Dollars in Thousands)

|                                      | <u>December 31,</u><br><u>2007</u> | <u>2008</u>        | <u>Pro Forma as of</u><br><u>12/31/08</u> |
|--------------------------------------|------------------------------------|--------------------|---|
| Debt:                                |                                    |                    |   |
| 2009 Debt                            | \$ -                               | \$ -               | \$ 421,505                                |
| Existing Debt (1)                    | <u>707,761</u>                     | <u>820,371</u>     | <u>669,026</u>                            |
| Total Debt                           | \$ 707,761                         | \$ 820,371         | \$1,090,531                               |
| Net Assets-Unrestricted              | \$665,766                          | \$ 410,033         | \$ 410,033                                |
| Net Assets-Temporarily Restricted    | <u>181,886</u>                     | <u>176,394</u>     | <u>176,394</u>                            |
| Total Capitalization                 | <u>\$1,555,413</u>                 | <u>\$1,406,798</u> | <u>\$1,676,958</u>                        |
| Percentage of Debt to Capitalization | 46%                                | 58%                | 65%                                       |

(1) Pro forma existing debt reflects the repayment of \$81.45 million bridge loans related to the Series 2009A Bonds and Series 2009B, C and D Bonds and cancellation of \$69.895 million of Series 2007B Bonds. Please also refer to *Management’s Discussion and Analysis for the Six Months ended June 30, 2009 - Debt* for anticipated repayment amount of bridge loans at June 30, 2009.

Source: NSLIJ Finance Department

## Historical and Pro Forma Coverage of Debt Service

The following table sets forth the Obligated Group's historical debt service coverage ratios calculated per the Master Trust Indenture for the years ended December 31, 2007 and 2008. Maximum Annual Debt Service assumes pro-forma debt service including Series 2009A Bonds, Series 2009E Bonds and Series 2009B, C and D Bonds as if the Series 2009A Bonds, Series 2009E Bonds and Series 2009B, C and D Bonds were issued.

### North Shore - Long Island Jewish Obligated Group Long-Term Debt Service Coverage Ratio (Dollars in Thousands)

|   | 2007             | 2008             | Pro Forma as of<br>12/31/08 |
|---|------------------|------------------|-----------------------------|
| <b>Funds Available for Debt Service:</b>  |                  |                  |                             |
| Excess (Deficiency) of Revenue and Gains and Losses over Expenses   | \$59,323         | \$(98,804)       | \$(98,804)                  |
| Plus: Interest  | 36,611           | 34,053           | 34,053                      |
| Less: Interest add-back not applicable for debt service coverage (2)                                      | (1,991)          | -                | -                           |
| Plus: Depreciation and amortization   | 98,420           | 102,688          | 102,688                     |
| Plus: Negative Change in Net Unrealized Gains and Losses  | 14,486           | 105,049          | 105,049                     |
| Plus: Negative Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments | 4,696            | 14,436           | 14,436                      |
| Plus: Non-Cash Loss on Refinancing And Refunding of Long-Term Debt  | 8,815            |                  |                             |
| <b>Total Funds Available for Debt Service</b>   | <b>\$220,360</b> | <b>\$157,422</b> | <b>\$157,422</b>            |
| <b>Maximum Debt Service Requirements:</b>   |                  |                  |                             |
| Existing Debt   | 61,693           | 61,642           |                             |
| Existing Debt and Pro-Forma 2009 Debt (1)   | -                | -                | 81,398                      |
| <b>Total Maximum Annual Debt Service Requirements (2)</b>   | <b>\$61,693</b>  | <b>\$61,642</b>  | <b>\$81,398</b>             |
| <b>Historical and Pro Forma Coverage Ratio</b>  | <b>3.6x</b>      | <b>2.6x</b>      | <b>1.9x</b>                 |

Source: NSLIJ Finance Department

(1) Pro Forma Maximum Annual Debt Service at December 31, 2008 assumes the inclusion of the Series 2009A Bonds, the Series 2009E Bonds and the Series 2009B, C and D Bonds. Debt service for Series 2009B, C and D Bonds has been estimated using a blended rate of 3.6502%, which is a weighted average of NSLIJ's \$100 million forward starting swaps at a synthetic fixed swap rate of 3.722% and \$25 million of the restructured Series 2007B swap at a rate of 3.363%. Existing Debt includes the Outstanding Authority Bonds, the IDA Bonds and certain other debt.

(2) Maximum Annual Debt Service is calculated in accordance with Authority covenants.

## Reimbursement Methodologies

### Federal Reimbursement Generally

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively

federal program, and Medicaid is jointly funded by federal and state government. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older or disabled, or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to the medically indigent, is funded by federal and state appropriations, and is administered by the individual states. Hospital benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain minimum income or other eligibility requirements including children, the aged, the blind and/or disabled.

Health care providers have been and will be affected significantly by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, and have caused severe reductions in reimbursement from the Medicare program.

### *Medicare*

Medicare covers hospital services for eligible individuals who are elderly, disabled or subject to certain chronic conditions. Medicare pays acute care hospitals, such as the Obligated Group hospitals, for most general medical/surgical services provided to eligible inpatients under a prospective payment system ("PPS") known as "inpatient PPS." Under the inpatient PPS, hospitals receive a predetermined payment amount for each Medicare discharge. This PPS payment is a standard national amount based on the diagnostic related group ("DRG") for the discharge subject to a geographic adjustment that takes into account wage differentials. DRGs classify treatments for illnesses according to the estimated costs of hospital resources necessary to furnish care for each patient's principal diagnosis. Hospitals are thus at financial risk for providing services to a patient at an actual cost greater than the applicable DRG payment. DRG 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). Historically, the increases to the DRG rates have often been lower than the percentage increases in the costs of goods and services purchased by hospitals. DRG weights are also recalibrated annually. Hospitals also receive additional payments for certain costs, such as new technology costs as well as atypical cases (known as outliers) and the costs of organ procurement. Hospitals also receive an additional per discharge payment based on a federal rate (with certain adjustments) to reimburse hospitals for capital costs. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services. Eligibility for the full increase is currently conditioned upon a hospital's submission of quality data to Medicare. Furthermore, payments may be restricted for hospital acquired conditions.

Certain hospital inpatient facilities or units providing specialized services, such as rehabilitation or psychiatric units, are reimbursed under distinct reimbursement methodologies. Medicare implemented effective January 1, 2002, a distinct PPS for inpatient rehabilitation services and reduced the number of diagnoses that qualify a patient to be treated in an inpatient rehabilitation unit. Patients receiving rehabilitation services are classified into case mix groups based upon impairment, age, co-morbidities and functional capability. Hospitals receive a predetermined amount per discharge based on the patient's case mix group as adjusted for geographic area wage levels, low-income patients, rural areas and high-cost outliers. Medicare also adapted a distinct PPS for inpatient psychiatric services in 2005. Hospitals receive a predetermined per diem payment with adjustments for factors such as patient characteristics, DRG, hospital teaching status and geographic area wage levels. Rehabilitation and psychiatric PPS rates are also subject to updates. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services.

Most hospital outpatient services are also reimbursed on a PPS basis. Payments under the outpatient PPS ("OPPS") are based upon ambulatory payment classification ("APC") groups. An APC

group includes various services and procedures determined to be similar. APC rates are adjusted annually and are subject to a geographic adjustment that takes into account wage differentials and the average amount of resources required to provide the service (e.g., visit, chest x-ray, surgical procedure). Hospitals are eligible to receive additional payments for certain new or high cost drugs and devices as well as certain outlier payments. There can be no assurance that the hospital outpatient PPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services.

OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Outpatient services not covered by OPPS are reimbursed on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

Certain hospitals, including the Obligated Group hospitals, receive additional payment from Medicare to reimburse for providing care to a high level of Medicaid and disabled patients (disproportionate share payments or DSH payments) and training physicians and other medical professionals (graduate medical education (GME) payments). There are two forms of payment for GME: Direct Graduate Medical Education (DGME) and Indirect Medical Education (IME) payments. DGME payments support the direct costs of training (e.g., resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and their extensive “stand-by” capabilities. Direct medical education costs (“DGME”) are reimbursed under a prospective methodology based on a hospital-specific approved amount per resident. Additional payments are available to PPS teaching hospitals for the indirect medical education (“IME”) costs attributable to their approved graduate medical education programs. The IME payment is an additional payment calculated as a percentage add-on to the inpatient DRG payment. The payment is based on a formula that incorporates the hospital’s ratio of residents to beds in use and total inpatient PPS revenue. DGME and IME reimbursement is subject to certain limitations, such as a cap on a hospital’s reimbursable residents based on the number of residents in a base year, reductions for didactic time (non hands on patient activity), and reductions for training taking place in non-hospital settings unless certain criteria are met. Congress has repeatedly sought to limit GME reimbursement.

Medicare Advantage plans (formerly known as Medicare+Choice Plans prior to the 2003 Act) are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. In recent years, many private managed care companies discontinued their Medicare Advantage plans. The result has been that the beneficiaries who were covered by the now-discontinued Medicare Advantage plans have been shifted back into the Medicare fee-for-service program or into a Medicare cost plan.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the rate of increase in the cost of the program. It is likely that revisions will continue, some of which may adversely affect the Medicare reimbursement which members of the Obligated Group receive.

### ***Non-Medicare Reimbursement***

As periodically updated and renewed, the New York State reimbursement methodologies govern non-Medicare payments to hospitals in New York State. Under the New York State reimbursement methodologies, hospitals and all non-Medicare payers, except Medicaid, workers’ compensation and no-fault insurance programs, negotiate hospitals’ 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 (“NYSDOH”) on a

prospective basis. Every year, the NSLIJ System's hospitals and nursing homes must have their Medicaid reimbursement rates certified for the forthcoming year by the New York State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. In addition, Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Obligated Group is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for Medicaid will continue to be made in future years.

New York State reimbursement methodologies include a system of state-imposed assessments and surcharges on various categories of third party payers for healthcare services that fund annual state-operated pools for indigent care, healthcare initiatives, and professional education. In 2010, funds from the professional education pool will be transferred to the indigent care pool and distributed to hospitals on that basis. The teaching component of Medicaid and managed Medicaid reimbursement which is distributed outside the pools is expected to continue to be paid by the State directly to the hospitals. Members of the Obligated Group receive significant payments from such pools, and no assurances can be given that substantial subsequent changes in these programs will not occur, nor that subsequent payments will remain at levels comparable to the present level.

In New York State, Medicaid is a jointly funded federal-state-county program administered by the State by which hospitals receive reimbursement for services provided to eligible infants, children, adolescents and indigent adults. The federal share of the State's Medicaid expenditures is approximately 50% although one of the initiatives of President Obama's Administration is to increase this Federal Medical Assistance Percentage ("F-MAP") for New York. Since its application for a federal Medicaid waiver under Section 1115 of the Social Security Act was first approved in 1997, the State of New York has mandated that a significant portion of its Medicaid population be assigned and enrolled into private managed care plans. Under the waiver, Medicaid recipients are required to enroll in one of several managed care options, unless they fall into an exempt or excluded category enumerated in the New York statute. Management of the Obligated Group believes that Medicaid fee-for-service payments will likely constitute a reduced percentage of the Obligated Group's inpatient revenue as Medicaid managed care plans contract with hospitals on a negotiated-rate basis. Refer to *Managed Care* herein.

As of March, 2009, Governor Paterson and the New York State Legislature agreed to changes to Medicaid rates; most notably, an investment in outpatient care by adopting an entirely new payment system referred to as "Ambulatory Payment Groups" (APGs). This payment system is expected to correct decades of underpayment for outpatient services as the old "per visit" payment method had grossly understated payment caps. In addition, a "re-basing" of the inpatient rates from 1981 as the base year to 2005 as the base year is expected to result in overall payment decreases on a state-wide basis and shifts in rates from facility to facility. This re-basing also includes some fundamental changes in how rates are developed. A payment system that emulates the Medicare model is expected. A key modification was reinstatement of the Gross Receipts Tax for hospitals, a new Gross Receipts tax for home care agencies and continuation of the Gross Receipts Tax for nursing homes

Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Obligated



Group. Additionally, certain payers' payment rates for various years have been appealed by certain members of the Obligated Group. If the appeals are successful, additional income applicable to those years might be realized.

Any future reductions could have a material adverse effect on the financial condition of the Members of the Obligated Group. See also "PART 9 – RISK FACTORS AND REGULATORY CHANGES –"State Budget" and "Legislative, Regulatory and Contractual Matters Affecting Revenue".

***Managed Care*** (Also refer to "*Medicare*" and "*Medicaid*" herein.)

Managed care programs, which include various payment methodologies and utilization controls through the use of primary care physicians, are increasingly being offered by traditional insurance companies and managed care organizations in New York State. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. Managed care programs are expected to reduce significantly the utilization of health care services, and inpatient services in particular. In addition, some managed care organizations have been delaying reimbursements to hospitals thereby affecting institution cash flows. The Obligated Group's financial condition may be adversely affected by these trends.

The NSLIJ System has established relationships with most managed care companies in the market and these contracts cover most products (HMO, point of service, PPO) and payer types (Medicare, Medicaid, commercial). The five managed care companies that represent the largest managed care patient volume within the NSLIJ System are Empire Health Choice/WellPoint, United HealthCare, Emblem Health, CIGNA and Aetna.

The hospitals of the NSLIJ System, including the Members of the Obligated Group, employ a multifaceted strategy for managed care contracting. The goal of the contracting effort is to create mutually beneficial arrangements with managed care payers that will enable the NSLIJ System to maintain and enhance the quality of care provided to patients. This strategy was implemented in an effort to allow the NSLIJ System to maintain stable compensation/revenue through a combination of price enhancements and increases in volume to its facilities. The contracting initiatives include unified system-wide contracting, payment assurances, limitations on payer denials, periodic interim payments (advances) with certain payers, preferred pricing and volume objectives, open panels for physicians and diversified contracting for various products offered by each carrier.

These efforts are taking place despite the increased strength of payers due to a number of factors. Payer consolidation in the marketplace would further disadvantage hospitals and result in a small number of managed care payers controlling the majority of discharges. Shifts between product types within a particular payer's population may adversely affect expected compensation/revenue. In addition, managed care payers have also begun carving out many services (such as Behavioral Health / Substance Abuse, Laboratory and Radiology services) to third parties, as well as creating sub-networks ("centers of excellence") for high cost services such as cardiac care, bariatric surgery or bone marrow transplants, restricting the number of providers that may offer these services to their members in return for additional discounts or contract terms favoring the payer. In order to respond to these market shifts, the NSLIJ System has implemented a multi-year "payer parity" strategy, which includes relative price parity among payers for tertiary and community hospitals and shift to severity-adjusted case rates. While these goals have largely been achieved, a focus has been placed on a move toward product parity so that shifts in product type or benefit design will not have an adverse impact on compensation/revenue. Once this has been accomplished, price variations between payers will be based strictly on the intrinsic value a contract may have for each NSLIJ System hospital. Examples of this include: provisions regarding volume channeling, more favorable payment terms, participation in "centers of excellence", or the relative size of the payer in the marketplace.

The majority of managed care reimbursement is paid on either a discounted fee-for-service basis or case rate according to contracted rates. Financial terms are established based upon the size of health plan membership and the ability of the company to direct patients to the NSLIJ System. Separate rates are established for each product line (Medicare, Medicaid, Indemnity, HMO, and PPO). Most contracts are either on a DRG-based per case rate for all acute services or include per diem rates for general inpatient services and an extensive number of DRG-based case rates for tertiary and quaternary care. Psychiatric and Rehabilitation services are generally negotiated on a per diem basis. Global rates, which are composite rates that include hospital and physician services, have been established for select cardiac and transplant services. Outpatient services are reimbursed on a percent of charges or fixed fee schedule basis.

Most Medicaid managed care members are enrolled with Prepaid Health Services Plans (“PHSPs”). PHSPs are managed care companies that were enabled by New York State as part of the federal waiver it received to enroll Medicaid eligible patients in managed care. For several years, the NSLIJ System prepared for the implementation of mandatory Medicaid managed care enrollment in New York City and Nassau and Suffolk Counties, New York, through contracting initiatives and operational changes to ensure continued patient volume through outpatient clinics in the NSLIJ System. A major part of this initiative was purchasing an ownership interest in Healthfirst, a Medicaid HMO owned collectively by a consortium of hospitals in the region and one of the largest PHSPs in New York City. With an ownership interest in Healthfirst, and contracts with a few other large Medicaid managed care insurers, the NSLIJ System is well positioned to retain both patient volume and reasonable reimbursement.

See also “PART 9—RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP - Medicare and Medicaid Managed Care.”

## **Members of the Obligated Group**

### **Long Island Jewish Medical Center**

#### **Introduction**

LIJMC is a not-for-profit, 880-certified bed, tertiary care teaching medical center serving the greater metropolitan New York area, Queens and Long Island. When the Katz Women’s Hospital financed with the Series 2009A Bonds and Series 2009B, C and D Bonds is completed and surveyed by the Department of Health, certified beds are expected to increase by 35 beds to 915. The 48-acre campus is located in New Hyde Park, 15 miles east of Manhattan on the border of Queens and Nassau Counties. LIJMC comprises three divisions: (1) Long Island Jewish Hospital (as hereinbefore, defined “LIJ”), a 492-bed tertiary adult care hospital with advanced diagnostic and treatment technology and modern facilities for medical, surgical, dental and obstetrical care; (2) Schneider Children’s Hospital (as hereinbefore, defined “SCH”), a 152-bed pediatric hospital; and (3) The Zucker Hillside Hospital (as hereinbefore, defined “ZHH”), a 236-bed behavioral health hospital providing inpatient and outpatient psychiatric care.

According to *Crain’s New York Business* (March 23, 2009), LIJMC is ranked the eighth (8<sup>th</sup>) largest hospital in the metropolitan New York (excluding Connecticut) area by operating expenses.

LIJ opened in 1954. In 1973, LIJ merged with Hillside Hospital, a behavioral health facility that was founded in 1927, and in 1983, Schneider Children’s Hospital, was opened.

**Awards** (Refer also to “*North Shore-Long Island Jewish Health System*” and “*Specialized Programs and Services*” herein regarding Cardiac Care and Stroke Awards.)

### **Long Island Jewish Medical Center**

LIJMC was ranked among the top 50 Best Hospitals in the nation in Neurology and Neurosurgery per *US News & World Report's* "America's Best Hospitals" July 16, 2009 edition.

In June, 2008, LIJMC was one of 15 facilities across New York State to receive “IPRO’s 2008 Quality Awards,” given annually by IPRO, New York State’s Medicare Quality Improvement Organization, which recognizes health care providers that demonstrate a commitment to improving health care services in New York State. LIJMC was recognized for its successes in improving healthcare in the clinical areas of heart attack, heart failure and pneumonia, thanks to the interdisciplinary collaboration and teamwork between quality management, nursing and physicians. LIJMC was recognized because of its exemplary performance on a wide range of quality improvement activities. LIJMC exceeded expected targets in the Appropriate Care Measure Project and the facility has consistently been ranked among the top hospitals for the previous year in IPRO’s Appropriate Care Measure Collaborative.

LIJMC was the National Research Corporation Queens County Consumer Choice Award winner for 2000/2001, 2004/2005 to 2008/2009 and co-winner for 2001/2002 to 2003/2004. The award identifies hospitals which healthcare consumers have chosen as having the highest quality and image in more than 250 markets throughout the U.S.

According to *New York* magazine, November, 2006, “Best Hospitals” in the New York Metropolitan area, LIJMC was among the top 10 in the magazine’s “best overall hospitals” listing. LIJMC was also listed among the top 10 in Ear, Nose and Throat, Digestive Disorders and OB/GYN. These rankings were based on a survey of physicians conducted by Castle Connolly Medical Ltd. 2006 was the last time New York magazine ‘Best Hospitals’ list was published.

### **Schneider Children’s Hospital**

SCH was ranked among the top 30 Children's Hospitals in the nation in Diabetes and Endocrine Disorders, Digestive Disorders, Respiratory Disorders and Urology per *US News & World Report's* "America's Best Children's Hospitals" June 18, 2009 online edition (July 21, 2009 print edition).

SCH was ranked among the top 30 Children's Hospitals in the nation in General Pediatrics, Digestive Disorders and Neurology/ Neurosurgery per *US News & World Report's* "America's Best Children's Hospitals" issue May 29, 2008. *U.S. News & World Report* based the rankings on a methodology, which weighed a three-part mix of reputation, death rate, and such care-related factors as volume, nursing care, advanced technology, and recognition by outside organizations. SCH was also ranked among the top 30 in the nation in *U.S. News & World Report's* “America’s Best Children’s Hospitals” issue August 24, 2007.

According to *New York* magazine November, 2006 “Best Hospitals” in the New York Metropolitan area, SCH was listed number two in pediatrics. This ranking was based on a survey of physicians conducted by Castle Connolly Medical Ltd. 2006 was the last time New York magazine “Best Hospitals” list was published.

### **Zucker Hillside Hospital**

According to *New York* magazine, November, 2006, “Best Hospitals” in the New York Metropolitan area, ZHH was listed among the top 10 in psychiatry. These rankings were based on a survey of physicians conducted by Castle Connolly Medical Ltd. 2006 was the last time New York magazine ‘Best Hospitals’ list was published.

**Specialized Programs and Services** (Refer also to services provided at “*Center for Advanced Medicine*” and highlighted in “*Centralized Services, Common Objectives and Coordinated Clinical Leadership of the NSLIJ System, NSLIJ HCI and the Obligated Group Members*”.)

### ***Long Island Jewish Hospital***

The majority of LIJ’s programs are located on LIJMC’s campus or at NSLIJ’s Center for Advanced Medicine across the street from LIJMC in Lake Success. The following describes some of these specialty services and centers of excellence in addition to those highlighted in “*Center for Advanced Medicine*” and “*Centralized Services, Common Objectives and Coordinated Clinical Leadership of the NSLIJ System, NSLIJ HCI and the Obligated Group Members*”.

- **Women’s Health Services:** LIJ provides the full spectrum of women’s primary health care, specialty and subspecialty services.
  - LIJ’s Katz Women’s Hospital (refer to “*Project Description*” and “*Future Plans*”), to be housed in a new 285,000 square foot 88-bed tower being built in front of the existing hospital building. When completed, LIJMC’s bed complement will increase by net 35 obstetric beds. Furthermore, it will include 88 private patient rooms equipped with amenities to accommodate both patients and family members, and a range of maternity and women’s health services. The new tower will be designated as a Women’s Hospital and will connect to the existing LIJ main tower which will be renovated. The Katz Women’s Hospital will have one below-grade level and eight above-grade floors including the mechanical penthouse. Construction commenced fall 2008 and is scheduled for completion in the winter of 2012. The Katz Women’s Hospital coincides with the start of construction on the Katz Women’s Hospital at NSUH-M. These projects have been contemplated in the Obligated Group’s 2009 capital budget. Refer to “*PART 4 – THE PLAN OF FINANCE – The Series 2009 Projects*”. Refer to *Future Plans* herein.
  
- **Cardiac and Stroke Care**
  - The Sandra Atlas Bass Cardiology Center at LIJ is comprised of the departments of Cardiology and Cardiovascular and Thoracic Surgery. The services provided by these departments include heart disease diagnosis, medical and surgical treatment and follow-up care. The physical center at LIJ includes four state-of-the-art cardiac catheterization laboratories, three electrophysiology laboratories, a 15-bed Short-Stay Recovery Unit, a 14 bed Coronary Care Unit, three dedicated operating rooms, a state of the art cardiothoracic ICU and an 18 bed telemetry unit. The non invasive services utilize the latest technology and include nuclear cardiology, 3D echo and stress testing.
  - LIJ is the only hospital in the state to perform a majority of angioplasty procedures using the radial approach, a technique in which the procedure is performed through the patient’s wrist instead of the groin. This procedure has been shown to reduce bleeding complications and allows for early ambulation after the procedure.
  - LIJ has one of the best rates for successful cardiac care in New York State. LIJ ranks as the best hospital in New York State for heart bypass surgery, according to the latest three year report (using data from 2004 to 2006) which was released by the NYSDOH in July 2009. LIJ was among only two hospitals in New York State and the only one in the Queens/Long Island market that had success rates that were significantly better from a statistical standpoint than the statewide average, earning NYSDOH’s prestigious double star ranking. The hospital had a risk adjusted mortality rate of one percent for coronary artery bypass graft (CABG) surgery during that three-year period, the lowest in the state. Furthermore, two cardiothoracic surgeons, Robert Palazzo of LIJ and Alan Hartman, chairman of cardiothoracic surgery at NSUH-M and LIJ, were among only 11 open heart surgeons statewide – out of approximately 145 cardiac surgeons in 39

hospitals statewide – who had outcomes that were significantly better than the statewide average, according to the state’s Adult Cardiac Surgery Report.

- According to a 2009 HealthGrades® ranking released in 2008 LIJ received the Specialty Excellence Award™ for coronary intervention. HealthGrades® analyzed the Medicare inpatient data from the MedPAR database for years 2005 through 2007. LIJ received a five star rating for Inhospital Mortality for Coronary Interventional Procedures. The five star rating was for hospitals whose actual performance was better than predicted and the difference was statistically significant.
- LIJMC’s Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Gold Award*, in November 2008, by promoting the latest evidence-based treatment for stroke patients.
- LIJ is a designated NYSDOH Stroke Center and serves as a major recruiting center for national trials and provides state of the art diagnosis and treatment through a carotid and transcranial Doppler laboratory. The continuum of care runs from emergency neurologic and nursing evaluation through acute treatment, long term rehabilitation and post stroke care.
- The Vascular Institute provides surgical and non-surgical approaches to the diagnosis and treatment of vascular disease such as aortic aneurysms.
- Construction to add 40 net new critical care beds to provide more state-of-the-art care for adult patients and bring the LIJ critical care bed complement to 72 was completed in the spring of 2009.
- **Cancer**
  - The Francis and Alexander Cohen Institute of Oncology provides total cancer care, including autologous and stem cell bone marrow transplantation, ambulatory chemotherapy and an inpatient unit with specialized staff and services for cancer patients.
  - The Joel Finkelstein Cancer Foundation Radiation Medicine Institute has four linear accelerators and provides imaged guided radiation therapy to treat cancer including brain tumors and conformal 3-D radiation treatment, radioactive seed implantation and minimally invasive surgery.
- The **Hearing and Speech Center** is the largest facility on Long Island (including Queens County, New York) for early detection, diagnosis and remediation of hearing and speech deficiencies in patients of all ages. It includes the Marvin Schein Voice Center, the Richard and Lorraine Abramson Clinical Center and the Apelian Cochlear Implant Center. In 2008 LIJ opened the Zucker Sinus Center and Naymark Pavilion which is connected to the Hearing and Speech Center to provide state-of-the-art administrative and research offices and exam rooms for the LIJ Department of Otolaryngology and Communicative Disorders in one facility on campus.
- The **Epilepsy Center** is one of the few New York State Certified Comprehensive Epilepsy Centers. It provides 24-hour inpatient video and EEG monitoring, depth electrode monitoring, and medical and surgical therapies.
- The **Comprehensive Hemophilia Treatment Center** serves as the federally-designated regional Hemophilia program for Long Island. It provides lifelong diagnostic, treatment, education and support services to children, adults and families.
- Other LIJ programs include the **Pain and Headache Treatment Center**, the **Sleep/Wake Disorders Center**, emergency medicine, pulmonary and critical care, ambulatory clinics, urology services, acute

and chronic dialysis, neurology, gastroenterology and endoscopy, dental medicine and ophthalmology.

- The Emergency Room has been expanded to more than double the size of LIJMC's current Emergency Department to 36,500 square feet. The first phase was completed in the summer of 2007, and the full project was completed in the spring of 2009.
- LIJMC completed construction in spring 2008 of a new eight-story staff parking garage for 1,100 vehicles to make parking easier for patients and visitors and to reduce parking and traffic congestion in the neighborhoods surrounding the LIJMC campus.

### ***Schneider Children's Hospital***

SCH is one of four acute care children's hospitals in downstate New York. SCH is regarded as one of the leading children's hospitals in New York and is one of the leading children's educational institutions in New York State. SCH's patients are both regional and international.

- SCH's services include primary, secondary, tertiary and quaternary care providing a continuum of medical, surgical, psychiatric and dental care for children on an inpatient and ambulatory basis. Subspecialty areas include 20 pediatric medical subspecialties, nine pediatric surgical subspecialties, pediatric anesthesia, radiology, pathology, physical medicine, emergency medicine, pulmonary and critical care, ambulatory clinics, urology services, neurology, gastroenterology and endoscopy, dental medicine and ophthalmology.
- SCH has the following disease specific multi-disciplinary centers: hemophilia, cystic fibrosis, oncology and specific programs for children with chronic and congenital medical problems.
- Specialized centers include the Sleep Disorders Center, a Children's Heart Center, The Gambino Medical and Science Foundation Bone Marrow Stem Cell Transplantation Unit, the Childhood Brain and Spinal Cord Tumor Center and a Pediatric Cardiology Center specializing in surgical care, stenting, fetal cardiology and post operative treatment.
- SCH's echocardiography laboratory is certified by the Intersocietal Commission for the Accreditation of Echocardiography Laboratories ("ICAEL"). SCH's echocardiography laboratory performs more than 8,000 echocardiogram examinations each year to identify congenital and acquired heart disease in fetuses, infants, children and adolescents. Accreditation by ICAEL recognizes the lab's commitment to quality testing for the diagnosis and prevention of pediatric heart disease.
- SCH has emergency pediatric and neonatal transport services, a NYSDOH designated pediatric trauma center, a Neonatal Intensive Care Unit, a Pediatric Intensive Care Unit and is certified as the Regional Perinatal Center. SCH's NICU serves a large population in Nassau and Suffolk counties as well as Queens and Brooklyn. The NYSDOH has designated its Obstetrical and Neonatal Services as Regional Perinatal Centers for referral of the most complex patient problems as well as the oversight of quality care for the newborns in the region.
- SCH has satellite centers in Bensonhurst and Williamsburg, Brooklyn; Flushing, Queens; and Commack and Hewlett, Long Island. It also has developed a regional, integrated neo-natal infant and child transport system permitting a 30% increase in transports to SCH.

## **SCH Expansion**

Given the growing demand for services, SCH has adopted a plan to expand SCH to provide a discrete pediatric emergency department as well as 2 new medical-surgical units.

SCH completed construction in January, 2009 which added 5,900 square feet of space to its Neonatal Service for high-risk newborns requiring intensive care. The new intensive care beds use state-of-the-art, fully computerized monitoring equipment. Also being built to be completed in the first half of 2009 are: 1) a 20,000-square-foot, four-story glass-enclosed atrium that will feature activities for hospitalized children, and 2) a new Hematology/Oncology Unit where children with cancer receive chemotherapy, a 6,000-square-foot pediatric ambulatory chemotherapy unit that will nearly double the size of what's currently available for children receiving outpatient cancer care.

These projects have been contemplated in the Obligated Group's 2009 capital budget. Refer to *Future Plans* herein.

## ***The Zucker Hillside Hospital***

ZHH in Glen Oaks is recognized nationally for its pioneering work in the diagnosis, treatment and research of mental illness. ZHH provides a comprehensive array of diagnostic and treatment services to the elderly, adults, adolescents and children suffering from acute and chronic mental illness. The services include a continuum of care consisting of: inpatient and partial hospitalization, outpatient clinic and day treatment services, alcohol and substance abuse services and rehabilitation/vocational programs. Some of ZHH's more notable specialized programs in the areas of research, patient care and community education include the National Institute for Mental Health-designated Clinical Research Center for Study of Schizophrenia, the Center for Neuropsychiatric Outcomes, Rehabilitation Research, Vocational Rehabilitation Programming, and the Alliance for School Mental Health. Programs and services are located on the LIJMC campus as well as at various community based locations.

The inpatient service is comprised of 236 licensed psychiatry beds. Adult ambulatory specialty areas include: the Hillside Evaluation Center, the Day and Partial Hospital Programs; clinic treatment of phobias, depression and anxiety disorders; a clozapine clinic and electroconvulsive therapy. Geropsychiatric service areas include: a Partial Hospital Program; treatment of dementia and Alzheimer's disease; Eldercare Homebound Program and Nursing Home Liaison. Child ambulatory specialty areas include: treatment of adolescent depression; crisis intervention; treatment of chemical dependency; parenting skills training; attention deficit hyperactivity disorder and community-based On-Site School Programs. Chemical dependency services include: crisis screening and intervention; Outpatient/Intensive Programs; outpatient detoxification; Methadone Maintenance Program and family support groups.

Specialized services provided at community-based sites include:

- Nassau Day Training Program – Hicksville, New York – Vocational rehabilitation and training.
- Far Rockaway Treatment Center in Far Rockaway, New York and Mineola Community Treatment Center in Mineola, New York – Substance abuse treatment services for adults and adolescents.
- Intensive Psychiatric Rehabilitation Treatment in Hollis, New York - Vocational assessment, rehabilitation and training.
- Elmont Treatment Center in Elmont, New York and Project Outreach in West Hempstead, New York – Adult substance abuse treatment services.
- On-Site School Services – Far Rockaway, New York – School based child and adolescent mental health services located in three public school sites.

## Utilization Statistics for Long Island Jewish Medical Center

|   | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|---|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|   | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>                           |                                       |             |             |                                  |             |
| Discharges (excl. Nursery) (1)                    | 43,111                                | 43,569      | 45,666      | 22,733                           | 23,487      |
| Patient Days (excl. Nursery) (2)                  | 290,764                               | 287,045     | 284,849     | 144,033                          | 143,798     |
| Average Length of Stay (in Days) (2)              | 6.74                                  | 6.59        | 6.24        | 6.34                             | 6.12        |
| Average Daily Census                              | 797                                   | 786         | 778         | 791                              | 794         |
| Licensed Beds (excl. Nursery)                     | 827                                   | 865         | 867         | 867                              | 880         |
| Beds Available (3)                                | 809                                   | 840         | 826         | 826                              | 847         |
| Percentage of Occupancy (3)                       | 98.5%                                 | 94.8%       | 93.6%       | 94.5%                            | 94.8%       |
| Medicare Case Mix (4)                             | 1.70                                  | 1.71        | 1.64        | 1.67                             | 1.65        |
| Normal Newborn Discharges                         | 4,821                                 | 4,772       | 4,656       | 2,358                            | 2,217       |
| Total Discharges (1)                              | 47,932                                | 48,341      | 50,322      | 25,091                           | 25,704      |
| <b><u>Outpatient</u></b>                          |                                       |             |             |                                  |             |
| Emergency Room Visits (5)                         | 41,621                                | 43,090      | 48,813      | 24,184                           | 34,202      |
| Emergency Room Admissions                         | 20,642                                | 21,839      | 24,229      | 11,858                           | 13,065      |
| Total ER Encounters (5)                           | 62,263                                | 64,929      | 73,042      | 36,042                           | 47,267      |
| Clinic Visits (incl. psychiatry day hospital) (6) | 217,029                               | 192,642     | 196,757     | 97,658                           | 95,501      |
| Ambulatory Surgery Visits (7)                     | 21,832                                | 21,956      | 22,235      | 11,170                           | 11,611      |
| Other Outpatient Visits and Encounters (8)        | 131,592                               | 148,023     | 146,942     | 72,665                           | 72,085      |

- (1) Increase in Discharges is due to the opening of four additional emergency room beds in July 2008 as well as physician recruitment efforts. In addition, two hospitals within the LIJMC service area closed in February 2009. As a result, LIJMC is providing services to the patients from the communities previously serviced by the closed care providers.
- (2) Average Length of Stay improvements are due to management initiatives.
- (3) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other years due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Decrease in Medicare Case Mix in 2009 due to an increase in low service intensity weight cases.
- (5) Increase in Emergency Room Visits and Encounters due to the opening of four additional emergency room beds in July 2008 and management initiatives to improve Emergency Room throughput. In addition, volume increased in 2009 due to the closure of two nearby hospitals in February 2009 and a novel H1N1 flu virus outbreak in the second quarter of 2009.
- (6) Decrease in Clinic Visits in 2007 due to closure of the Queens Day Center in 2006 for cost savings.
- (7) Increase in Ambulatory Surgery Visits in 2009 is due to continued growth at the Center for Advanced Medicine.
- (8) Other Outpatient Visits and Encounters in 2006 are not comparable to other periods presented because 2007 forward includes radiology visits which were counted in Faculty Practice and not in Other Outpatient Visits and Encounters in 2006.

Source: NSLIJ Finance Department



## Summary of Historical Revenue and Expenses

The following “Summary of Historical Revenue and Expenses” of LIJMC for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited interim combined financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein including the combining schedules which are presented for supplementary informational purposes. Due to the effects of inter-company transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

Certain 2006 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such reclassifications include the separate presentation of the \$0.6 million Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously included in the Change in Net Unrealized Gains and Losses. In addition, \$16.3 million Investment Income, the \$5.5 million Change in Net Unrealized Gains and Losses and the \$0.6 million Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments were reclassified from Operating Revenue to Non-Operating Gains and Losses.

Certain 2007 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such reclassifications consist of the separate presentation of the (\$2.5 million) Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously reported in the Change in Net Unrealized Gains and Losses.

**Long Island Jewish Medical Center**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|   | <b>Audited</b>                 |                  |                    | <b>Unaudited</b>                 |                  |
|---|--------------------------------|------------------|--------------------|----------------------------------|------------------|
|   | <b>Year Ended December 31,</b> |                  |                    | <b>Six Months Ended June 30,</b> |                  |
|   | <b>2006</b>                    | <b>2007</b>      | <b>2008</b>        | <b>2008</b>                      | <b>2009</b>      |
| Operating revenue:  |                                |                  |                    |                                  |                  |
| Net patient service revenue –   |                                |                  |                    |                                  |                  |
| hospital and nursing facilities   | \$ 830,492                     | \$ 881,539       | \$ 948,410         | \$ 464,186                       | \$ 501,212       |
| Physician practice revenue  | 125,799                        | 116,617          | 130,917            | 64,666                           | 71,596           |
| Other operating revenue   | 22,867                         | 23,021           | 22,646             | 11,046                           | 14,468           |
| Net assets released from  |                                |                  |                    |                                  |                  |
| restrictions used for operations  | 22,206                         | 22,032           | 19,649             | 9,992                            | 5,488            |
| Total operating revenue   | <u>1,001,364</u>               | <u>1,043,209</u> | <u>1,121,622</u>   | <u>549,890</u>                   | <u>592,764</u>   |
| Operating expenses:   |                                |                  |                    |                                  |                  |
| Salaries  | 481,011                        | 507,579          | 536,790            | 265,779                          | 284,517          |
| Employee benefits   | 130,105                        | 133,143          | 144,571            | 72,706                           | 80,109           |
| Supplies and expenses   | 310,805                        | 339,552          | 375,581            | 168,210                          | 181,464          |
| Bad debt expense  | 38,491                         | 8,683            | 13,979             | 9,040                            | 9,521            |
| Depreciation and amortization   | 33,792                         | 34,631           | 36,742             | 18,442                           | 19,482           |
| Interest  | 12,493                         | 13,691           | 12,869             | 5,827                            | 7,696            |
| Total operating expenses  | <u>1,006,697</u>               | <u>1,037,279</u> | <u>1,120,532</u>   | <u>540,004</u>                   | <u>582,789</u>   |
| (Deficiency) excess of operating<br>revenue over operating expenses                                 | (5,333)                        | 5,930            | 1,090              | 9,886                            | 9,975            |
| Non-operating gains and losses:   |                                |                  |                    |                                  |                  |
| Contributions, net of fundraising<br>activities   | –                              | (21)             | (9)                | –                                | 40               |
| Investment income (losses)  | 16,253                         | 19,826           | (22,301)           | 3,989                            | 2,254            |
| Change in net unrealized gains<br>and losses  | 5,461                          | (3,482)          | (26,712)           | (7,031)                          | 6,719            |
| Change in fair value of interest<br>rate swap agreements<br>designated as derivative<br>instruments | 600                            | (2,463)          | (7,218)            | (137)                            | 4,523            |
| Loss on refinancing and refunding<br>of long-term debt  | –                              | (4,937)          | –                  | –                                | –                |
| Total non-operating gains and losses  | <u>22,314</u>                  | <u>8,923</u>     | <u>(56,240)</u>    | <u>(3,179)</u>                   | <u>13,536</u>    |
| Excess (deficiency) of revenue and<br>gains and losses over expenses                                | <u>\$ 16,981</u>               | <u>\$ 14,853</u> | <u>\$ (55,150)</u> | <u>\$ 6,707</u>                  | <u>\$ 23,511</u> |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

## North Shore University Hospital

### Introduction

NSUH has two divisions: the Manhasset Campus, known as The Sandra Atlas Bass Campus (NSUH-M) and the Syosset Campus (NSUH-S).

#### *Manhasset Campus-The Sandra Atlas Bass Campus*

NSUH-M is a tertiary care teaching institution with 812-certified acute care beds. According to *Crain's New York Business* March 23, 2009 issue, NSUH is ranked the fourth (4<sup>th</sup>) largest hospital in the metropolitan-New York area (excluding Connecticut) by operating expenses.

According to the NYSDOH SPARCS database, NSUH-M is the largest provider of hospital care to over five million residents in Suffolk, Nassau and Queens Counties. For the year ending 2007, NSUH-M had the largest number of patient discharges among all hospitals in Suffolk, Queens and Nassau for orthopedics, general surgery, colorectal surgery, neurosurgery, spinal surgery, urology, thoracic surgery and vascular surgery. In addition, NSUH-M is the second largest provider of cardiac services among all hospitals in Nassau, Suffolk and Queens.

First chartered in 1946, NSUH-M commenced operations in 1953 as a 169-bed, not-for-profit community hospital. The hospital has undergone significant expansion since 1953.

NSUH-M is located in the Village of Manhasset, Town of North Hempstead, in the northwestern corner of Nassau County, New York. In addition to the main tertiary hospital, its facilities include the Schwartz Ambulatory Surgery Center and a community health center with dental and psychiatric clinics located on the Manhasset Campus-The Sandra Atlas Bass Campus; the Goldman Family Care Center, the NSUH Eye Center, and the Israel and Julia Waldbaum Dialysis Center, all located within approximately one mile of the main hospital.

#### *Syosset Campus*

NSUH-S is a community hospital with 103-certified beds.

NSUH-S opened in 1962 as Syosset Hospital, a proprietary hospital. In December 1995, Syosset Community Hospital joined the North Shore Health System and was subsequently renamed Syosset Hospital. On September 5, 1997, NSUH-S merged with NSUH-M to form NSUH.

NSLIJ realigned NSUH-S to provide primarily minimally invasive and ambulatory surgery care. NSUH-S is a full-service community hospital with an inpatient medical-surgical unit and intensive care unit. Its 103 beds represent 71 medical-surgical beds, 12 intensive care beds, and 20 short-term psychiatric beds.

NSUH-S is located on a 5-acre site on Jericho Turnpike in Syosset, in the Town of Oyster Bay, at the eastern edge of Nassau County, New York. NSUH-S does business as Syosset Hospital.

Both NSUH-S and PVH coordinate medical and administrative functions and are overseen by the same executive director.

**Awards** (Refer also to “*North Shore-Long Island Jewish Health System*” and “*Specialized Services and Facilities*” herein regarding Cardiac Care and Stroke Awards.)

#### ***Manhasset Campus-The Sandra Atlas Bass Campus***

According to *New York* magazine, November, 2006, “Best Hospitals” in the New York Metropolitan area, NSUH-M was among the top 10 in the magazine’s “best overall hospitals” listing. NSUH-M also ranked in the top 10 in Cancer, Cardiac, Digestive Disorders, OB/GYN and Neurology/Neurosurgery. These rankings were based on a survey of physicians conducted by Castle Connolly Medical Ltd. 2006 was the last time *New York* magazine “Best Hospitals” list was published.

NSUH-M was the National Research Corporation Nassau and Suffolk Counties Consumer Choice Award winner for 2000/2001, 2002/2003 to 2005/2006 and 2007/2008 as well as co-winner for 2001/2002 (Queens County), 2006/2007 and 2008/2009. The award identifies hospitals which healthcare consumers have chosen as having the highest quality and image in more than 250 markets throughout the U.S.

#### ***Syosset Campus***

In 2005, NSUH-S was the first hospital in New York State to be distinguished for service excellence under the J.D. Power Associates Distinguished Hospital Program for Inpatient Service Excellence. NSUH-S received the honor again in 2006, 2007 and 2008. This service excellence distinction was determined by surveying a random sample of recently discharged patients from the facility on their perceptions of their stay and comparing the results to the national benchmark established by J.D. Power and Associates. The hospital scored particularly high in the categories of speed and efficiency, information and communication, and comfort. This accomplishment is a record for New York State.

NSUH-S also received the J.D. Power “Distinguished Emergency Department” award for Emergency Service excellence for 2007 and 2008. NSUH-S’s Emergency Department performed above the norm in all five categories: speed and efficiency; dignity and respect; comfort; information and communication; and emotional support.

**Specialized Services and Facilities** (Refer also to services and centers of excellence highlighted in “*Center for Advanced Medicine*” and “*Centralized Services, Common Objectives and Coordinated Clinical Leadership of the NSLIJ System, NSLIJ HCI and the Obligated Group Members*”.)

#### ***Manhasset Campus-The Sandra Atlas Bass Campus***

As a major diagnostic and treatment center for acutely ill patients, NSUH-M provides a complete range of inpatient and outpatient services for adults and children in medical, surgical, psychiatric and dental services. The hospital also provides a number of highly specialized services, including extensive diagnostic and treatment programs. The majority of NSUH-M’s programs are located on NSUH-M’s campus, or at sites located within approximately 1.5 miles of the main hospital including NSLIJ’s Center for Advanced Medicine across the street from LIJMC in Lake Success.

In addition to the main tertiary hospital, its facilities include the Schwartz Ambulatory Surgery Center and a community health center with dental and psychiatric clinics located on the Manhasset Campus-The Sandra Atlas Bass Campus. Additional services and facilities located at sites within close proximity of the main NSUH-M campus include: The Levitt Diagnostic Center (housing more than 80 clinics for ambulatory patient care); The Goldman Family Care Center; a Sleep Disorders Center, the NSUH Eye Center, and the Israel and Julia Waldbaum Dialysis Center.

The following describes some of these specialty services and centers of excellence in addition to those highlighted in “*Center for Advanced Medicine*” and “*Centralized Services, Common Objectives and Coordinated Clinical Leadership of the NSLIJ System, NSLIJ HCI and the Obligated Group Members*”.

- **Cardiac and Stroke Care**

- NSUH-M is a major cardiac diagnostic and open-heart center for adult patients with a comprehensive cardiothoracic surgery program which is consistently recognized as being among the top three in volume in New York State according to the NYSDOH Adult Cardiac Surgery report which was last published in March 2008 and studied cases from 2003-2005.

NSUH-M has nine catheterization labs. It has made significant breakthroughs in diagnostic techniques that aid physicians in identifying those patients at risk of dying from a second sudden heart attack. Its 64-slice LightSpeed Volume CT enables doctors to capture three-dimensional images of a beating heart in just five heartbeats. The images produced by the CT give doctors a powerful tool for diagnosing heart disease.

- According to a NYSDOH report released in 2009 on angioplasty, NSUH-M performed more emergency angioplasty cases than any other program in New York State from 2004 to 2006 and had outcomes that were significantly better than the statewide average. NSUH-M was the only hospital in New York State that had a significantly better success rate in emergency cases. Furthermore, Dr. Lawrence Ong, a cardiologist at NSUH-M, was one of three cardiologists having superior outcomes among the more than 300 cardiologists performing angioplasty at 51 hospitals throughout New York State.
- According to New York State’s Adult Cardiac Surgery Report released by the NYSDOH in 2009 (using data from 2004 to 2006), Dr. Alan Hartman, Chairman of cardiothoracic surgery at NSUH and LIJ, was among only 11 open-heart surgeons statewide – of approximately 145 cardiac surgeons in 39 hospitals statewide – who had outcomes that were significantly better than the statewide average,
- According to Thomson Reuters’ 100 Top Hospitals®: Cardiovascular Benchmarks for Success national study of clinical outcomes for 970 hospitals published in November 2008, NSUH-M was ranked among the nation’s top 100 for cardiovascular care. The study by Thomson Reuters (formerly Solucient) lists NSUH-M among 30 teaching hospitals with cardiovascular residency programs. Out of the 30 award-winning hospitals with residency programs, NSUH-M is the only one in New York State to receive this prestigious award. Out of the remaining 70 hospitals only two other hospitals in upstate New York made the list. NSUH-M has been on this list for four years. The study, now in its tenth year, found that the 100 Top Hospitals cardiovascular award winners, as a group, performed 63 percent more bypass surgeries and 42 percent more angioplasties than peer hospitals and, the mortality rate for bypass surgery was 26 percent lower in the 100 Top Hospitals cardiovascular winners. The award-winning hospitals demonstrated higher performance on the evidence-based core measures published by the Centers for Medicare and Medicaid Services and cost \$1,542 less per case, on average.
- According to a 2009 HealthGrades® ranking released in 2008 NSUH-M received the Specialty Excellence Award™ for cardiac care, cardiac surgery and coronary intervention. NSUH-M also received this same recognition in 2008. HealthGrades® analyzed the Medicare inpatient data from the MedPAR database for years 2005 through 2007. NSUH-M received a five star rating for Inhospital Mortality for Coronary Bypass Surgery, Valve Replacement Surgery, Coronary Interventional Procedures and Acute Myocardial Infarction. The five star rating was for hospitals whose actual performance was better than predicted and the difference was statistically significant.

- NSUH's Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Gold Award*, in January 2009, by promoting the latest evidence-based treatment for stroke patients. In addition to being a designated NYSDOH Stroke Center, NSUH has achieved the Joint Commission Certificate of Distinction for Advanced Certification as a Primary Stroke Center. NSUH's stroke care program follows national standards and guidelines that can significantly improve outcomes for stroke patients. The Joint Commission's Primary Stroke Center Certification is based on the recommendations for primary stroke centers published by the Brain Attack Coalition and the American Stroke Association's statements/guidelines for stroke care. The Joint Commission launched the program in 2003. NSUH is one of only two facilities on Long Island to receive Joint Commission Stroke Center Certification for its outstanding program.
- To compliment its primary stroke designation, NSUH-M is also considered a Comprehensive Stroke Center because of its team of specialists who perform neurovascular interventions that include endoscopic clot retrieval, aneurysm coiling and clipping and the ability to deliver clot fighting medication through catheter based interventions. This Center provides additional resources to treat patients with strokes and other neurovascular disorders with the most sophisticated treatments available.
- **Cancer**
  - NSUH-M offers the largest cancer patient care, medical research and education network on Long Island, which includes the following: the 219-bed Don Monti Pavilion which includes 60 dedicated beds in two units for the treatment of cancer patients; a children's cancer center; a radiation oncology department offering comprehensive radio-surgery treatment options; a cancer hotline staffed by specialists who answer questions on the latest state-of-the-art clinical trials and services available through the NSLIJ System; genetic testing and counseling services; and cancer education and psychosocial support services. NSUH-M is designated by the American College of Surgeons' Commission on Cancer as a Teaching Hospital Cancer Program.
  - NSUH-M has a Novalis system to provide a state-of-the-art approach to stereotactic (computer-assisted three-dimensional targeting) radiosurgery and radiotherapy to treat benign and malignant tumors, vascular malformations, trigeminal neuralgia (a severe facial pain syndrome) and other neurologic conditions without harming surrounding tissue.
  - NSUH-M's Bond Marrow Transplant Unit-The Don Monti Hematopoietic Stem Cell Transplant Unit- was accredited by the Foundation for the Accreditation of Cellular Therapy ("FACT") in June 2008, making it the first and only accredited adult transplant unit on Long Island.
- **Neurosciences**
  - The Harvey Cushing Institutes of Neuroscience offers advanced and cutting edge care in the following areas: neurovascular disease and stroke, Chiari malformation, brain and spinal cord tumors, neurodegenerative disease and epilepsy.
  - NSUH is the largest provider of neurosurgical, spine and neurological care among all hospitals in Nassau, Suffolk and Queens Counties according to the NYSDOH SPARCS 2008 database.
  - Some of the innovative techniques offered at NSUH-M include Novalis Stereotactic Radiosurgery and Radiotherapy, deep brain stimulation for the treatment of Parkinson's disease, brain aneurysm clipping and coiling, minimally invasive skull base surgery and an intraoperative MRI (which is the only one of its kind on Long Island).

- **Women's Health Services:** NSUH-M provides the full spectrum of women's primary health care, specialty and subspecialty services.

Construction commenced in 2008 to modernize Maternity and Obstetrics at Katz Women's Hospital at NSUH-M, which will feature 73 private spacious rooms. This project is scheduled for completion in 2012. The Katz Women's Hospital at NSUH-M coincides with the start of construction on LIJMC's Katz Women's Hospital. These projects have been contemplated in the Obligated Group's 2009 capital budget. Refer to *Future Plans* herein.

- **Psychiatry**

- NSUH-M's Department of Psychiatry provides a range of inpatient and outpatient services including: a walk-in clinic; liaison psychiatry; a community psychiatry liaison with the geriatric population in nursing homes, senior citizen centers, and senior citizen housing; and a drug treatment center which provides ambulatory detoxification and rehabilitation.
- The Rosen Family Wellness Center is dedicated to enhancing the well being of law enforcement and military personnel, and their families, living on Long Island and in the New York metropolitan region.
- The NYSDOH has designated NSUH-M as a **Regional Perinatal Center** for the care of high-risk pregnant women and premature and sick newborns. It also has been designated as a **Premature Transport Center** for the transfer of sick infants to the hospital for specialized care.
- NSUH-M has a certified state-of-the-art **Neonatal Intensive Care Unit, a Pediatric Intensive Care Unit and a Dedicated Pediatric Emergency Center.**
- NSUH-M is designated a **Regional Trauma Center** by the NYSDOH.
- NSUH-M completed a four phase renovation and expansion of its **Emergency Room** in the spring of 2007. The project included the addition of isolation rooms, the creation of dedicated treatment rooms, an additional trauma room, a dedicated pediatric space within the emergency room, a new façade for the front entrance and renovation of the waiting room, triage and fast-track areas to facilitate treating more patients on a timely basis.
- The ninth floor of NSUH-M's Monti Tower in 2007 was renovated to create a 24 single bedded Medical/Surgical Unit comprised of private rooms. Each room has its own family area to promote family-centered care. The unit has decentralized nursing stations designed to increase interaction with patients and is constructed utilizing the latest green materials to minimize the impact on the environment.
- NSUH-M has a **Chronic Renal Dialysis Center.** As one of the first centers in the country to offer advanced ambulatory dialysis, it has grown from a small service to an extensive, comprehensive program that serves patients in a four-county area.
- **Kidney Transplant Program:** In 2004, NSUH-M established a joint kidney transplant program with Mount Sinai Medical Center. Under that agreement, patients received comprehensive pre and post transplant care at NSUH-M and had their surgeries performed at Mount Sinai Hospital in Manhattan. In the first quarter of 2006, NSUH-M received approval from the NYSDOH to open a kidney transplant program to serve Nassau and Queens, the most populous region in the nation without one. NSUH-M recruited a nationally prominent transplant surgeon for its transplant program. The agreement with Mount Sinai expired in March 2007. The program became operational in the second half of 2007 after the United Network for Organ Sharing (UNOS) reviewed and approved the credentials of the transplant team and the NYSDOH conducted an on-site survey. The first transplant

recipient was in October 2007. Three transplants were performed in 2007, and fifteen transplants were performed in 2008. The program received CMS Medicare certification in April 2008.

- NSUH-M has been designated a **Viral Watch Center** for the U.S. Centers for Disease Control and Prevention. It is also a **designated center for the research and treatment for Acquired Immune Deficiency Syndrome** (“AIDS”).
- NSUH-M has one Operating Room Suite with an interoperative MRI and uses the latest Da Vinci Surgical Robot to assist surgeons with an array of procedures.
- In the fall of 2006, NSUH-M and NSUH-S received approval from the American Society for Bariatric Surgery’s Surgical Review Corporation to be designated **Bariatric Surgery Centers of Excellence**, a designation that allows the hospitals and its surgeons to receive Medicare reimbursement for operating on the morbidly obese. NSUH-M and NSUH-S are among a select group of about 210 hospitals throughout the United States to be recognized as Bariatric Surgery Centers of Excellence.
- A dedicated **Respiratory Care Unit**
- A dedicated **Palliative Care Suite** opened in February 2008.

### *Syosset Campus*

Since its acquisition by NSLIJ HCI, NSUH-S has been reconfigured for the provision of state-of-the-art minimally invasive and ambulatory surgical services with commensurate nursing unit and ancillary services. The state-of-the-art Center for Surgical Specialties focuses on ambulatory surgery or other surgeries requiring only a short-term hospital stay such as laparoscopy, endoscopy, laser, bariatric and other advanced procedures. NSUH-S has a full service 911 response Emergency Room which treats over 16,000 cases a year.

In the fall of 2006, NSUH-M and NSUH-S received approval from the American Society for Bariatric Surgery’s Surgical Review Corporation to be designated Bariatric Surgery Centers of Excellence, a designation that allows the hospitals and its surgeons to receive Medicare reimbursement for operating on the morbidly obese. NSUH-M and NSUH-S are among a select group of about 210 hospitals throughout the United States to be recognized as Bariatric Surgery Centers of Excellence.

Additional services and facilities include: a designated NYSDOH Stroke Center; an ophthalmology surgery center; The Interventional Pain Management Center; a laparoscopic teaching center; a weight loss program; an ICU unit; a brachytherapy service for prostate cancer; a telemetry unit, which serves as a Surgical Step-Down Unit; The Davis Vision Eye Surgery Center; and a twenty-bed short-term psychiatric unit.



## Utilization Statistics for North Shore University Hospital

|  | <b>12-Month Period<br/>Ended December 31,</b> |                    |                    | <b>6-Month Period<br/>Ended June 30,</b> |                    |
|--|---|--------------------|--------------------|--|--------------------|
|  | <b><u>2006</u></b>                            | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2008</u></b>                       | <b><u>2009</u></b> |
| <b><u>Inpatient</u></b>                    |   |                    |                    |  |                    |
| Discharges (excl. Nursery)                 | 49,352  | 49,012             | 49,638             | 24,943                                   | 25,012             |
| Patient Days (excl. Nursery)               | 282,459                                       | 284,876            | 286,372            | 145,342                                  | 142,894            |
| Average Length of Stay (in Days) (1)       | 5.72  | 5.81               | 5.77               | 5.83                                     | 5.71               |
| Average Daily Census                       | 774   | 780                | 782                | 799                                      | 789                |
| Licensed Beds (excl. Nursery)              | 788   | 812                | 812                | 812                                      | 812                |
| Beds Available (2)                         | 788   | 798                | 798                | 798                                      | 812                |
| Percentage of Occupancy (2)                | 98.2%   | 98.3%              | 98.0%              | 100.0%                                   | 97.3%              |
| Medicare Case Mix (3)                      | 1.72  | 1.73               | 1.67               | 1.65                                     | 1.78               |
| Normal Newborn Discharges                  | 4,663   | 4,937              | 5,105              | 2,461                                    | 2,679              |
| Total Discharges                           | 54,015  | 53,949             | 54,743             | 27,404                                   | 27,691             |
| <b><u>Outpatient</u></b>                   |   |                    |                    |  |                    |
| Emergency Room Visits (4)                  | 38,849  | 40,712             | 42,658             | 20,547                                   | 25,385             |
| Emergency Room Admissions                  | 27,259  | 28,335             | 28,973             | 14,685                                   | 14,784             |
| Total ER Encounters (4)                    | 66,108  | 69,047             | 71,631             | 35,232                                   | 40,169             |
| Clinic Visits (5)                          | 85,600  | 84,780             | 70,638             | 39,387                                   | 33,772             |
| Ambulatory Surgery Visits (6)              | 18,847  | 18,211             | 17,878             | 8,965                                    | 8,934              |
| Other Outpatient Visits and Encounters (7) | 164,021                                       | 203,957            | 223,606            | 109,816                                  | 117,331            |

- (1) Average Length of Stay improvements in 2009 are due to management initiatives.
- (2) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (3) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (4) Increase in Emergency Room Visits in 2009 is due to a novel H1N1 flu virus outbreak and the closure of two nearby hospitals in February 2009.
- (5) Clinic Visits declined due to the transitioning of mental health related services in 2008 from NSUH-M to LIJMC and other appropriate care providers in the community.
- (6) Decrease in Ambulatory Surgery Visits in 2007 primarily related to fewer Cardiac Catheterization referrals following the planned start-up of a new Cardiac Catheterization program at Southside Hospital in late 2006.
- (7) In April 2006, NSUH-M moved ambulatory chemotherapy services previously provided in the hospital to the Monter Cancer Center at CFAM. In July 2006, a 15,700 square-foot diagnostic imaging center specializing in outpatient services was opened at CFAM. In February 2007, a breast imaging center was opened at CFAM to consolidate breast imaging services previously offered by NSUH-M and LIJMC at two separate outpatient locations. Chemotherapy, diagnostic imaging and interventional radiology services are the main growth areas. 2006 volume is not comparable to other periods because in 2006 visits instead of procedures were tabulated for particular services.

*Source: NSLIJ Finance Department*

## Utilization Statistics for North Shore University Hospital at Syosset

|  | <b>12-Month Period<br/>Ended December 31,</b> |                    |                    | <b>6-Month Period<br/>Ended June 30,</b> |                    |
|--|---|--------------------|--------------------|--|--------------------|
|  | <b><u>2006</u></b>                            | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2008</u></b>                       | <b><u>2009</u></b> |
| <b><u>Inpatient</u></b>                    |   |                    |                    |  |                    |
| Discharges (excl. Nursery) (1)             | 4,456   | 4,597              | 4,788              | 2,400                                    | 2,387              |
| Patient Days (excl. Nursery) (1)           | 23,039  | 23,210             | 23,719             | 12,161                                   | 11,455             |
| Average Length of Stay (in Days) (2)       | 5.17  | 5.05               | 4.95               | 5.07                                     | 4.80               |
| Average Daily Census                       | 63  | 64                 | 65                 | 67                                       | 63                 |
| Licensed Beds (excl. Nursery)              | 103   | 103                | 103                | 103                                      | 103                |
| Beds Available (3)                         | 79  | 79                 | 79                 | 79                                       | 79                 |
| Percentage of Occupancy (3)                | 79.9%   | 80.5%              | 82.0%              | 84.6%                                    | 80.1%              |
| Medicare Case Mix (4)                      | 1.22  | 1.20               | 1.23               | 1.25                                     | 1.27               |
| Normal Newborn Discharges                  | -   | -                  | -                  | -  | -                  |
| Total Discharges (1)                       | 4,456   | 4,597              | 4,788              | 2,400                                    | 2,387              |
| <b><u>Outpatient</u></b>                   |   |                    |                    |  |                    |
| Emergency Room Visits (5)                  | 13,277  | 13,436             | 13,579             | 6,457                                    | 6,840              |
| Emergency Room Admissions                  | 3,018   | 3,145              | 3,371              | 1,689                                    | 1,727              |
| Total ER Encounters (5)                    | 16,295  | 16,581             | 16,950             | 8,146                                    | 8,567              |
| Ambulatory Surgery Visits (6)              | 13,684  | 13,717             | 13,634             | 6,876                                    | 6,459              |
| Other Outpatient Visits and Encounters (6) | 7,656   | 7,307              | 6,840              | 3,565                                    | 3,406              |

- (1) Increase in Discharges and Patient Days is due to physician recruitment efforts in 2007.
- (2) Average Length of Stay improvements are due to management initiatives.
- (3) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (5) Increase in Emergency Room Visits in 2009 primarily is due to a novel H1N1 flu virus outbreak in the second quarter of 2009.
- (6) Decrease in Ambulatory Surgery Visits and Other Outpatient Visits and Encounters is due to shift in Ambulatory Surgery and Pre-Surgical Testing volume for certain physicians to non-affiliated outpatient surgical centers.

*Source: NSLIJ Finance Department*

### Summary of Historical Revenue and Expenses

The following "Summary of Historical Revenue and Expenses" of NSUH for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited interim combined financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the audited combined financial

statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein including the combining schedules which are presented for supplementary informational purposes. Due to the effects of inter-company transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

Certain 2006 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such reclassifications include: 1) the separate presentation of the \$0.8 million Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously included in the Change in Net Unrealized Gains and Losses; and 2) the reclassification of \$4.5 million physician practice revenue previously reported in Other Operating Revenue. In addition, \$20.3 million Investment Income, the \$12.2 million Change in Net Unrealized Gains and Losses and the \$0.8 million Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments were reclassified from Operating Revenue to Non-Operating Gains and Losses.

Certain 2007 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such reclassifications include: 1) the reclassification of \$4.1 million physician practice revenue previously reported in Other Operating Revenue; and 2) the separate presentation of the (\$2.2 million) Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments previously reported in the Change in Net Unrealized Gains and Losses.

**North Shore University Hospital**  
**Summary of Historical Revenue and Expenses**  
(In Thousands)

|  | Audited                 |                  |                    | Unaudited                 |                  |
|--|-------------------------|------------------|--------------------|---------------------------|------------------|
|  | Year Ended December 31, |                  |                    | Six Months Ended June 30, |                  |
|  | 2006                    | 2007             | 2008               | 2008                      | 2009             |
| Operating revenue:   |                         |                  |                    |                           |                  |
| Net patient service revenue – hospital and nursing facilities                              | \$1,049,512             | \$1,095,201      | \$1,175,521        | \$ 572,003                | \$ 618,581       |
| Physician practice revenue   | 165,410                 | 172,430          | 170,055            | 75,327                    | 102,556          |
| Other operating revenue  | 33,414                  | 38,754           | 39,723             | 19,520                    | 22,552           |
| Net assets released from restrictions used for operations                                  | 32,620                  | 28,987           | 25,271             | 15,891                    | 11,492           |
| Total operating revenue  | <u>1,280,956</u>        | <u>1,335,372</u> | <u>1,410,570</u>   | <u>682,741</u>            | <u>755,181</u>   |
| Operating expenses:  |                         |                  |                    |                           |                  |
| Salaries   | 558,961                 | 611,654          | 631,068            | 311,398                   | 338,731          |
| Employee benefits  | 153,962                 | 156,274          | 161,601            | 83,005                    | 91,280           |
| Supplies and expenses  | 417,040                 | 451,066          | 480,431            | 224,132                   | 246,954          |
| Bad debt expense   | 41,090                  | 28,086           | 31,521             | 12,018                    | 15,894           |
| Depreciation and amortization  | 48,969                  | 47,371           | 49,047             | 24,635                    | 25,946           |
| Interest   | 19,431                  | 17,444           | 16,225             | 8,852                     | 8,671            |
| Total operating expenses   | <u>1,239,453</u>        | <u>1,311,895</u> | <u>1,369,893</u>   | <u>664,040</u>            | <u>727,476</u>   |
| Excess of operating revenue over operating expenses  | 41,503                  | 23,477           | 40,677             | 18,701                    | 27,705           |
| Non-operating gains and losses:  |                         |                  |                    |                           |                  |
| Contributions, net of fundraising activities   | 42                      | 3,477            | 43                 | 40                        | –                |
| Investment income  | 20,369                  | 32,335           | 7,308              | 4,256                     | 2,387            |
| Change in net unrealized gains and losses  | 12,217                  | (9,193)          | (66,395)           | (17,748)                  | 19,917           |
| Change in fair value of interest rate swap agreements designated as derivative instruments | 821                     | (2,233)          | (7,218)            | (137)                     | 4,523            |
| Loss on refinancing and refunding of long-term debt  | –                       | (2,853)          | –                  | –                         | –                |
| Total non-operating gains and losses   | <u>33,449</u>           | <u>21,533</u>    | <u>(66,262)</u>    | <u>(13,589)</u>           | <u>26,827</u>    |
| Excess (Deficiency) of revenue and gains and losses over expenses                          | <u>\$ 74,952</u>        | <u>\$ 45,010</u> | <u>\$ (25,585)</u> | <u>\$ 5,112</u>           | <u>\$ 54,532</u> |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

## **Glen Cove Hospital**

### **Introduction**

GCH is a not-for-profit, 265-certified bed, acute care, general hospital that has been meeting the healthcare needs of the residents of northern Nassau County on Long Island since its opening in 1921. It joined NSHS (now NSLIJ HCI) in 1990. It is situated approximately 30 miles east of Manhattan, in a suburban community, on a peninsula, in the northeast quadrant of Nassau County.

**Awards** (Refer also to “*North Shore-Long Island Jewish Health System*”.)

In June, 2008, GCH was one of the recipients of “IPRO’s 2008 Quality Awards.” The Quality Awards, given annually by IPRO, New York State’s Medicare Quality Improvement Organization, recognize healthcare providers that demonstrate a commitment to improving health care services in New York State. GCH was recognized for its successes in reducing the occurrence of surgical site infections and preventing other surgery-related complications. GCH was cited for its impressive 86 percent improvement across all measures associated with the Surgical Care Improvement Project (SCIP). (SCIP is a national quality improvement project funded by the US Centers for Medicare and Medicaid Services and designed to improve surgical care in hospitals.) These medically acceptable measures include, but are not limited to, assuring that patients receive appropriate antibiotics in a timely manner prior to certain surgical procedures to prevent post operative infections. Systems were put into place so that patients received appropriate medications and mechanical devices to prevent blood clot risk post operatively. In addition, GCH serves as a “mentor hospital” for the SCIP project, sharing best practices and assisting other hospitals as needed with their efforts in reducing post-operative infection.

GCH’s Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Bronze Award*, in January 2009, by promoting the latest evidence-based treatment for stroke patients.

### **Specialized Services and Facilities at GCH- The Mildred and Frank Feinberg Campus**

GCH is an acute care institution that offers inpatient services including medical/surgical, intensive and cardiac care, orthopedics, gynecology (obstetrics closed April 2004 with the service transitioned to PVH), pediatrics, and psychiatry. The 10 obstetrics beds were converted to med/surg beds. It has a specialty in orthopedics and rehabilitation at the Wunsch Center for Rehabilitative Therapies. Diagnostic and therapeutic services are offered on both an inpatient and outpatient basis and include laboratory, a state-of-the art endoscopy suite, nuclear medicine, respiratory therapy, physical medicine and rehabilitation, and radiology, including diagnostic x-ray, mammography, computerized tomography (“CT”) scanning, sonography, and radiation therapy. In 2008, GCH opened a new state-of-the-art Critical Care Unit featuring 18 private, glass-enclosed rooms for intensive care and coronary care patients and a 16-bed telemetry unit.

GCH offers state-of-the-art inpatient and outpatient orthopedic rehabilitation services, including total joint replacement, spinal procedures, sports medicine, and inpatient neurological rehabilitation. GCH has established itself as a national and international center for orthopedic surgery and joint replacement. Through its International Surgeons Preceptorship Program, established in 2000, surgeons from around the world visit the hospital to observe state-of-the-art techniques for hip, knee and shoulder joint replacements during live surgery.

GCH also provides an array of outpatient services aimed at meeting the ongoing and ever changing needs of the community. These services include a designated NYSDOH Stroke Center, an ambulatory surgery program, a primary care program including women’s services, a comprehensive pre-admission testing program, a full service modern 24-hour emergency department, complete diagnostic outpatient services, and an outpatient substance abuse program. Additional facilities and services include:

a Don Monti Cancer Center site, an outpatient oncology center (medical and radiation oncology), an inpatient geriatric unit, comprehensive diagnostic and therapeutic cardiovascular services, and Community House, one of the oldest drug and alcohol diagnostic and treatment centers on Long Island. The Family Medicine Center houses the hospital's primary care clinic and family medicine residency program.

### Utilization Statistics for Glen Cove Hospital

|  | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|  | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>                    |                                       |             |             |                                  |             |
| Discharges (excl. Nursery) (1)             | 10,070                                | 9,518       | 9,549       | 4,724                            | 4,807       |
| Patient Days (excl. Nursery) (1)           | 75,369                                | 71,591      | 71,115      | 35,076                           | 35,180      |
| Average Length of Stay (in Days) (2)       | 7.48                                  | 7.52        | 7.45        | 7.43                             | 7.32        |
| Average Daily Census                       | 206                                   | 196         | 194         | 193                              | 194         |
| Licensed Beds (excl. Nursery)              | 265                                   | 265         | 265         | 265                              | 265         |
| Beds Available (3)                         | 265                                   | 265         | 244         | 244                              | 244         |
| Percentage of Occupancy (3)                | 77.9%                                 | 74.0%       | 79.6%       | 79.0%                            | 79.7%       |
| Medicare Case Mix (4)                      | 1.27                                  | 1.32        | 1.36        | 1.37                             | 1.44        |
| Normal Newborn Discharges (5)              | -                                     | -           | -           | -                                | -           |
| Total Discharges (1)                       | 10,070                                | 9,518       | 9,549       | 4,724                            | 4,807       |
| <b><u>Outpatient</u></b>                   |                                       |             |             |                                  |             |
| Emergency Room Visits                      | 14,406                                | 15,243      | 15,310      | 7,663                            | 7,702       |
| Emergency Room Admissions                  | 5,890                                 | 5,430       | 5,589       | 2,770                            | 2,786       |
| Total ER Encounters                        | 20,296                                | 20,673      | 20,899      | 10,433                           | 10,488      |
| Clinic Visits (6)                          | 41,332                                | 36,546      | 31,607      | 15,837                           | 16,258      |
| Ambulatory Surgery Visits (7)              | 5,055                                 | 4,888       | 4,764       | 2,391                            | 2,344       |
| Other Outpatient Visits and Encounters (8) | 30,510                                | 24,741      | 23,553      | 12,701                           | 10,738      |

- (1) Decline in Discharge volume in 2007 is primarily due to the decline within the cardiology and oncology product lines. Growth in 2009 is primarily attributable to management initiatives related to rehabilitation referrals.
- (2) Average Length of Stay improvements are due to management initiatives.
- (3) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (5) Obstetric beds closed in 2004 with the service transitioned to PVH.
- (6) Decrease in Clinic Visits is primarily due to closing the methadone substance abuse drug treatment program in September 2007 for cost savings.
- (7) Decrease in Ambulatory Surgery Visits is primarily due to the decline in endoscopy services.
- (8) Decrease in Other Outpatient Visits and Encounters in 2007 is due to the decline in Private Ambulatory visits, CT scan procedures and lab work outsourced to NS-LIJ core lab. Decline in 2008 and 2009 related to Private Ambulatory visits primarily due to migration of CT imaging to an affiliated radiology practice beginning in August 2008.

Source: NSLIJ Finance Department

## **Summary of Historical Revenue and Expenses**

The following “Summary of Historical Revenue and Expenses” of GCH for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited interim combined financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein including the combining schedules which are presented for supplementary informational purposes. Due to the effects of inter-company transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

Certain 2006 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such items include the reclassification of \$0.1 million physician practice revenue previously reported in Other Operating Revenue. In addition, \$3.7 million Investment Income and the \$2.7 million Change in Net Unrealized Gains and Losses were reclassified from Operating Revenue to Non-Operating Gains and Losses.

Certain 2007 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such items consist of the reclassification of \$0.1 million physician practice revenue previously reported in Other Operating Revenue.

**Glen Cove Hospital**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|  | <b>Audited</b>                 |                |                | <b>Unaudited</b>                 |               |
|--|--------------------------------|----------------|----------------|----------------------------------|---------------|
|  | <b>Year Ended December 31,</b> |                |                | <b>Six Months Ended June 30,</b> |               |
|  | <b>2006</b>                    | <b>2007</b>    | <b>2008</b>    | <b>2008</b>                      | <b>2009</b>   |
| Operating revenue:   |                                |                |                |                                  |               |
| Net patient service revenue – hospital and nursing facilities                              | \$141,611                      | \$144,177      | \$144,904      | \$72,697                         | \$75,611      |
| Physician practice revenue   | 101                            | 123            | 15,096         | 7,370                            | 7,797         |
| Other operating revenue  | 4,679                          | 4,891          | 6,347          | 3,258                            | 2,488         |
| Net assets released from restrictions used for operations                                  | –                              | –              | –              | –                                | –             |
| <b>Total operating revenue</b>   | <b>146,391</b>                 | <b>149,191</b> | <b>166,347</b> | <b>83,325</b>                    | <b>85,896</b> |
| Operating expenses:  |                                |                |                |                                  |               |
| Salaries   | 67,018                         | 69,466         | 79,206         | 39,763                           | 42,565        |
| Employee benefits  | 19,964                         | 18,831         | 22,542         | 11,339                           | 12,917        |
| Supplies and expenses  | 53,954                         | 52,897         | 59,000         | 28,334                           | 27,677        |
| Bad debt expense   | 3,098                          | 5,103          | 4,084          | 2,349                            | 2,355         |
| Depreciation and amortization  | 5,076                          | 5,116          | 5,590          | 2,895                            | 2,928         |
| Interest   | 1,308                          | 1,262          | 1,013          | 515                              | 584           |
| <b>Total operating expenses</b>  | <b>150,418</b>                 | <b>152,675</b> | <b>171,435</b> | <b>85,195</b>                    | <b>89,026</b> |
| Deficiency of operating revenue over operating expenses                                    | (4,027)                        | (3,484)        | (5,088)        | (1,870)                          | (3,130)       |
| Non-operating gains and losses:  |                                |                |                |                                  |               |
| Contributions, net of fundraising activities   | –                              | –              | –              | –                                | –             |
| Investment income  | 3,657                          | 6,138          | 2,045          | 1,113                            | 972           |
| Change in net unrealized gains and losses  | 2,666                          | (1,436)        | (9,297)        | (2,822)                          | 2,707         |
| Change in fair value of interest rate swap agreements designated as derivative instruments | –                              | –              | –              | –                                | –             |
| Loss on refinancing and refunding of long-term debt  | –                              | (181)          | –              | –                                | –             |
| <b>Total non-operating gains and losses</b>  | <b>6,323</b>                   | <b>4,521</b>   | <b>(7,252)</b> | <b>(1,709)</b>                   | <b>3,679</b>  |
| Excess (deficiency) of revenue and gains and losses over expenses                          | \$ 2,296                       | \$ 1,037       | \$ (12,340)    | \$ (3,579)                       | \$ 549        |

Source: Audited Combined Financial Statements and NSLIJ Finance Department



## Plainview Hospital

### Introduction

In December 1994, NSLIJ HCI acquired Central General Hospital, a proprietary hospital which opened in 1961, and reorganized it as a not-for-profit institution renaming it Plainview Hospital (as hereinbefore defined, “PVH”). PVH is a 204-certified bed community hospital, which serves communities in eastern and central Nassau and western Suffolk Counties, New York.

**Awards** (Refer also to “*North Shore-Long Island Jewish Health System*”.)

PVH’s Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Bronze Award*, in January 2009, by promoting the latest evidence-based treatment for stroke patients.

### Specialized Services and Facilities

- 24-hour emergency service with fast track area to expedite sprains, fractures, and suture requirements
- An MRI, making PVH the only community hospital in the area with an MRI.
- A new CT Scan which opened in 2007.
- The diagnosis and treatment of heart disease, including an innovative program of early heart attack care (“EHAC”) with a recently expanded and enhanced chest pain emergency room. The Emergency Department has been selected as a site for an international study that examines excellence in treating chest pain patients.
- A broad range of maternal and child health services, including state of the art facilities such as labor, delivery, recovery and post-partum services and pediatric care, as well as on site 24/7 neonatology coverage, and the designation by the NYSDOH as a Perinatal Service Center.
- The diagnosis and treatment of cancer as a designated Community Cancer Program by the American College of Surgeons Commission on Cancer.
- State-of-the-art surgical services including, pre-surgical testing, a dedicated ambulatory surgery program which returns patients to the community shortly after surgery, and expanded and refurbished operating room suites.
- The diagnosis and treatment of pulmonary disease with special attention to patient education involving asthma and chronic lung disease. The Emergency Department has been equipped with the latest technology for inhalant medication administration for the treatment of asthmatics and patients suffering from severe respiratory failure.
- State-of-the-art Cardiac Diagnostic Services.
- A 21-bed Intensive Care Unit.
- PVH opened a Wound Care Hyperbaric Facility with three hyperbaric chambers in 2007.
- PVH has been designated by the NYSDOH as a Stroke Center.

## Utilization Statistics for Plainview Hospital

|  | <b>12-Month Period<br/>Ended December 31,</b> |                    |                    | <b>6-Month Period<br/>Ended June 30,</b> |                    |
|--|---|--------------------|--------------------|--|--------------------|
|  | <b><u>2006</u></b>                            | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2008</u></b>                       | <b><u>2009</u></b> |
| <b><u>Inpatient</u></b>                    |   |                    |                    |  |                    |
| Discharges (excl. Nursery) (1)             | 13,524  | 14,161             | 13,599             | 6,900                                    | 6,863              |
| Patient Days (excl. Nursery)               | 72,829  | 75,368             | 73,273             | 37,152                                   | 36,463             |
| Average Length of Stay (in Days) (2)       | 5.39  | 5.32               | 5.39               | 5.38                                     | 5.31               |
| Average Daily Census                       | 200   | 206                | 200                | 204                                      | 201                |
| Licensed Beds (excl. Nursery) (3)          | 232   | 211                | 211                | 211                                      | 204                |
| Beds Available (4)                         | 211   | 211                | 211                | 211                                      | 204                |
| Percentage of Occupancy (4)                | 94.6%   | 97.9%              | 94.9%              | 96.7%                                    | 95.5%              |
| Medicare Case Mix (5)                      | 1.26  | 1.30               | 1.33               | 1.34                                     | 1.39               |
| Normal Newborn Discharges                  | 1,538   | 1,415              | 1,400              | 679                                      | 684                |
| Total Discharges (1)                       | 15,062  | 15,576             | 14,999             | 7,579                                    | 7,547              |
| <b><u>Outpatient</u></b>                   |   |                    |                    |  |                    |
| Emergency Room Visits (1) (6)              | 23,087  | 24,298             | 23,931             | 11,809                                   | 12,498             |
| Emergency Room Admissions                  | 10,640  | 11,473             | 10,988             | 5,604                                    | 5,557              |
| Total ER Encounters (1) (6)                | 33,727  | 35,771             | 34,919             | 17,413                                   | 18,055             |
| Ambulatory Surgery Visits (7)              | 5,493   | 5,468              | 5,262              | 2,646                                    | 2,599              |
| Other Outpatient Visits and Encounters (8) | 10,698  | 14,672             | 18,624             | 9,196                                    | 9,389              |

- (1) Discharges and Emergency Room visits declined from 2007 due to a neighboring hospital having its Emergency Room on diversion during that year. Volume temporarily increased during 2007 and has returned to historic levels.
- (2) Average Length of Stay improvements due to management initiatives.
- (3) Effective October 2007, seven beds were approved for certification, and twenty-eight psych beds were approved for decertification by NYSDOH. Effective June 2009, seven maternity beds were approved for decertification.
- (4) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (5) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (6) Increase in Emergency Room Visits in 2009 primarily due to a novel H1N1 flu virus outbreak in the second quarter of 2009.
- (7) Decrease in Ambulatory Surgery is a consequence of timing in physician recruitment.
- (8) Increased Private Ambulatory volume primarily due to a new Hyperbaric Wound Care program that began in June 2007 and the expansion of the Interventional Radiology program.

*Source: NSLIJ Finance Department*

## Summary of Historical Revenue and Expenses

The following “Summary of Historical Revenue and Expenses” of PVH for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited interim combined financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein including the combining schedules which are presented for supplementary informational purposes. Due to the effects of inter-company transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

Certain 2006 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such items include the reclassification of \$5.4 million physician practice revenue previously reported in Other Operating Revenue. In addition, \$0.2 million Investment Income was reclassified from Operating Revenue to Non-operating Gains and Losses.

Certain 2007 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such items consist of the reclassification of \$5.8 million physician practice revenue previously reported in Other Operating Revenue.

**Plainview Hospital**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|  | Audited                 |                 |                   | Unaudited                 |                 |
|--|-------------------------|-----------------|-------------------|---------------------------|-----------------|
|  | Year Ended December 31, |                 |                   | Six Months Ended June 30, |                 |
|  | 2006                    | 2007            | 2008              | 2008                      | 2009            |
| Operating revenue:   |                         |                 |                   |                           |                 |
| Net patient service revenue – hospital and nursing facilities                              | \$133,786               | \$150,946       | \$156,414         | \$77,248                  | \$82,937        |
| Physician practice revenue   | 5,427                   | 6,695           | 8,312             | 3,651                     | 5,034           |
| Other operating revenue  | 1,159                   | 1,616           | 1,635             | 751                       | 1,091           |
| Net assets released from restrictions used for operations                                  | –                       | –               | –                 | –                         | –               |
| Total operating revenue  | <u>140,372</u>          | <u>159,257</u>  | <u>166,361</u>    | <u>81,650</u>             | <u>89,062</u>   |
| Operating expenses:  |                         |                 |                   |                           |                 |
| Salaries   | 70,607                  | 74,466          | 79,952            | 39,153                    | 41,913          |
| Employee benefits  | 19,242                  | 21,827          | 23,721            | 11,644                    | 12,931          |
| Supplies and expenses  | 43,289                  | 52,732          | 58,861            | 27,559                    | 30,067          |
| Bad debt expense   | 4,525                   | 2,298           | 1,677             | 1,177                     | 1,330           |
| Depreciation and amortization  | 4,772                   | 4,595           | 4,418             | 2,483                     | 2,402           |
| Interest   | 1,444                   | 1,382           | 1,280             | 684                       | 648             |
| Total operating expenses   | <u>143,879</u>          | <u>157,300</u>  | <u>169,909</u>    | <u>82,700</u>             | <u>89,291</u>   |
| (Deficiency) excess of operating revenue over operating expenses                           | (3,507)                 | 1,957           | (3,548)           | (1,050)                   | (229)           |
| Non-operating gains and losses:  |                         |                 |                   |                           |                 |
| Contributions, net of fundraising activities   | 5                       | –               | 15                | –                         | 9               |
| Investment income  | 183                     | 182             | 113               | 67                        | 55              |
| Change in net unrealized gains and losses  | 1                       | (1)             | 12                | 1                         | (4)             |
| Change in fair value of interest rate swap agreements designated as derivative instruments | –                       | –               | –                 | –                         | –               |
| Loss on refinancing and refunding of long-term debt  | –                       | (311)           | –                 | –                         | –               |
| Total non-operating gains and losses   | <u>189</u>              | <u>(130)</u>    | <u>140</u>        | <u>68</u>                 | <u>60</u>       |
| (Deficiency) excess of revenue and gains and losses over expenses                          | <u>\$ (3,318)</u>       | <u>\$ 1,827</u> | <u>\$ (3,408)</u> | <u>\$ (982)</u>           | <u>\$ (169)</u> |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

## Forest Hills Hospital

### Introduction

FHH, a not-for-profit, 312-certified bed community hospital, is located at a single site in the residential Forest Hills neighborhood of Queens County, New York. FHH opened in 1953. It joined NSHS (now NSLIJ HCI) in 1995.

**Awards** (Refer also to “*North Shore-Long Island Jewish Health System*”.)

FHH’s Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Silver Award*, in March 2009, by promoting the latest evidence-based treatment for stroke patients.

### Specialized Services and Facilities:

- FHH provides inpatient services in medical and surgical care, intensive care, and gynecology/obstetrical care with a modernized obstetrics and labor and delivery suite.
- FHH’s expanded surgical services include: a bloodless surgery program, bariatric surgery, vascular surgery including endovascular stent-grafting for the repair of aneurysms and clogged carotid arteries, laparoscopic surgery, breast surgery, orthopedic surgery, spine surgery and podiatric surgery.
- FHH is designated by the American College of Surgeons as a Center of Excellence for Bariatric Surgery.
- FHH has built its existing strength in orthopedics by creating a "hospital within the hospital" to bring together patients, surgeons, nurses, physical therapists, and others to provide specialty care within the framework of a community hospital. FHH is an Orthopedic Center of Excellence which includes a full spectrum of joint replacement procedures.
- The Emergency Department is a designated “Heart Station” and participates in the New York City 911 Emergency Medical Program. In addition, FHH has been designated by the NYSDOH as a Stroke Center. The Emergency Department has instituted a Fast Track system to care for patients with less serious problems.
- Recent upgrades to FHH facilities have included a new state-of-the-art emergency department, renovated medical/surgical patient rooms, and a state-of-the-art radiology department, which now includes interventional radiology and stereotactic breast biopsy.
- FHH is designated by the NYSDOH as a perinatal service center and provides 24/7 neonatology coverage.
- FHH is a partner with the American Cancer Society and the NYSDOH in providing free mammograms, pelvic exams, and follow-up tests to uninsured women. Under special arrangement with the NYSDOH, the hospital operates a growing prenatal clinic.
- The Women’s New Life Center features Labor-Delivery-Recovery suites for new mothers and their families.
- FHH is approved as a Community Cancer Hospital by the American College of Surgeons.
- FHH offers a newly developed Adult Primary Care Clinic as well as specialty clinics in general surgery, podiatry, and Women’s Health.
- FHH has initiated an active Physician Assistant department working in general and orthopedic surgery, OB/GYN, radiology, urology and vascular surgery.

- FHH provides a lithotripsy program.
- The Wound Healing Center at FHH provides patients with a team approach to treat chronic, non-healing wounds.
- FHH has state-of-the-art equipment such as a dual headed nuclear camera for its Cardiology Program and an MRI.

## Utilization Statistics for Forest Hills Hospital

|  | <b>12-Month Period<br/>Ended December 31,</b> |                    |                    | <b>6-Month Period<br/>Ended June 30,</b> |                    |
|--|---|--------------------|--------------------|--|--------------------|
|  | <b><u>2006</u></b>                            | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2008</u></b>                       | <b><u>2009</u></b> |
| <b><u>Inpatient</u></b>                        |   |                    |                    |  |                    |
| Discharges (excl. Nursery) (1)                 | 13,667  | 13,644             | 13,319             | 6,732                                    | 7,904              |
| Patient Days (excl. Nursery) (1) (2)           | 73,142  | 70,095             | 69,579             | 34,435                                   | 41,299             |
| Average Length of Stay (in Days) (2)           | 5.35  | 5.14               | 5.22               | 5.12                                     | 5.23               |
| Average Daily Census (1)                       | 200   | 192                | 190                | 189                                      | 228                |
| Licensed Beds (excl. Nursery)                  | 312   | 312                | 312                | 312                                      | 312                |
| Beds Available (3)                             | 208   | 199                | 199                | 199                                      | 238                |
| Percentage of Occupancy (3)                    | 94.4%   | 95.8%              | 95.5%              | 95.1%                                    | 100.0%             |
| Medicare Case Mix (4)                          | 1.23  | 1.24               | 1.40               | 1.36                                     | 1.44               |
| Normal Newborn Discharges                      | 1,933   | 2,094              | 2,038              | 1,014                                    | 1,114              |
| Total Discharges (1)                           | 15,600  | 15,738             | 15,357             | 7,746                                    | 9,018              |
| <b><u>Outpatient</u></b>                       |   |                    |                    |  |                    |
| Emergency Room Visits (1) (5)                  | 19,374  | 20,889             | 22,198             | 11,028                                   | 16,178             |
| Emergency Room Admissions                      | 10,240  | 10,118             | 9,835              | 4,974                                    | 6,137              |
| Total ER Encounters (1) (5)                    | 29,614  | 31,007             | 32,033             | 16,002                                   | 22,315             |
| Clinic Visits (1) (6)                          | 7,537   | 8,444              | 8,890              | 4,302                                    | 4,565              |
| Ambulatory Surgery Visits (7)                  | 5,394   | 5,700              | 5,527              | 2,813                                    | 2,358              |
| Other Outpatient Visits and Encounters (1) (8) | 13,018  | 13,355             | 12,913             | 6,484                                    | 7,067              |

- (1) Increase in Discharges, Patient Days, Average Daily Census, Emergency Room Visits, Clinic Visits and Other Outpatient Visits and Encounters due to two hospitals within the FHH service area closing in February 2009. As a result, FHH is providing services to the patients from the communities previously serviced by the closed care providers.
- (2) Average Length of Stay improvements are due to management initiatives.
- (3) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (5) Increase in Emergency Room Visits in 2009 also attributable to a novel H1N1 flu virus outbreak in the second quarter of 2009.
- (6) Increased Clinic Visits in 2007 and 2008 are primarily due to increased obstetric services for community outreach programs. As noted in (1), in 2009, the increase in Clinic Visits is due to two hospitals within the FHH service area closing in February 2009. As a result, FHH is providing services to the patients from the communities previously serviced by the closed care providers.
- (7) Decrease in Ambulatory Surgery Visits in 2009 is due to the closure of an outpatient endoscopy suite to support inpatient volume.
- (8) Decrease in Other Outpatient Visits and Encounters in 2008 is due to a decline in Pre-Surgical Testing and Private Ambulatory Visits as a consequence of timing in physician recruitment.

Source: NSLIJ Finance Department

## **Summary of Historical Revenue and Expenses**

The following “Summary of Historical Revenue and Expenses” of FHH for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein including the combining schedules which are presented for supplementary informational purposes. Due to the effects of inter-company transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

Certain 2006 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such items include the reclassification of \$0.6 million physician practice revenue previously reported in Other Operating Revenue. In addition, \$0.2 million Investment Income was reclassified from Operating Revenue to Non-Operating Gains and Losses.

Certain 2007 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. Such items consist of the reclassification of \$0.3 million physician practice revenue previously reported in Other Operating Revenue.



**Forest Hills Hospital**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|  | <b>Audited</b>                 |                  |                  | <b>Unaudited</b>                 |                 |
|--|--------------------------------|------------------|------------------|----------------------------------|-----------------|
|  | <b>Year Ended December 31,</b> |                  |                  | <b>Six Months Ended June 30,</b> |                 |
|  | <b>2006</b>                    | <b>2007</b>      | <b>2008</b>      | <b>2008</b>                      | <b>2009</b>     |
| Operating revenue:   |                                |                  |                  |                                  |                 |
| Net patient service revenue –<br>hospital and nursing facilities                                 | \$138,588                      | \$145,903        | \$154,225        | \$74,561                         | \$88,173        |
| Physician practice revenue   | 590                            | 317              | 5,388            | 2,522                            | 3,362           |
| Other operating revenue  | 1,177                          | 1,097            | 1,392            | 773                              | 560             |
| Net assets released from restrictions<br>used for operations                                     | –                              | –                | –                | –                                | –               |
| Total operating revenue  | <u>140,355</u>                 | <u>147,317</u>   | <u>161,005</u>   | <u>77,856</u>                    | <u>92,095</u>   |
| Operating expenses:  |                                |                  |                  |                                  |                 |
| Salaries   | 60,698                         | 66,110           | 70,513           | 34,437                           | 41,332          |
| Employee benefits  | 18,812                         | 20,462           | 23,299           | 11,356                           | 12,043          |
| Supplies and expenses  | 43,863                         | 51,460           | 59,865           | 26,839                           | 28,781          |
| Bad debt expense   | 12,314                         | 5,918            | 2,662            | 1,776                            | 2,091           |
| Depreciation and amortization  | 5,805                          | 5,573            | 5,657            | 2,960                            | 2,940           |
| Interest   | 2,282                          | 2,201            | 2,095            | 1,053                            | 1,008           |
| Total operating expenses   | <u>143,774</u>                 | <u>151,724</u>   | <u>164,091</u>   | <u>78,421</u>                    | <u>88,195</u>   |
| (Deficiency) excess of operating<br>revenue over operating expenses                              | (3,419)                        | (4,407)          | (3,086)          | (565)                            | 3,900           |
| Non-operating gains and losses:  |                                |                  |                  |                                  |                 |
| Contributions, net of fundraising<br>activities  | 19                             | –                | –                | –                                | –               |
| Investment income  | 243                            | 303              | 182              | 114                              | 73              |
| Change in net unrealized gains and<br>losses   | 1                              | (1)              | 22               | 2                                | (8)             |
| Change in fair value of interest rate<br>swap agreements designated as<br>derivative instruments | –                              | –                | –                | –                                | –               |
| Loss on refinancing and refunding of<br>long-term debt   | –                              | (349)            | –                | –                                | –               |
| Total non-operating gains and losses   | <u>263</u>                     | <u>(47)</u>      | <u>204</u>       | <u>116</u>                       | <u>65</u>       |
| (Deficiency) excess of revenue and<br>gains and losses over expenses                             | <u>\$(3,156)</u>               | <u>\$(4,454)</u> | <u>\$(2,882)</u> | <u>\$ (449)</u>                  | <u>\$ 3,965</u> |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

## **North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation**

### **Introduction**

CECR is a residential healthcare facility located on the campus of NSUH in Manhasset, New York. CECR began operations in 1989. CECR is certified for 256 skilled nursing facility (“SNF”) beds.

The facility serves patients who need skilled nursing and rehabilitation services, but whose medical conditions do not require the levels of care provided by a hospital. Staffed by specialists in geriatric medicine and rehabilitation, CECR is particularly designed to meet the medical and therapeutic needs of older patients.

**Awards** (Refer also to “*North Shore-Long Island Jewish Health System*”.)

CECR remains in full regulatory compliance from the NYSDOH. It has also been given a five out of five-star rating by Healthgrades, Inc., and a AAA rating from Care Scout.

US Centers for Medicare and Medicaid Services (“CMS”) gave CECR the highest five star overall rating in December 2008. The “five-star” CMS quality rating system provides nursing home quality of care ratings of 1 to 5 stars derived from three data sources. The rating is based on a study performed of nursing facilities and is based on Department of Health survey inspections, quality measures, and nurse staffing information. CMS’ rating ranks CECR among the top 12 percent of the nation’s long-term care facilities. It is on the national nursing home honor roll.

According to *U.S. News and World Report’s* “Best Nursing Homes” issue, April 10, 2009, CECR was ranked among one of the best nursing homes in America earning a “five-star” overall rating. *U.S. News and World Report* analyzed more than 15,500 nursing homes in the country. This ranking was built on data and ratings found on Nursing Home Compare, a federal web site created by CMS. In New York State, *U.S. News and World Report* reviewed 650 nursing homes. Of that number, 93 nursing homes in the state received a five-star rating; placing CECR among the 14 percent top-performing nursing homes in the state.

CECR was nominated for the Nassau Suffolk Hospital Council 2008 Excellence in Patient Safety Award for reducing the occurrence of pressure ulcers.

### **Specialized Services and Facilities**

CECR has developed a short-term restorative rehabilitation program comprised of 105 dedicated sub-acute care beds for rehabilitation of medically complex care patients including a comprehensive post-acute inpatient neuro-rehabilitation program for individuals with neurological injuries, including traumatic brain injuries (TBIs), stroke and brain tumors. The remainder of CECR’s bed complement serves long-term care, short-term intravenous care and palliative care. The facility maintains five full-time physicians, a full-time medical director, and four geriatric internal medicine fellows on staff. Based upon this strong medical orientation, CECR has the ability to care for the medically complex resident.

CECR has two research activities: a Fracture Prevention program and a Pain Management Research initiative. It also has a Palliative Care/End-of-Life Care program.

Of the population discharged from CECR, nearly 85% percent require home healthcare services. RegionCare, Inc., a wholly owned subsidiary of NSLIJ HCI, and NSUH’s Certified Home Healthcare Agency provide approximately 72% of the services required by this population.

**Utilization Statistics for North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation**

|                                      | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                                      | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>              |                                       |             |             |                                  |             |
| Discharges (excl. Nursery) (1)       | 1,629                                 | 1,993       | 2,149       | 1,009                            | 1,145       |
| Patient Days (excl. Nursery)         | 68,532                                | 68,067      | 68,154      | 34,013                           | 33,647      |
| Average Length of Stay (in Days) (1) | 42.07                                 | 34.15       | 31.71       | 33.71                            | 29.39       |
| Average Daily Census                 | 188                                   | 186         | 186         | 187                              | 186         |
| Licensed Beds (excl. Nursery)        | 256                                   | 256         | 256         | 256                              | 256         |
| Beds Available (2)                   | 191                                   | 191         | 191         | 191                              | 191         |
| Percentage of Occupancy (2)          | 98.3%                                 | 97.6%       | 97.5%       | 97.8%                            | 97.3%       |
| <br>                                 |                                       |             |             |                                  |             |
| Total Discharges (1)                 | 1,629                                 | 1,993       | 2,149       | 1,009                            | 1,145       |

- (1) The increase in Discharges and the decrease in Average Length of Stay are due to the shift from long-term care to rehabilitation services.
- (2) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.

*Source: NSLIJ Finance Department*

**Summary of Historical Revenue and Expenses**

The following “Summary of Historical Revenue and Expenses” of CECR for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited combined financial statements of the North Shore-Long Island Jewish Obligated Group. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim combined financial statements included as Appendix B-2 to this official statement. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the audited combined financial statements, related notes, and other financial information included as Appendix B-1(a) and B-1(b) to this Official Statement and “North Shore-Long Island Jewish Obligated Group Management’s Discussion and Analysis” herein including the combining schedules which are presented for supplementary informational purposes. Due to the effects of inter-company transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

Certain 2006 amounts in the summary of historical revenue and expenses have been reclassified from amounts previously reported to conform to the December 31, 2008 presentation. \$1.1 million Investment Income and the \$0.5 million Change in Net Unrealized Gains and Losses were reclassified from Operating Revenue to Non-Operating Gains and Losses.

**North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation  
Summary of Historical Revenue and Expenses**

(In Thousands)

|  | Audited                 |                 |               | Unaudited                 |                 |
|--|-------------------------|-----------------|---------------|---------------------------|-----------------|
|  | Year Ended December 31, |                 |               | Six Months Ended June 30, |                 |
|  | 2006                    | 2007            | 2008          | 2008                      | 2009            |
| Operating revenue:   |                         |                 |               |                           |                 |
| Net patient service revenue – hospital and nursing facilities                              | \$27,766                | \$28,613        | \$30,407      | \$14,730                  | \$15,799        |
| Physician practice revenue   | –                       | –               | –             | –                         | –               |
| Other operating revenue  | 4,009                   | 4,219           | 4,408         | 2,198                     | 2,212           |
| Net assets released from restrictions used for operations                                  | –                       | 41              | 33            | –                         | –               |
| Total operating revenue  | <u>31,775</u>           | <u>32,873</u>   | <u>34,848</u> | <u>16,928</u>             | <u>18,011</u>   |
| Operating expenses:  |                         |                 |               |                           |                 |
| Salaries   | 18,090                  | 19,988          | 20,193        | 10,133                    | 10,240          |
| Employee benefits  | 4,671                   | 4,751           | 5,377         | 2,539                     | 2,957           |
| Supplies and expenses  | 6,260                   | 6,231           | 6,455         | 3,031                     | 3,139           |
| Bad debt expense   | 1,491                   | 193             | 206           | 25                        | 109             |
| Depreciation and amortization  | 1,044                   | 1,134           | 1,234         | 631                       | 550             |
| Interest   | 703                     | 631             | 571           | 299                       | 279             |
| Total operating expenses   | <u>32,259</u>           | <u>32,928</u>   | <u>34,036</u> | <u>16,658</u>             | <u>17,274</u>   |
| (Deficiency) excess of operating revenue over operating expenses                           | (484)                   | (55)            | 812           | 270                       | 737             |
| Non-operating gains and losses:  |                         |                 |               |                           |                 |
| Contributions, net of fundraising activities   | –                       | –               | 444           | 226                       | –               |
| Investment income  | 1,144                   | 1,662           | 1,984         | 363                       | 435             |
| Change in net unrealized gains and losses  | 531                     | (373)           | (2,679)       | (743)                     | (141)           |
| Change in fair value of interest rate swap agreements designated as derivative instruments | –                       | –               | –             | –                         | –               |
| Loss on refinancing and refunding of long-term debt  | –                       | (184)           | –             | –                         | –               |
| Total non-operating gains and losses   | <u>1,675</u>            | <u>1,105</u>    | <u>(251)</u>  | <u>(154)</u>              | <u>294</u>      |
| Excess of revenue and gains and losses over expenses                                       | <u>\$ 1,191</u>         | <u>\$ 1,050</u> | <u>\$ 561</u> | <u>\$ 116</u>             | <u>\$ 1,031</u> |

Source: Audited Combined Financial Statements and NSLIJ Finance Department

## OTHER NSLIJ SYSTEM HOSPITALS' SUPPLEMENTAL INFORMATION

(This section presents supplemental information regarding Huntington Hospital, Franklin Hospital, Southside Hospital and Staten Island University Hospital which are hereinbefore defined, "Other NSLIJ System Hospitals" and which are not Members of the Obligated Group.)

### Huntington Hospital Association

**HUNTINGTON IS NOT A MEMBER OF THE OBLIGATED GROUP, AND, THEREFORE, IS NEITHER OBLIGATED UNDER THE MASTER INDENTURE NOR RESPONSIBLE FOR THE PAYMENT OF THE DEBT SERVICE ON THE SERIES 2009 FIXED RATE BONDS AND SERIES 2009B, C AND D BONDS.**

#### General

Huntington Hospital Association ("Huntington Hospital") is a not-for-profit voluntary community hospital certified for 408 beds. It is located in Huntington, New York in Western Suffolk County, approximately 40 miles east of New York City.

Huntington Hospital, which opened in 1916, provides comprehensive health care services to inpatients, outpatients and emergency patients who are residents of the Huntington Township, as well as other areas of the Nassau and Suffolk Counties. The Township of Huntington, consisting of the diverse communities and villages in the Northwest portion of Suffolk County, is home to nearly 200,000 people and represents Huntington Hospital's primary service area.

Huntington Hospital is the only major acute care facility in its primary service area, which includes significant portions of Huntington, Huntington Station, Centerport, Cold Spring Harbor, East Northport, Greenlawn and Northport. Huntington Hospital has identified the following hospitals competing in its primary service area: NSUH-S, St. Catherine of Siena Medical Center and Stony Brook University Hospital. The secondary service area includes portions of Commack, Kings Park and Melville, where Huntington Hospital is the second-leading provider.

**Awards** (Refer also to "*North Shore-Long Island Jewish Health System*".)

Huntington Hospital's Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Silver Award* in April 2009 by promoting the latest evidence-based treatment for stroke patients.

Huntington Hospital's Center for Orthopedics and Joint Replacement earned the Joint Commission's Gold Seal of Approval™ for health care quality in hip and knee replacement surgery in March 2009. Huntington Hospital is one of only three hospitals in New York State and the only one in the downstate region to be awarded the Joint Commission's Disease-Specific Care Certification in this specialty.

In 2004 and again in 2008, Huntington Hospital was awarded the Magnet designation by The American Nurses Credentialing Center's (ANCC) Magnet Recognition Program for excellence in nursing services. This award recognizes health care organizations that provide nursing excellence. The program also provides a vehicle for disseminating successful nursing practices and strategies.

## **Specialized Programs and Services**

Huntington Hospital offers a broad range of services for adults and children on an inpatient and outpatient basis. The following describes some of these services:

- NYSDOH Designations
  - Perinatal service center and provides 24/7 neonatology coverage and active obstetrical services.
  - Stroke Center
  - Trauma Center
- Huntington Hospital operates a full service emergency medicine department and offers an ambulatory surgery program.
- Huntington Hospital provides cardiac catheterization services.
- Huntington Hospital operates a state-of-the-art electrophysiology laboratory.
- In 2009, Huntington Hospital's Center for Joint Replacement and Orthopedics became the first in the New York metropolitan region to earn the Joint Commission's Gold Seal of Approval for quality in hip and knee replacement surgery. The facility is one of only three hospitals in New York State and the only one in the downstate region to be awarded the Joint Commission's disease-specific care certification in this specialty.
- The Dolan Family Health Center (the "Center"), which opened in 1995 in partnership with the Suffolk County Department of Health, provides primary and specialty care to the uninsured and underinsured men, women, and children of the Huntington community.
- Opened in 1993, the Women's Health Center, a discrete unit staffed by professionals specifically trained in women's health issues, provides comprehensive health services including mammography, stereotactic needle biopsy, perinatology and other services.

## **Labor Relations**

Approximately 25% of the hospital is unionized. Registered nurses and licensed practical nurses are represented by an in-house union – Huntington Hospital Nurses' Association. This contract expires on September 1, 2011. Management considers its relations with its employees to be good.

## **Employee Benefit Plans**

All eligible employees of Huntington Hospital participate in a noncontributory, defined benefit pension plan, the Huntington Hospital Pension Plan sponsored by Huntington Hospital. Most employees are also eligible to contribute to a tax deferred annuity plan (the "403(b) Plan").

Contributions to the Huntington Hospital Pension Plan are funded by Huntington Hospital as required by the Employee Retirement Income Security Act of 1974 ("ERISA") as amended under the Pension Protection Act of 2006 (PPA) and The Worker, Retiree and Employer Recovery Act of 2008 (WRERA) and as recommended on the basis of annual actuarial projections. Future funding contributions will depend upon the duration of the economic downturn and the impact of any additional funding relief legislation.

**Risk Management and Insurance:** Refer to “*THE NSLIJ SYSTEM RISK MANAGEMENT AND INSURANCE PROGRAM*” herein.

## Licensure and Accreditation

Huntington is licensed by the NYSDOH and obtained three-year accreditation from the Joint Commission (JC) in 2008. Huntington has received a determination letter from the Internal Revenue Service indicating that it has been qualified as a charitable exempt organization described in Section 501(c)(3) of the Code.

### Utilization Statistics for Huntington Hospital

|  | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|  | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>                    |                                       |             |             |                                  |             |
| Discharges (excl. Nursery)                 | 15,604                                | 15,452      | 16,084      | 7,990                            | 8,189       |
| Patient Days (excl. Nursery)               | 85,739                                | 84,655      | 84,857      | 43,129                           | 41,969      |
| Average Length of Stay (in Days) (1)       | 5.49                                  | 5.48        | 5.28        | 5.40                             | 5.13        |
| Average Daily Census                       | 235                                   | 232         | 232         | 237                              | 232         |
| Licensed Beds (excl. Nursery)              | 398                                   | 398         | 398         | 398                              | 398         |
| Beds Available (2)                         | 279                                   | 275         | 289         | 289                              | 289         |
| Percentage of Occupancy (2)                | 84.2%                                 | 84.3%       | 81.2%       | 83.9%                            | 80.2%       |
| Medicare Case Mix (3)                      | 1.34                                  | 1.41        | 1.47        | 1.48                             | 1.52        |
| Normal Newborn Discharges                  | 1,847                                 | 1,736       | 1,690       | 860                              | 776         |
| Total Discharges                           | 17,451                                | 17,188      | 17,774      | 8,850                            | 8,965       |
| <b><u>Outpatient</u></b>                   |                                       |             |             |                                  |             |
| Emergency Room Visits                      | 33,771                                | 33,803      | 34,052      | 16,694                           | 18,029      |
| Emergency Room Admissions                  | 11,832                                | 11,969      | 12,540      | 6,209                            | 6,489       |
| Total ER Encounters                        | 45,603                                | 45,772      | 46,592      | 22,903                           | 24,518      |
| Clinic Visits                              | 30,790                                | 29,972      | 29,730      | 15,790                           | 15,771      |
| Ambulatory Surgery Visits (4)              | 9,675                                 | 9,236       | 8,688       | 4,424                            | 4,510       |
| Other Outpatient Visits and Encounters (5) | 34,952                                | 33,077      | 32,186      | 16,166                           | 16,305      |

- (1) Average Length of Stay improvements are due to management initiatives.
- (2) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (3) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007’s case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (4) Decrease in Ambulatory Surgery Visits in 2007 and 2008 is related to the migration of endoscopy services to physician offices and migration of certain orthopedic services to a non-affiliated outpatient surgical center.
- (5) Decrease in Other Outpatient Visits and Encounters is primarily due to a decline in Pre-Surgical Testing associated with the decline in Ambulatory Surgery, Physical Therapy Visits and Radiation Oncology services.

Source: NSLIJ Finance Department

## **Summary of Historical Revenue and Expenses**

The following “Summary of Historical Revenue and Expenses” of Huntington Hospital for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited consolidated financial statements of the North Shore-Long Island Jewish Health System, Inc. The financial data for the six month periods ended June 30, 2008 and 2009 are derived from the unaudited interim consolidated financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which Huntington Hospital considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009.



**Huntington Hospital**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|  | <b>Audited</b>                 |                 |                  | <b>Unaudited</b>                 |                 |
|--|--------------------------------|-----------------|------------------|----------------------------------|-----------------|
|  | <b>Year Ended December 31,</b> |                 |                  | <b>Six Months Ended June 30,</b> |                 |
|  | <b>2006</b>                    | <b>2007</b>     | <b>2008</b>      | <b>2008</b>                      | <b>2009</b>     |
| Operating revenue:   |                                |                 |                  |                                  |                 |
| Net patient service revenue –  |                                |                 |                  |                                  |                 |
| hospital and nursing facilities  | \$197,330                      | \$206,842       | \$224,267        | \$112,825                        | \$120,407       |
| Physician practice revenue   | 8,646                          | 12,159          | 15,340           | 6,139                            | 8,003           |
| Other operating revenue  | 4,865                          | 4,974           | 5,016            | 2,514                            | 2,462           |
| Net assets released from restrictions used for operations                                  | 1,037                          | 925             | 386              | 308                              | 188             |
| Total operating revenue  | <u>211,878</u>                 | <u>224,900</u>  | <u>245,009</u>   | <u>121,786</u>                   | <u>131,060</u>  |
| Operating expenses:  |                                |                 |                  |                                  |                 |
| Salaries   | 97,330                         | 103,414         | 112,902          | 56,901                           | 58,000          |
| Employee benefits  | 29,762                         | 28,042          | 32,182           | 16,625                           | 21,573          |
| Supplies and expenses  | 66,813                         | 72,312          | 78,496           | 37,778                           | 37,821          |
| Bad debt expense   | 6,036                          | 6,777           | 6,844            | 3,392                            | 3,601           |
| Depreciation and amortization  | 9,574                          | 10,501          | 10,694           | 5,460                            | 5,775           |
| Interest   | 3,072                          | 2,774           | 2,635            | 1,246                            | 1,200           |
| Total operating expenses   | <u>212,587</u>                 | <u>223,820</u>  | <u>243,753</u>   | <u>121,402</u>                   | <u>127,970</u>  |
| (Deficiency) excess of operating revenue over operating expenses                           | (709)                          | 1,080           | 1,256            | 384                              | 3,090           |
| Non-operating gains and losses:  |                                |                 |                  |                                  |                 |
| Contributions, net of fundraising activities   | 78                             | 421             | 310              | 57                               | 101             |
| Investment income  | 2,485                          | 3,527           | 358              | 770                              | 1,079           |
| Change in net unrealized gains and losses  | 480                            | 1,019           | (6,169)          | (672)                            | 1,696           |
| Change in fair value of interest rate swap agreements designated as derivative instruments | –                              | –               | –                | –                                | –               |
| Loss on refinancing and refunding of long-term debt  | –                              | –               | (28)             | –                                | –               |
| Total non-operating gains and losses   | <u>3,043</u>                   | <u>4,967</u>    | <u>(5,529)</u>   | <u>155</u>                       | <u>2,876</u>    |
| Excess (Deficiency) of revenue and gains and losses over expenses                          | <u>\$ 2,334</u>                | <u>\$ 6,047</u> | <u>\$(4,273)</u> | <u>\$ 539</u>                    | <u>\$ 5,966</u> |

Source: Audited Consolidated Financial Statements and NSLIJ Finance Department

## Payer Mix for Huntington Hospital

### Percent of Gross Revenue (Inpatient and Outpatient)

|                    | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                    | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| Medicare*          | 50%                                   | 52%         | 52%         | 53%                              | 51%         |
| Medicaid           | 9%                                    | 8%          | 8%          | 8%                               | 8%          |
| Commercial         | 34%                                   | 33%         | 33%         | 32%                              | 33%         |
| Self Pay and Other | 7%                                    | 7%          | 7%          | 7%                               | 8%          |
| Total              | 100%                                  | 100%        | 100%        | 100%                             | 100%        |

\*Includes Medicare managed care.

Source: NSLIJ Finance Department

## Franklin Hospital

**FRANKLIN IS NOT A MEMBER OF THE OBLIGATED GROUP, AND, THEREFORE, IS NEITHER OBLIGATED UNDER THE MASTER INDENTURE NOR RESPONSIBLE FOR THE PAYMENT OF THE DEBT SERVICE ON THE SERIES 2009 FIXED RATE BONDS AND SERIES 2009B, C AND D BONDS.**

### General

Franklin, a not-for-profit community hospital, has 305-certified beds. Franklin offers a wide range of acute inpatient and outpatient services including emergency services, ambulatory surgery, and a 120-bed skilled nursing facility known as the Orzac Center for Extended Care and Rehabilitation (“Orzac”) which also provides adult day health care. Franklin provides care to patients primarily from southwestern Nassau County and southeastern Queens County. Franklin was established in 1963 and joined NSHS (now NSLIJ HCI) in 1996.

**Awards** (Refer also to “North Shore-Long Island Jewish Health System”.)

Franklin Hospital’s Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Bronze Award* in May 2009 by promoting the latest evidence-based treatment for stroke patients.

According to *U.S. News and World Report’s* “Best Nursing Homes” issue, April 10, 2009, Orzac was ranked among one of the best nursing homes in America earning a “five-star” overall rating. *U.S. News and World Report* analyzed more than 15,500 nursing homes in the country. This ranking was built on data and ratings found on Nursing Home Compare, a federal web site created by US Centers for Medicare and Medicaid Services (“CMS”). In New York State, *U.S. News and World Report* reviewed 650 nursing homes. Of that number, 93 nursing homes in the state received a five-star rating; placing Orzac among the 14 percent top-performing nursing homes in the state.

CMS gave Orzac the highest five star overall rating in December 2008. The “five-star” CMS quality rating system provides nursing home quality of care ratings of 1 to 5 stars derived from three data sources. The rating is based on a study performed of nursing facilities and is based on staffing, quality indicators and Department of Health inspections.

## Specialized Programs and Services

- Efforts continue: (i) to develop relationships with new physicians and to educate existing physicians regarding the benefits of the improved quality measures and standardized processes the NSLIJ System has put in place; (ii) to reach out to Queens communities (particularly southeast Queens); (iii) to enhance training and competency of staff; (iv) to improve overall patient satisfaction; and (v) to develop new programs to better meet the needs of the community.
- Franklin’s management has dedicated their focus towards providing programs and services that best meet the needs of the community such as Geriatric Medicine, Orthopedics, Spine, Joint Replacement, Pain Management and a state-of-the-art Wound Care/Hyperbaric Center. Programs such as Obstetrics and Pediatrics have been directed to other NSLIJ System hospitals.
- Franklin has been designated by the NYSDOH as a Stroke Center.

## Labor Relations

Approximately 80% of the hospital is unionized. Franklin has collective bargaining agreements with three unions: 1) nurses are represented by New York State Nursing Association (“NYSNA”); 2) non-nursing employees are represented by Local 1199SEIU United Healthcare Workers East and 3) 32BJ represents the environmental services department. 1199’s contract expires on September 30, 2011. NYSNA’s contract expires on December 31, 2010. 32BJ’s contract expired on May 31, 2009, and negotiations for a new contract will begin after the summer. Management considers its relations with its employees to be good.

**Employee Benefit Plans:** Refer to *Employee Benefit Plans* herein.

**Risk Management and Insurance:** Refer to “*THE NSLIJ SYSTEM RISK MANAGEMENT AND INSURANCE PROGRAM*” herein.

## Licensure and Accreditation

Franklin is licensed by the NYSDOH and obtained three-year accreditation from the Joint Commission (JC) in 2008. Franklin has received a determination letter from the Internal Revenue Service indicating that it has been qualified as a charitable exempt organization described in Section 501(c)(3) of the Code.

## Contingent Financial Commitments to Third Parties by North Shore-Long Island Jewish Health Care, Inc. (hereinbefore defined, “the Representative” or “NSLIJ HCI”) (which is not a Member of the Obligated Group)

NSLIJ HCI guarantees up to a cumulative \$10 million of regularly scheduled principal and interest payments on certain tax-exempt bonds issued for the benefit of Franklin by the Town of Hempstead Industrial Development Agency in 2002. To date, there have been no demands under this guarantee.

## Utilization Statistics for Franklin Hospital

|  | <b>12-Month Period<br/>Ended December 31,</b> |                    |                    | <b>6-Month Period<br/>Ended June 30,</b> |                    |
|--|---|--------------------|--------------------|--|--------------------|
|  | <b><u>2006</u></b>                            | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2008</u></b>                       | <b><u>2009</u></b> |
| <b><u>Inpatient</u></b>                    |   |                    |                    |  |                    |
| Discharges (excl. Nursery) (1)             | 10,425  | 10,677             | 11,049             | 5,596                                    | 5,937              |
| Patient Days (excl. Nursery) (2)           | 70,029  | 69,123             | 69,657             | 35,421                                   | 34,839             |
| Average Length of Stay (in Days) (2)       | 6.72  | 6.47               | 6.30               | 6.33                                     | 5.87               |
| Average Daily Census                       | 192   | 189                | 190                | 195                                      | 192                |
| Licensed Beds (excl. Nursery)              | 305   | 305                | 305                | 305                                      | 305                |
| Beds Available (3)                         | 236   | 236                | 236                | 236                                      | 232                |
| Percentage of Occupancy                    | 81.8%   | 80.2%              | 80.6%              | 82.5%                                    | 82.6%              |
| Medicare Case Mix (4)                      | 1.27  | 1.30               | 1.30               | 1.27                                     | 1.30               |
| Normal Newborn Discharges (5)              | -   | -                  | -                  | -  | -                  |
| Total Discharges (1)                       | 10,425  | 10,677             | 11,049             | 5,596                                    | 5,937              |
| <b><u>Outpatient</u></b>                   |   |                    |                    |  |                    |
| Emergency Room Visits (6)                  | 25,718  | 28,289             | 29,182             | 14,454                                   | 16,716             |
| Emergency Room Admissions                  | 9,121   | 9,471              | 9,519              | 4,867                                    | 5,192              |
| Total ER Encounters (6)                    | 34,839  | 37,760             | 38,701             | 19,321                                   | 21,908             |
| Clinic Visits (7)                          | 2,511   | -                  | -                  | -  | -                  |
| Ambulatory Surgery Visits (8)              | 4,103   | 4,765              | 5,027              | 2,514                                    | 2,505              |
| Other Outpatient Visits and Encounters (9) | 8,863   | 10,920             | 11,118             | 5,436                                    | 5,631              |

- (1) Increased Discharge volume is due to physician recruitment efforts and growth within the Orthopedic service line. Furthermore, the increase in 2009 is due to the closure of two nearby hospitals in February 2009. As a result, Franklin is providing services to the patients from the communities previously serviced by the closed care providers.
- (2) Average Length of Stay improvements are due to management initiatives.
- (3) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic.
- (5) Obstetric beds closed in June 2005.
- (6) Increase in Emergency Room Visits in 2009 due to the closure of two nearby hospitals in February 2009 and a novel H1N1 flu virus outbreak in the second quarter of 2009.
- (7) Clinic services were discontinued in mid-2006.
- (8) Increase in Ambulatory Surgery Visits in 2007 and 2008 is due to the addition of an orthopedic surgical group in 2006 and growth of the pain management program.
- (9) Increase in Other Outpatient Visits and Encounters due to new Hyperbaric and Wound Care programs that began in 2007.

*Source: NSLIJ Finance Department*

## Payer Mix for Franklin Hospital

### Percent of Gross Revenue (Inpatient and Outpatient)

|                    | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                    | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| Medicare*          | 49%                                   | 49%         | 48%         | 48%                              | 47%         |
| Medicaid           | 21%                                   | 19%         | 20%         | 18%                              | 19%         |
| Commercial         | 23%                                   | 24%         | 25%         | 26%                              | 26%         |
| Self Pay and Other | 7%                                    | 8%          | 7%          | 8%                               | 8%          |
| Total              | 100%                                  | 100%        | 100%        | 100%                             | 100%        |

\*Includes Medicare managed care.

Source: NSLIJ Finance Department

### Utilization Statistics for the Orzac Center for Extended Care and Rehabilitation Division

|                                      | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                                      | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>              |                                       |             |             |                                  |             |
| Discharges (excl. Nursery) (1)       | 906                                   | 1,133       | 1,316       | 647                              | 691         |
| Patient Days (excl. Nursery)         | 42,457                                | 42,491      | 42,311      | 21,309                           | 20,914      |
| Average Length of Stay (in Days) (1) | 46.86                                 | 37.50       | 32.15       | 32.94                            | 30.27       |
| Average Daily Census                 | 116                                   | 116         | 116         | 117                              | 116         |
| Licensed Beds (excl. Nursery)        | 120                                   | 120         | 120         | 120                              | 120         |
| Beds Available (2)                   | 120                                   | 120         | 120         | 120                              | 120         |
| Percentage of Occupancy (2)          | 96.9%                                 | 97.0%       | 96.3%       | 97.6%                            | 96.3%       |
| Total Discharges (1)                 | 906                                   | 1,133       | 1,316       | 647                              | 691         |

(1) The increase in Discharges and the decrease in Average Length of Stay are primarily due to the continuing shift from long-term care to rehabilitation services.

(2) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.

Source: NSLIJ Finance Department

### Summary of Historical Revenue and Expenses

The following "Summary of Historical Revenue and Expenses" of Franklin for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited consolidated financial statements of the North Shore-Long Island Jewish Health System, Inc. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring accruals, which Franklin considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009.

**Franklin Hospital**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|  | Audited                 |                  |                  | Unaudited                 |                 |
|--|-------------------------|------------------|------------------|---------------------------|-----------------|
|  | Year Ended December 31, |                  |                  | Six Months Ended June 30, |                 |
|  | 2006                    | 2007             | 2008             | 2008                      | 2009            |
| Operating revenue:   |                         |                  |                  |                           |                 |
| Net patient service revenue – hospital and nursing facilities                              | \$144,034               | \$156,443        | \$173,584        | \$84,535                  | \$92,232        |
| Physician practice revenue   | 2,779                   | 3,692            | 5,491            | 2,200                     | 3,670           |
| Other operating revenue  | 982                     | 644              | 866              | 308                       | 345             |
| Net assets released from restrictions used for operations                                  | –                       | –                | 2                | –                         | –               |
| Total operating revenue  | <u>147,795</u>          | <u>160,779</u>   | <u>179,943</u>   | <u>87,043</u>             | <u>96,247</u>   |
| Operating expenses:  |                         |                  |                  |                           |                 |
| Salaries   | 71,874                  | 76,731           | 82,566           | 40,133                    | 45,413          |
| Employee benefits  | 18,880                  | 20,938           | 24,074           | 11,327                    | 13,883          |
| Supplies and expenses  | 51,013                  | 56,812           | 66,508           | 30,750                    | 31,944          |
| Bad debt expense   | 9,928                   | 5,800            | 4,679            | 2,651                     | 3,018           |
| Depreciation and amortization  | 4,254                   | 4,104            | 4,570            | 2,856                     | 2,433           |
| Interest   | 1,459                   | 1,299            | 1,240            | 601                       | 593             |
| Total operating expenses   | <u>157,408</u>          | <u>165,684</u>   | <u>183,637</u>   | <u>88,318</u>             | <u>97,284</u>   |
| Deficiency of operating revenue over operating expenses                                    | (9,613)                 | (4,905)          | (3,694)          | (1,275)                   | (1,037)         |
| Non-operating gains and losses:  |                         |                  |                  |                           |                 |
| Contributions, net of fundraising activities   | 11                      | 6                | 4                | –                         | 1               |
| Investment income  | 172                     | 225              | 222              | 44                        | 70              |
| Change in net unrealized gains and losses  | 62                      | (43)             | (309)            | (85)                      | (17)            |
| Change in fair value of interest rate swap agreements designated as derivative instruments | –                       | –                | –                | –                         | –               |
| Loss on refinancing and refunding of long-term debt  | –                       | –                | –                | –                         | –               |
| Total non-operating gains and losses   | <u>245</u>              | <u>188</u>       | <u>(83)</u>      | <u>(41)</u>               | <u>54</u>       |
| Deficiency of revenue and gains and losses over expenses                                   | <u>\$ (9,368)</u>       | <u>\$(4,717)</u> | <u>\$(3,777)</u> | <u>\$(1,316)</u>          | <u>\$ (983)</u> |

*Source: Audited Consolidated Financial Statements and NSLIJ Finance Department. (For the years ended December 31, 2006, 2007 and 2008, the financial statements of Franklin were included in the audited consolidated financial statements of NSLIJ, but were not audited separately.)*

## Southside Hospital

**SOUTHSIDE IS NOT A MEMBER OF THE OBLIGATED GROUP, AND, THEREFORE, IS NEITHER OBLIGATED UNDER THE MASTER INDENTURE NOR RESPONSIBLE FOR THE PAYMENT OF THE DEBT SERVICE ON THE SERIES 2009 FIXED RATE BONDS AND SERIES 2009B, C AND D BONDS.**

### General

Southside, a not-for-profit community hospital, has 341 certified beds. Southside was established in 1911 and joined NSHS (now NSLIJ HCI) in 1996. Southside offers a wide range of acute inpatient and outpatient services including cardiology, medicine, neuroscience, orthopedics, emergency medicine, surgery including ambulatory surgery, obstetrics, gynecology, women's health, pediatrics, mental health, physical medicine and rehabilitation. The hospital operates a NYSDOH designated Stroke Center, a Regional Center for Brain Injury Rehabilitation, and the Frank Gulden Radiation Oncology Center.

**Awards** (Refer also to "*North Shore-Long Island Jewish Health System*".)

Southside's Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Silver Award*, in February 2009, by promoting the latest evidence-based treatment for stroke patients.

### Specialized Programs and Services

- NYSDOH Designations:
  - Trauma Center
  - Perinatal Service Center
  - Stroke Center
- In 2006, Southside Hospital was designated the first community hospital in Suffolk County – and one of only five in New York State – to perform angioplasty on an elective (for non-emergency) basis without an open heart surgical program by the NYSDOH. Since becoming operational in October 2006 Southside has performed over 5000 procedures including more than 1000 stent procedures. Southside currently operates 2 Cath Labs.
- Southside Hospital is connected to NSUH-M via telemedicine which allows for tertiary oversight in the cath lab and cardiac surgery back-up with a clear established plan for transfers.
- Southside is pursuing new clinical program opportunities and expanding existing programs such as Cardiology, Radiation Oncology, Neurosurgery, Radiology, Pain Management, Orthopedics and Surgery as well as reducing or eliminating services that have a negative margin.
- In the fall of 2007, Southside established a Center for Joint Replacement. In 2008, the first full year of operation, the Center for Joint Replacement performed approximately 300 total joint replacements.
- In 2006, Southside established an Institute of Neuroscience, which is a member of the Harvey Cushing Institutes of Neuroscience at NSLIJ.
- In the summer of 2008, the Department of Radiation Medicine at NSUH and LIJMC began providing radiation medicine support and treatment at Southside as part of a strategic plan to offer high quality radiation treatment geographically close to patients.

### Labor Relations

Approximately 75% of Southside is unionized. Southside has collective bargaining agreements with two unions: 1) nurses are represented by the New York State Nursing Association ("NYSNA") and

2) Local 1199SEIU United Healthcare Workers East. The NYSNA contract expired on February 28, 2009, and negotiations are in process. Southside is a member of the League of Voluntary Hospitals. The League and 1199 have reached a tentative Memorandum of Agreement to modify their current collective bargaining agreement which will extend it from year 2011 to year 2015. The Memorandum of Agreement has been ratified by the full union membership, and the League's Executive Board of Directors will vote to ratify after Labor Day. Management considers its relations with its employees to be good.

**Employee Benefit Plans:** Refer to *Employee Benefit Plans* herein.

**Risk Management and Insurance:** Refer to "*THE NSLIJ SYSTEM RISK MANAGEMENT AND INSURANCE PROGRAM*" herein.

### **Licensure and Accreditation**

Southside is licensed by the NYSDOH and obtained three-year accreditation from the Joint Commission (JC) in 2008. Southside has received a determination letter from the Internal Revenue Service indicating that it has been qualified as a charitable exempt organization described in Section 501(c)(3) of the Code.

**Contingent Financial Commitments to Third Parties by North Shore-Long Island Jewish Health Care, Inc. (hereinbefore defined, "the Representative" or "NSLIJ HCI") or the North Shore-Long Island Jewish Health System Foundation (hereinbefore defined, "the Foundation"). Neither NSLIJ HCI nor the Foundation are Members of the Obligated Group.**

#### 1998 Southside Bonds

In 1998, the Authority issued a series of bonds, in the principal amount of approximately \$55 million (the "Southside Bonds"), for the benefit of Southside. The Southside Bonds are payable from amounts to be paid by Southside under a Loan Agreement between Southside and the Authority, are insured by MBIA Insurance Corporation ("MBIA"), and are also secured by a New York State service contract under the New York State Secured Hospital Bond Program (the "NYS Service Contract"). In connection with the issuance of the Southside Bonds, NSLIJ HCI agreed with the NYSDOH that NSLIJ HCI would guarantee four years of debt service on the Southside Bonds for as long as the Southside Bonds are supported by the NYS Service Contract (the "Southside Guarantee"). NSLIJ HCI further agreed that it would take action that would allow the NYS Service Contract guarantee to be cancelled. NYSDOH and NSLIJ HCI have been in discussions about this agreement, which may be amended by agreement of the parties thereto and without the approval of the holders of the Southside Bonds.

In order for the NYS Service Contract to be cancelled, one of several actions may be taken: (a) the Southside Bonds may be refinanced; or (b) MBIA has indicated that the NYS Service Contract may be tendered for cancellation, leaving MBIA as the sole guarantor of such Bonds, provided the Authority and MBIA have confirmed that one of the following conditions has occurred: (i) the realization by Southside of certain operating and capitalization ratios and compliance with certain financial covenants; (ii) the addition of Southside as a Member of the Obligated Group; or (iii) the delegation by Southside to NSLIJ HCI of specific authority for the financial management and support of Southside. See "Management's Discussion and Analysis" herein.

From October 2004 through September 2008, the monthly debt service payments of Southside have been paid by NSLIJ HCI in fulfillment of NSLIJ HCI's obligation under its partial Southside Guarantee of the Southside Bonds. Since October 2008, Southside has been making its monthly debt service payments. While the September 2008 payment satisfied NSLIJ HCI's guarantee obligation with respect to the Southside Bonds, the NSLIJ System presently intends to advance funds as necessary to Southside to meet Southside's obligations without making or assuming any commitment to continue such advances.



### The Foundation Arrangement for Southside

In connection with Southside's joining NSLIJ HCI, NSLIJ HCI conditionally pledged to provide \$10 million to benefit Southside's outpatient and ambulatory care initiatives, a pledge which the Foundation (the "Foundation Arrangement for Southside") commenced fulfilling in 2003. The Foundation is fulfilling the \$10 million conditional pledge by making ten consecutive \$1 million annual gifts to Southside in connection with certain local IDA Southside bonds issued in 2002 to construct an ambulatory care facility and other renovations to Southside's facilities. In conjunction with such conditional pledge, and subject to the satisfaction of certain financial conditions, the Foundation will make supplemental gifts to Southside, on an annual basis, which are intended to offset Southside's interest payments on such loan. Ultimately the Foundation's payments are intended to cover the majority of the debt service on the 2002 bonds. See "Management's Discussion and Analysis" herein for remaining amount under this pledge.

## Utilization Statistics for Southside Hospital

|  | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|  | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>                    |                                       |             |             |                                  |             |
| Discharges (excl. Nursery) (1)             | 15,937                                | 15,881      | 16,482      | 8,251                            | 8,000       |
| Patient Days (excl. Nursery) (2)           | 90,131                                | 82,054      | 85,763      | 43,114                           | 42,071      |
| Average Length of Stay (in Days) (2)       | 5.66                                  | 5.17        | 5.20        | 5.23                             | 5.26        |
| Average Daily Census                       | 247                                   | 225         | 234         | 237                              | 232         |
| Licensed Beds (excl. Nursery)              | 366                                   | 366         | 366         | 366                              | 341         |
| Beds Available (3)                         | 296                                   | 296         | 296         | 296                              | 296         |
| Percentage of Occupancy (3)                | 76.6%                                 | 75.9%       | 79.2%       | 80.0%                            | 78.5%       |
| Medicare Case Mix (4)                      | 1.41                                  | 1.44        | 1.48        | 1.49                             | 1.53        |
| Normal Newborn Discharges                  | 2,960                                 | 2,868       | 2,617       | 1,316                            | 1,129       |
| Total Discharges (1)                       | 18,897                                | 18,749      | 19,099      | 9,567                            | 9,129       |
| <b><u>Outpatient</u></b>                   |                                       |             |             |                                  |             |
| Emergency Room Visits                      | 46,624                                | 46,250      | 51,085      | 24,643                           | 28,021      |
| Emergency Room Admissions                  | 9,882                                 | 9,684       | 10,227      | 5,032                            | 5,158       |
| Total ER Encounters                        | 56,506                                | 55,934      | 61,312      | 29,675                           | 33,179      |
| Ambulatory Surgery Visits (5)              | 6,858                                 | 8,364       | 8,038       | 4,111                            | 4,151       |
| Other Outpatient Visits and Encounters (6) | 62,200                                | 65,844      | 68,006      | 34,220                           | 33,428      |

- (1) Increase in Discharges from 2006 through 2008 is due to growth in the cardiology, orthopedic and rehabilitation service lines. Decrease in 2009 is due to decline in obstetrics service line.
- (2) Average Length of Stay improvements due to management initiatives.
- (3) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (4) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic. Increase in Medicare Case Mix in 2009 due to an increase in high service intensity weight cases.
- (5) Increased Ambulatory Surgery volume 2006-2007 primarily due to start-up of Cardiac Catheterization program in late 2006 and a transitioning of volume from NSUH-M for patients that reside in Southside's service area as well as expansion of its pain management program in 2006.
- (6) Increase in Other Outpatient Visits and Encounters from 2006 to 2008 is due to growth in Radiology, MRI, Wound Care, and Radiation Therapy services.

*Source: NSLIJ Finance Department*

## Payer Mix for Southside Hospital

### Percent of Gross Revenue (Inpatient and Outpatient)

|                    | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                    | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| Medicare*          | 42%                                   | 41%         | 42%         | 42%                              | 41%         |
| Medicaid           | 21%                                   | 20%         | 19%         | 20%                              | 21%         |
| Commercial         | 27%                                   | 28%         | 27%         | 28%                              | 29%         |
| Self Pay and Other | 10%                                   | 11%         | 12%         | 10%                              | 9%          |
| <b>Total</b>       | <b>100%</b>                           | <b>100%</b> | <b>100%</b> | <b>100%</b>                      | <b>100%</b> |

\*Includes Medicare managed care.

*Source: NSLIJ Finance Department*

### Summary of Historical Revenue and Expenses

The following “Summary of Historical Revenue and Expenses” of Southside Hospital and Affiliates for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited consolidated financial statements of the North Shore-Long Island Jewish Health System, Inc. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring accruals, which Southside considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009.

**Southside Hospital and Affiliates**  
**Summary of Historical Revenue and Expenses**

(In Thousands)

|  | <b>Audited</b>                 |                   |                  | <b>Unaudited</b>                 |                   |
|--|--------------------------------|-------------------|------------------|----------------------------------|-------------------|
|  | <b>Year Ended December 31,</b> |                   |                  | <b>Six Months Ended June 30,</b> |                   |
|  | <b>2006</b>                    | <b>2007</b>       | <b>2008</b>      | <b>2008</b>                      | <b>2009</b>       |
| Operating revenue:   |                                |                   |                  |                                  |                   |
| Net patient service revenue –<br>hospital and nursing facilities                                 | \$200,855                      | \$212,963         | \$232,031        | \$110,795                        | \$121,213         |
| Physician practice revenue   | 5,800                          | 9,392             | 10,653           | 4,976                            | 5,879             |
| Other operating revenue  | 18,256                         | 16,282            | 15,197           | 7,755                            | 7,558             |
| Net assets released from restrictions<br>used for operations                                     | 933                            | 275               | 13               | –                                | –                 |
| Total operating revenue  | <u>225,844</u>                 | <u>238,912</u>    | <u>257,894</u>   | <u>123,526</u>                   | <u>134,650</u>    |
| Operating expenses:  |                                |                   |                  |                                  |                   |
| Salaries   | 101,465                        | 109,271           | 119,197          | 57,791                           | 63,244            |
| Employee benefits  | 34,376                         | 32,288            | 35,979           | 18,047                           | 22,065            |
| Supplies and expenses  | 60,910                         | 77,079            | 83,120           | 37,986                           | 38,461            |
| Bad debt expense   | 27,091                         | 17,339            | 10,490           | 5,923                            | 6,536             |
| Depreciation and amortization  | 10,782                         | 10,835            | 11,489           | 5,536                            | 5,511             |
| Interest   | 4,577                          | 3,952             | 3,452            | 1,777                            | 1,650             |
| Total operating expenses   | <u>239,201</u>                 | <u>250,764</u>    | <u>263,727</u>   | <u>127,060</u>                   | <u>137,467</u>    |
| Deficiency of operating revenue over<br>operating expenses                                       | (13,357)                       | (11,852)          | (5,833)          | (3,534)                          | (2,817)           |
| Non-operating gains and losses:  |                                |                   |                  |                                  |                   |
| Contributions, net of fundraising<br>activities  | 2                              | –                 | 1,454            | 17                               | 55                |
| Investment income (losses)   | 978                            | (1,243)           | 505              | 286                              | 240               |
| Change in net unrealized gains and<br>losses   | (24)                           | 48                | (421)            | (103)                            | 103               |
| Change in fair value of interest rate<br>swap agreements designated as<br>derivative instruments | –                              | –                 | –                | –                                | –                 |
| Gain on sale of property, plant and<br>equipment   | –                              | 1,052             | –                | –                                | –                 |
| Total non-operating gains and losses   | <u>956</u>                     | <u>(143)</u>      | <u>1,538</u>     | <u>200</u>                       | <u>398</u>        |
| Deficiency of revenue and gains and<br>losses over expenses                                      | <u>\$(12,401)</u>              | <u>\$(11,995)</u> | <u>\$(4,295)</u> | <u>\$ (3,334)</u>                | <u>\$ (2,419)</u> |

Source: Audited Consolidated Financial Statements and NSLIJ Finance Department

## Staten Island University Hospital

**SIUH IS NOT A MEMBER OF THE OBLIGATED GROUP, AND, THEREFORE, IS NEITHER OBLIGATED UNDER THE MASTER INDENTURE NOR RESPONSIBLE FOR THE PAYMENT OF THE DEBT SERVICE ON THE SERIES 2009 FIXED RATE BONDS AND SERIES 2009B, C AND D BONDS.**

### General

Staten Island University Hospital ("SIUH") is a voluntary, not-for-profit acute care tertiary teaching hospital with two main sites located on Staten Island which is in Richmond County, New York: One site is located in the Ocean Breeze section of Staten Island (the "North Site"); and the other site is located in the Princes Bay section of Staten Island (the "South Site"). Its certified bed complement is 714 (508 at the North Site and 206 at the South Site). The Concord site is no longer open.

According to Crain's New York Business (March 24, 2008), SIUH is ranked the sixteenth (16<sup>th</sup>) largest hospital in the metropolitan New York area (excluding Connecticut) by operating expenses. (Crain's 2009 survey ranked only the 15 largest hospitals so no further update is available.)

SIUH was formed in 1987 under the name Community Health Systems of Staten Island, Inc. by the consolidation of The Staten Island Hospital, which was incorporated in 1869, and Richmond Memorial Hospital and Health Center, which was incorporated in 1919. SIUH joined NSHS (now NSLIJ HCI) in 1996.

For the six months ended June 30, 2008, SIUH's inpatient discharges by patient origin were as follows: 1) Richmond County (89.1%), 2) Kings County (6.4%), 3) Out of State-New Jersey (2.5%), 4) New York City (0.7%), 5) Queens (0.6%) and 6) other areas (0.7%).

**Awards** (Refer also to "*North Shore-Long Island Jewish Health System*".)

SIUH was ranked among the top 50 Best Hospitals in the nation in Neurology and Neurosurgery per *US News & World Report's* "America's Best Hospitals" July 16, 2009 edition.

SIUH's Stroke Program earned the American Heart Association and American Stroke Association *Get with the Guidelines Gold Award* in October 2008 by promoting the latest evidence-based treatment for stroke patients.

SIUH has participated in the US Centers for Medicare and Medicaid Services (CMS) Premier Healthcare Alliance Hospital Quality Incentive Demonstration (HQID) pay-for-performance project since its inception in 2003. In the latest year of reported data for the HQID project (October 2006- September 2007), SIUH was a top performer in all five clinical areas studied. During this period, SIUH scored in the top 20 percent of all 260 participating hospitals in all clinical areas studied. In each year since 2003, SIUH has been awarded a CMS incentive payment award for its quality scores in the HQID project.

SIUH won The Healthcare Association of New York State's 2008 Pinnacle Award for Cultural Transformation to Prevent Falls and Associated Injuries in a Tertiary Care Hospital.

SIUH was the National Research Corporation Richmond County Consumer Choice Award winner for 2001/2002 to 2004/2005 and 2006/2007 to 2008/2009. The award identifies hospitals which healthcare consumers have chosen as having the highest quality and image in more than 250 markets throughout the U.S.

A 2008 Hospital Quality Comparison Report of the U.S. Department of Health and Human Services named SIUH as the “Best Hospital” for Quality in New York State and as one of the Top Ten Hospitals nationally.

SIUH earned the Best Functional Improvement Measures for Severe Stroke in 2006 from Uniform Data Systems’ comparison of 880 similar rehabilitation programs across America.

In 2006, SIUH achieved top ranking for the lowest mortality rates in Coronary Artery Bypass Graft (“CABG”) procedures by the NYSDOH for hospitals performing over 100 annual cases.

SIUH received the Premier Quality Award for Maternal and Neonatal Care in 2006. Premier is a strategic healthcare alliance that promotes quality in healthcare through benchmarking and performance measurement. SIUH was recognized by Premier for achieving one of the lowest C-Section rates nationally (22%) and one of the highest success rates of vaginal deliveries for mothers with a prior birth by C-Section.

SIUH, in 2005, obtained the Certified “Center of Excellence” designation by the American Society for Metabolic and Bariatric Surgery.

SIUH earned the 2004 Ernest A. Codman Award for Quality, the Joint Commission on Healthcare Accreditation’s highest honor for quality of care and the Healthcare Association of New York State’s 2003 Pinnacle Award for Quality of Care. Both awards were for SIUH’s achievements in reducing mortality for hip fracture procedures.

## **Specialized Programs and Services**

SIUH offers a broad range of diagnostic and therapeutic services for adults and children on an inpatient and outpatient basis. The following describes some of these services:

- NYSDOH Designations:
  - Stroke Center.
  - Regional Trauma Center
  - Perinatal Center for high risk obstetrics and newborns, with a Neonatal Intensive Care Unit and Neonatal Specialty Intermediate and Continuing Care beds
  - Burn Center
- SIUH’s North Site provides services in internal medicine, surgery, burn care, intensive care, coronary care, neonatal intensive care, pediatric intensive care, physical medicine, rehabilitation medicine, psychiatry, pediatrics, obstetrics and gynecology, oncology, dentistry, anesthesiology, emergency services, radiology, pathology and laboratory medicine. Sub-specialties offered include cardiac surgery, cardiology, dermatology, endocrinology, gastroenterology, geriatrics, hematology, immunology, infectious disease, internal medicine, pain management, palliative care, nephrology, neurology, ophthalmology, traumatic brain injury, coma recovery, orthopedic surgery, otolaryngology, plastic surgery, podiatry, rheumatology, thoracic surgery, urology and vascular surgery.
- In addition to inpatient facilities, the North Site includes the Irving R. Boody, Jr. Medical Arts Pavilion, a freestanding facility which offers over 30 primary and subspecialty clinics including the Diabetic Foot Center, Parkinson's Disease Information and Referral Center, Retina Center, Rehabilitation Medicine Center, Low Vision Center and the Staten Island Multiple Sclerosis Comprehensive Care Center.

- The Heart Institute of Staten Island, a joint-venture of SIUH and Richmond University Medical Center, provides a full range of cardiovascular services. The Heart Institute offers advanced cardiothoracic surgeries, including "continuous beating heart" surgery plus sophisticated invasive and non-invasive diagnostics.
- Also located on the North Site is the Sanford R. Nalitt Institute for Cancer and Blood Related Diseases, which was New York State's very first freestanding ambulatory cancer care facility, and remains an innovator with leading-edge research protocols.
- The South Site also provides inpatient medical-surgical, intensive care, coronary care, psychiatric, and outpatient services including alcohol and drug detoxification and counseling, alcohol rehabilitation services, geriatric, gynecological, prenatal, medical, podiatry and psychiatric services.
- Inpatient and outpatient psychiatric services are provided by SIUH at both the North and South sites. In addition, a psychiatric day hospital program is located at the North campus.
- SIUH operates 24-hour emergency services departments at the North Site and the South Site. In June 2009, SIUH finalized construction of the Elizabeth A. Connelly Emergency and Trauma Center at its North campus. The new 40,000 square foot state-of-the-art ER has a pediatric care center with its own entrance and waiting area, an urgent care center, decontamination and isolation rooms and large trauma bays, a radiology center, respiratory room, a laboratory, four psychiatric beds, CT scan and ultrasound equipment and office space.
- SIUH has been accredited by the Commission on Cancer of the American College of Surgeons as a teaching hospital Cancer program.
- SIUH has been accredited by the Commission on the Accreditation of Rehabilitation facilities (CARF) for 68-bed rehabilitation, traumatic brain injury/coma recovery facility.
- The Behavioral Science and Opioid (narcotics for pain relief and sedation) Treatment Programs at SIUH were granted full accreditation from the Joint Commission on Accreditation of Healthcare Organizations in 2009 for 3 years.
- SIUH received a five-year accreditation in September 2008 from the American Academy of Sleep Medicine for fulfilling its high standards as a Sleep Disorders Center.
- SIUH has a Hospice program which was fully re-accredited by the Joint Commission in January 2008 for 3 years.
- Smoking Cessation– SIUH offers formal smoking cessation and stress reduction programs. The programs provide direct treatment and actively promote their services through community based programs.
- Health Literacy – SIUH commenced the health literacy initiative in 2007 to improve Staten Island resident's knowledge on how to access health care services, enhance communication between patients and clinicians, and improve the ability to understand and follow prescribed treatment and medical instructions.

## **Labor Relations**

SIUH has collective bargaining agreements with four unions: 1) the New York State Nurses Association (“NYSNA”); 2) Local 1199SEIU United Healthcare Workers East. 3) the Federation of Nurses, UFT (“UFT” United Federation of Teachers); and 4) Local 9494A/1456. Approximately 73% of SIUH’s employees are unionized. SIUH is a member of the League of Voluntary Hospitals. The League and 1199 have reached a tentative Memorandum of Agreement to modify their current collective bargaining agreement which will extend it from year 2011 to year 2015. The Memorandum of Agreement has been ratified by the full union membership, and the League’s Executive Board of Directors will vote to ratify after Labor Day. SIUH’s contract with NYSNA expires on March 31, 2010; the agreement with UFT expires on March 31, 2011; and the agreement with Local 9494A/1456 will expire on June 30, 2011. Management considers its relations with its employees to be good.

## **Employee Benefit Plans**

Most employees of Staten Island University Hospital (SIUH) do not benefit under a defined benefit pension plan. There is a small group of employees from the Doctors’ Hospital of Staten Island (DHSI) that have a defined benefit plan, the DHSI Retirement Income Plan, with benefits that were frozen as of February 10, 1995. Most employees benefit under a tax deferred annuity plan (the “403(b) Plan”).

Contributions to the DHSI Retirement Income Plan and the 403(b) Plan are funded by SIUH as required by the Employee Retirement Income Security Act of 1974 (“ERISA”) as amended under the Pension Protection Act of 2006 (PPA) and The Worker, Retiree and Employer Recovery Act of 2008 (WRERA) and as recommended on the basis of annual actuarial projections. Since the plan is frozen, contributions to the plan have been decreasing (\$550,000 in 2006 to \$150,000 in 2008.) However, due to the impact of the economic downturn on the plan assets, the contribution requirements may increase in the near future.

**Risk Management and Insurance:** Refer to “*THE NSLIJ SYSTEM RISK MANAGEMENT AND INSURANCE PROGRAM*” herein.

## **Licensure and Accreditation**

SIUH is licensed by the NYSDOH and obtained three-year accreditation from the Joint Commission (JC) in 2009.

SIUH, a New York not-for-profit corporation, received a determination letter from the Internal Revenue Service that it is qualified as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (or corresponding provisions of prior Internal Revenue laws) (the “Code”).

## **Contingent Financial Commitments to Third Parties by NSLIJ (which is not a Member of the Obligated Group)**

### NSLIJ’s Guarantee of Staten Island University Hospital’s Loan and Interest Rate Swaps

In settlement of United States Department of Health and Human Services, Office of the Inspector General liabilities, SIUH agreed to make a one-time payment in 2008 of \$76.5 Million. SIUH funded the amount with a loan from a bank of \$60.0 Million and the balance from operating cash. NSLIJ has guaranteed repayment of SIUH’s eight-year bank loan (which has a balloon due in year eight reflecting agreed upon fifteen-year amortization) as well as SIUH’s two related variable to fixed interest rate swaps with the two counterparties Toronto Dominion and JPMorgan Chase. As of the date of this official statement, there have been no draws on these guarantees, and no collateral has been required to be posted.



## Utilization Statistics for Staten Island University Hospital

|  | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|  | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| <b><u>Inpatient</u></b>                |                                       |             |             |                                  |             |
| Discharges (excl. Nursery)             | 38,547                                | 39,014      | 38,446      | 19,196                           | 19,797      |
| Patient Days (excl. Nursery)           | 216,090                               | 220,258     | 215,325     | 109,631                          | 107,268     |
| Average Length of Stay (in Days)       | 5.61                                  | 5.65        | 5.60        | 5.71                             | 5.42        |
| Average Daily Census                   | 592                                   | 603         | 588         | 602                              | 593         |
| Licensed Beds (excl. Nursery)          | 785                                   | 785         | 765         | 785                              | 765         |
| Beds Available (1)                     | 672                                   | 672         | 672         | 672                              | 672         |
| Percentage of Occupancy (1)            | 88.1%                                 | 89.8%       | 87.5%       | 89.6%                            | 88.2%       |
| Medicare Case Mix (2)                  | 1.52                                  | 1.59        | 1.56        | 1.59                             | 1.58        |
| Normal Newborn Discharges              | 2,867                                 | 2,966       | 2,670       | 1,371                            | 1,300       |
| Total Discharges                       | 41,414                                | 41,980      | 41,116      | 20,567                           | 21,097      |
| <b><u>Outpatient</u></b>               |                                       |             |             |                                  |             |
| Emergency Room Visits                  | 65,076                                | 68,967      | 71,054      | 35,404                           | 38,503      |
| Emergency Room Admissions              | 25,675                                | 26,611      | 27,033      | 13,475                           | 13,990      |
| Total ER Encounters                    | 90,751                                | 95,578      | 98,087      | 48,879                           | 52,493      |
| Clinic Visits                          | 512,910                               | 503,780     | 498,255     | 248,262                          | 256,113     |
| Ambulatory Surgery Visits (3)          | 21,210                                | 20,855      | 20,193      | 10,453                           | 9,706       |
| Other Outpatient Visits and Encounters | 166,450                               | 164,508     | 167,447     | 83,304                           | 83,641      |

- (1) Beds Available are reported as the number of beds at the end of each reporting period, which varies primarily based upon need, and Occupancy is calculated using the average beds available for the reporting period.
- (2) Effective October 1, 2007, Medicare adopted significant refinements to the DRG system, therefore 2007's case mix may not be comparable to other periods due to the recalibration of case weights, changes to diagnosis and procedure codes, and changes to other grouping logic.
- (3) Decrease in Ambulatory Surgery Visits is due to the decline in endoscopy services and migration of procedures to private physician offices.

*Source: NSLIJ Finance Department*

### Summary of Historical Revenue and Expenses

The following "Summary of Historical Revenue and Expenses" of SIUH for the years ended December 31, 2006, 2007 and 2008 has been derived from the audited consolidated financial statements of Staten Island University Hospital and Subsidiaries. The financial data for the six months ended June 30, 2008 and 2009 are derived from the unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring accruals, which SIUH considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009.

**Staten Island University Hospital  
Summary of Historical Revenue and Expenses**

(In Thousands)

|  | Audited<br>Year Ended December 31, |                |                  | Unaudited<br>Six Months Ended June 30, |                  |
|--|------------------------------------|----------------|------------------|--|------------------|
|  | 2006                               | 2007           | 2008             | 2008                                   | 2009             |
| Operating revenue:   |                                    |                |                  |  |                  |
| Net patient service revenue –<br>hospital and nursing facilities                                 | \$574,932                          | \$566,887      | \$626,048        | \$312,557                              | \$333,293        |
| Physician practice revenue   | 8,373                              | 8,652          | 13,069           | 5,862                                  | 6,358            |
| Other operating revenue  | 19,891                             | 16,292         | 14,871           | 6,408                                  | 4,694            |
| Net assets released from restrictions<br>used for operations                                     | 574                                | 988            | 845              | 397                                    | 434              |
| Total operating revenue  | <u>603,770</u>                     | <u>592,819</u> | <u>654,833</u>   | <u>325,224</u>                         | <u>344,779</u>   |
| Operating expenses:  |                                    |                |                  |  |                  |
| Salaries   | 267,427                            | 283,199        | 309,505          | 149,375                                | 164,082          |
| Employee benefits  | 76,665                             | 80,951         | 85,926           | 42,799                                 | 41,601           |
| Supplies and expenses  | 205,979                            | 200,591        | 211,980          | 99,835                                 | 101,395          |
| Bad debt expense   | 14,958                             | 4,008          | 4,694            | 2,350                                  | 3,335            |
| Depreciation and amortization  | 22,958                             | 20,862         | 19,794           | 11,000                                 | 10,504           |
| Interest   | 11,259                             | 10,682         | 11,494           | 5,525                                  | 5,728            |
| Total operating expenses   | <u>599,246</u>                     | <u>600,293</u> | <u>643,393</u>   | <u>310,884</u>                         | <u>326,645</u>   |
| Excess (deficiency) of operating<br>revenue over operating expenses                              | 4,524                              | (7,474)        | 11,440           | 14,340                                 | 18,134           |
| Non-operating gains and losses:  |                                    |                |                  |  |                  |
| Contributions, net of fundraising<br>activities  | –                                  | –              | –                | –                                      | –                |
| Investment income  | 5,776                              | 7,609          | 5,018            | 2,611                                  | 566              |
| Change in net unrealized gains and<br>losses   | 695                                | 200            | (694)            | (313)                                  | 619              |
| Change in fair value of interest rate<br>swap agreements designated as<br>derivative instruments | –                                  | –              | (2,236)          | –                                      | 2,684            |
| Loss on refinancing and refunding<br>of long-term debt   | –                                  | –              | –                | –                                      | –                |
| Total non-operating gains and losses   | <u>6,471</u>                       | <u>7,809</u>   | <u>2,088</u>     | <u>2,298</u>                           | <u>3,869</u>     |
| Excess of revenue and gains and losses<br>over expenses  | <u>\$10,995</u>                    | <u>\$ 335</u>  | <u>\$ 13,528</u> | <u>\$ 16,638</u>                       | <u>\$ 22,003</u> |

Source: Audited Consolidated Financial Statements and NSLIJ Finance Department

## Payer Mix for Staten Island University Hospital

### Percent of Gross Revenue (Inpatient and Outpatient)

|                    | 12-Month Period<br>Ended December 31, |             |             | 6-Month Period<br>Ended June 30, |             |
|--------------------|---------------------------------------|-------------|-------------|----------------------------------|-------------|
|                    | <u>2006</u>                           | <u>2007</u> | <u>2008</u> | <u>2008</u>                      | <u>2009</u> |
| Medicare*          | 44%                                   | 46%         | 46%         | 44%                              | 43%         |
| Medicaid           | 19%                                   | 19%         | 20%         | 19%                              | 20%         |
| Commercial         | 33%                                   | 30%         | 29%         | 30%                              | 31%         |
| Self Pay and Other | 4%                                    | 5%          | 5%          | 7%                               | 6%          |
| Total              | 100%                                  | 100%        | 100%        | 100%                             | 100%        |

\*Includes Medicare managed care.

Source: NSLIJ Finance Department

THIS SECTION CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE “FORWARD-LOOKING STATEMENTS,” AS SUCH TERM IS DEFINED IN SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. IN THIS RESPECT, SUCH FORWARD-LOOKING STATEMENTS ARE IDENTIFIED BY THE USE OF THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND” OR “BELIEVE” OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD RESULT IN THE ACTUAL INFORMATION BEING SIGNIFICANTLY DIFFERENT FROM THAT EXPRESSED IN THIS SECTION BY THE REPRESENTATIVE, THE NSLIJ SYSTEM, THE MEMBERS OF THE OBLIGATED GROUP, OTHER NSLIJ SYSTEM HOSPITALS AND ENTITIES, OR THE UNDERWRITERS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, UNCERTAINTIES RELATING TO ECONOMIC CONDITIONS, THE ABILITY OF THE MEMBERS OF THE OBLIGATED GROUP TO MAKE LOAN PAYMENTS, RISKS INVOLVING FUTURE PERTINENT COURT DECISIONS, RISKS RELATING TO CHANGES IN THE HEALTHCARE ENVIRONMENT, ACTIONS INSTITUTED BY COMPETING HEALTHCARE PROVIDERS OR THE LOSS OF TAX EXEMPTION, ALL AS MORE FULLY DESCRIBED IN “BONDHOLDERS’ RISKS” HEREIN. POTENTIAL INVESTORS ARE CAUTIONED THAT SUCH STATEMENTS ARE ONLY PREDICTIONS AND THAT ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

### **PART 9 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP**

The following discussion of risks to holders of the Series 2009B, C and D Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2009B, C and D 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 2009B, C and D Bonds are not a debt or liability of the State of New York 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 2009B, C and D Obligations, the funds and accounts held by the Trustee pursuant to the Series 2009B, C and D 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 2009B, C and D 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; the policies and practices of managed care providers, private insurers and other third party payers; and private purchasers of healthcare services. The effect on each Member of the Obligated Group of 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 health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other payers. 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 Obligated Group's ability to make payments pursuant to the respective 2009 Loan Agreement and under the Series 2009B, C and D Obligations. See "PART 8 – THE OBLIGATED GROUP", "Appendix B-1(a) - Management's Introduction to the Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors," "Appendix B-1(b) - Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors" and "Appendix B-2 - Unaudited Interim Combined Financial Statements for the Six Months Ended June 30, 2009."

## **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. 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.

The Obligated Group 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 Obligated Group-specific data. The current Medicaid, Medicare and other third party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with government payers, have been settled through years ranging from 2003 to 2006. Other years remain open for settlement as are numerous years related to the New York State Medicaid program. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Obligated Group is not aware of any allegations of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

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 2009 – 2010 budget's objective is decreasing the growth in statewide Medicaid spending and reform via an investment in primary care and ambulatory care paid for by a reduction in inpatient spending. The Obligated Group contemplated these items in its 2009 budget. See "PART 8 – THE OBLIGATED GROUP – *Reimbursement Methodologies-Medicaid, Blue Cross and Commercial Insurance Carriers*".

New York State reimbursement methodologies include a system of state-imposed assessments and surcharges on various categories of third party payers for healthcare services that fund annual state-operated pools for indigent care, healthcare initiatives, and professional education. Other funding stems from conversion proceeds generated by the privatization of Empire Blue Cross/ Blue Shield and revenues from cigarette taxes. 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, nor that subsequent payments will remain at levels comparable to the present level.

The 2009-10 budget agreed to by Governor Paterson and the New York State Legislature includes many changes in addition to those mentioned in "PART 8 – THE OBLIGATED GROUP – *Reimbursement Methodologies-Medicaid, Blue Cross and Commercial Insurance Carriers*". Most notably, the budget seeks to eliminate the Professional Education Pool which is funded by contributions by commercial insurers and managed care companies through an assessment on covered lives which was intended as a safety net for teaching hospitals with managed care contracts. It intends to use these funds to increase the funding to the Indigent Pool and redistribute the funds to hospitals based on a new formula in recognizing the cost of uncompensated care. This budget also eliminates the "Workforce Recruitment and Retention" funding which had been a substantial addition to the NSLIJ System's Medicaid rates.

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" charged with studying the State's hospital and nursing home systems and making

recommendations for closure, resizing, conversion, consolidation and restructuring (commonly referred to as the “Berger Commission”). In making recommendations, the 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 Commission. None of the Obligated Group Members and Other NSLIJ System Hospitals and Entities was recommended for closure, reconfiguration or merger by the Berger commission report.

### **Managed Care and Other Private Initiatives**

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

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. Capitation and risk arrangements, which carry significant risk for providers, have not and likely will not become an important factor in the NSLIJ System reimbursement. Management believes the hospitals of the NSLIJ System, on a yearly contracting basis, have developed equitable pricing arrangements with most of the payers with which it contracts. As part of these negotiated contracts, the NSLIJ System has developed payment terms limiting the extent to which a payer may retroactively deny payments for services, which has been a common practice among managed care companies. The contracts also define requirements for insurers to conduct concurrent and prospective reviews. Some contracts contain provisions for advances and Periodic Interim Payments (PIP) 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 payers are expected to continue to seek ways to reduce the utilization of healthcare services. Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. 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.

### **Medicare and Medicaid Managed Care**

The Medicare Program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional fee-for-service Medicare system. Medicare managed care products can be offered only by a licensed HMO or a specially approved network called a Provider Sponsored Organization (“PSO”). At this time, the New York region has a limited number of approved PSOs.

The federal Medicare program pays the HMO a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in an HMO product. The premium levels are set at a

regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the HMO pays for all the covered and medically necessary services delivered to the enrollee in the month. The HMO is at full financial risk for costs incurred for caring for its enrollees in the given month, as described above.

The Members of the Obligated Group also participate in the federal and New York State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. The rules for the enrollment of Medicaid patients in managed care programs, premium payments to managed care organizations, and the resulting and potential financial risks to the Obligated Group are similar to those already discussed for Medicare managed care programs.

New York State's program for mandatory Medicaid enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory enrollment programs are now in place in all of New York City, and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. The NSLIJ System is positioned well to retain volume and reasonable reimbursement through its ownership interest in Healthfirst and contracts with a few other large Medicaid managed care insurers. In particular, the Obligated Group is working with health plans, social service agencies and others to ensure that Medicaid patients currently cared for at Obligated Group hospitals will continue to have access to these facilities throughout the managed Medicaid enrollment process. Despite these efforts, Medicaid patient volume at Obligated Group hospitals may be reduced, partially attributable to competition from other health networks and the uncertainty relating to this historic change in the process for treating Medicaid. The teaching component of Medicaid and managed Medicaid reimbursement is expected to continue to be paid by the State directly to the hospitals.

See "PART 8 – THE OBLIGATED GROUP – North Shore-Long Island Jewish Obligated Group Managed Care".

The management of the Obligated Group cannot assess or predict the ultimate effect of any such legislation or regulation which reduces Medicaid or Medicare reimbursement, if enacted or adopted, on its operations.

### **Outlier Payments**

In 2002, the Centers for Medicare & Medicaid Services ("CMS") initiated an audit of aggressive pricing strategies at one of the nation's largest hospital chains. The audit, which was designed to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations, focused on whether the charge data used by the hospitals to calculate their outlier reimbursements was inflated to increase reimbursements. The United States Department of Health and Human Services, Office of the Inspector General ("OIG") and the Department of Justice have also initiated probes into the potentially abusive billing practices of such organizations.

Following the initiation of this audit, CMS issued Program Memoranda to its fiscal intermediaries (i.e., non-governmental organizations or agencies that contract with the federal government to process Medicare claims) directing them to analyze outlier payments and to identify other hospitals across the country with high outlier payments. CMS indicated that hospitals found to have engaged in strategies to obtain excessive outlier payments could be referred to the CMS Program Integrity Unit for further investigation, and, where appropriate, to the OIG for investigation and/or prosecution. CMS also issued a rule that would change the way outlier payments are calculated in the future. The new rule, which became effective in 2003, limits the opportunity of a hospital to manipulate the outlier formula to maximize reimbursement, and allows for recovery of overpayments in certain cases. There can be no assurance that the Obligated Group will not become the subject of an audit in the future with respect to its outlier payments. However, management of the Obligated Group believes its fiscal 2004-2008 outlier

revenues were or are below the Medicare criteria since the ratio of cost to charges is below the threshold that would trigger a retroactive payback. See “PART 8 – THE OBLIGATED GROUP – *Reimbursement Methodologies*.”

### **Regulatory Reviews, Audits and Investigations**

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. The Obligated Group cannot determine at this time whether any review will result in a material repayment obligation.

The New York State Attorney General commenced fall 2005 an informal industry-wide inquiry 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. At this time it is unknown 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.

In June 2006 NSUH and LIJMC received administrative subpoenas duces tecum issued by the Office of the Inspector General of the United States Department of Health and Human Services (the "OIG") in coordination with the Civil Division of the Office of the United States Attorney for the Southern District of New York (the "SDNY"). The subpoenas seek documents and other information relating to the reporting of certain physician faculty practice revenues and expenses on Medicare and Medicaid cost reports previously submitted by NSUH and LIJMC. In the course of responding to the subpoenas, management discovered certain inadvertent technical errors by Members of the Obligated Group relating to the reporting of past faculty practice expenses and submitted to the fiscal intermediary revised cost report schedules for such hospitals containing appropriate adjustments.

NSUH and LIJMC produced all documents responsive to the subpoenas, and recently the SDNY has requested that the hospitals make available individuals to answer questions that the government’s auditor has concerning the documents. Apart from correction of the inadvertent technical errors noted above (whose estimated reimbursement impact would not be considered material), management has not found that the cost reports in question contain any inaccuracies that require restatement. However, given the preliminary stage of the investigation, the Obligated Group cannot determine or provide any assurance as to whether or not the investigation will have a material adverse effect on the affected hospitals or the Obligated Group generally.

The US Attorney’s Office for the Western District of New York (“USAOWD”) is conducting a review at Plainview Hospital (“Plainview”) into the Medicare billing for inpatient Kyphoplasty admissions. Kyphoplasty is a spinal operation, normally done on older patients, used to treat compression fractures. The USAOWD sent Plainview a request (but not a subpoena) for information concerning Kyphoplasty procedures done at Plainview. We understand similar requests have been sent to many other hospitals throughout the country. The issue being reviewed by the USAOWD is whether some of these operations should have been done on an outpatient, rather than an inpatient basis. Plainview is cooperating with the request for information.

### **Litigation and Claims**

The Obligated Group Members are involved in litigation and claims which are not considered unusual to their business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on 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. Payers 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. 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 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 Department of Health and Human Services ("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 and State False Claims Acts**

The federal 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 federal 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 State of New York also has a False Claims Act closely tracks the civil federal FCA. It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil federal and New York State 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 federal and New York State FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. Civil federal and New York State 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 federal and New York State FCA. Other civil federal and New York State 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 federal and New York State 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 federal and New York State FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

### **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 payer) 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 practitioner (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 Obligated Group, 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. The New York State Office of the Medicaid Inspector General also has the authority to exclude individuals and entities from participation in Medicaid. Providers are excluded for reasons that may include program-related convictions, patient abuse or neglect convictions, and licensing board disciplinary actions.

### **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 NIH 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 other 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, the Joint Commission, 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**

On February 23, 1998, the OIG published Compliance Program Guidance ("CPG") for the hospital industry. In recognition of the significant changes in the delivery and reimbursement for hospital services that have occurred since the CPG's publication, the OIG published Supplemental Compliance Program Guidance on January 31, 2005. 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. The Obligated Group maintains a comprehensive corporate compliance program that is designed to assist staff to meet or exceed applicable standards established by federal and state laws and regulations. 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).

## **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 2009B, C and D 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 2009B, C and D 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.

Although the Obligated Group believes that the sanction of revocation of tax-exempt status is likely to be imposed only in cases of pervasive excess benefit, the imposition of penalty excise tax in lieu of revocation, based upon a finding that any Member of the Obligated Group engaged in an excess benefit transaction, is likely to result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of the Obligated Group.

### **Tax Audits**

Taxing authorities historically have conducted tax audits of 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, payer 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 payer 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 payer 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 civil and criminal sanctions for health care fraud which expanded upon prior health care fraud laws and applies to health care benefit programs.

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 \$1,500,000 or imprisonment if the information was for a violation of willful neglect or for a violation related to the intent to sell, transfer, or use the individually identifiable health information for commercial advantage, personal gain or malicious harm.

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 Obligated Group has implemented HIPAA training and ongoing monitoring, which have been in place since April 2003. 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



remediating the release of any such substances either on, or that have migrated off the 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 its 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. Likewise, NSLIJ may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of NSLIJ in the future, or about the potential sale of some of the operations and properties of NSLIJ. 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.

### **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 8 - THE OBLIGATED GROUP – *The NSLIJ System Risk Management and Insurance Program*" herein.

### **Certain Accreditations**

The Members of the Obligated Group are subject to periodic review by the Joint Commission. The Members of the Obligated Group have each received accreditation from the Joint Commission. No assurance can be given as to the effect on future operations of existing, or subsequently amended, laws, regulations and standards for certification or accreditation.

In addition, the Members of the Obligated Group sponsor programs of graduate medical education ("GME Programs"), training residents and fellows, which programs are accredited by the Accreditation Council for Graduate Medical Education ("ACGME") (for medical programs) and by the American Dental Association ("ADA") (for dental programs). All GME Programs are subject to periodic

review by the applicable specialty Residency Review Committee of the ACGME, or by the ADA, as appropriate. No assurance can be given as to (i) the outcome of future reviews of these GME Programs, (ii) such programs' continued accreditation, or (iii) the continuing eligibility of the costs associated therewith for graduate medical education reimbursement. See "PART 8 - THE OBLIGATED GROUP - *Licensure and Accreditation.*"

### **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 State-regulated reimbursement formulas, including those for Medicaid, Blue Cross and Blue Shield, and other third-party payers. Rising healthcare costs resulted from, among other factors, healthcare costs exceeding inflation, staff shortages, pharmaceutical costs and the highly technical nature of the industry. The Members of the Obligated Group have been affected by the impact of such rising costs, and there can be no assurance that the Members would not be similarly affected by the impact of additional unreimbursed costs in the future.

### **Secondary Market**

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2009B, C and D 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 2009 Loan Agreement provides that the Obligated Group shall make payments to the Trustee sufficient to pay the Series 2009B, C and D 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 2009B, C and D 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 2009B, C AND D 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 Member of the Obligated Group before paying debt service on the 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 Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Bonds. See “PART 1 – INTRODUCTION – Security for the Series 2009B, C and D 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, including the Note, relating to bonds 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 there under, 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 are 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 2009B, C and D Obligations) and may include nonpayment related defaults under documents such as the 2009 Loan Agreement, the Resolution or the Mortgages. The Master Indenture provides that upon an "Event of Default" there under, the Master Trustee may in its discretion, by notice in writing to Members of the Obligated Group, declare the principal of all (but not less than all) Obligations Outstanding there under to be due and payable immediately and may exercise other remedies there under. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately unless requested to do so by the holders of not less than 25% in aggregate principal amount of all Obligations then Outstanding under the Master Indenture. Consequently, upon the occurrence of an "Event of Default" under the Resolution with respect to the Series 2009A Bonds or Series 2009E Bonds and an acceleration of the maturity of the Series 2009A Bonds or Series 2009E Bonds, the Master Trustee is not required to accelerate the maturity of all Obligations Outstanding under the Master Indenture upon direction from the Trustee unless (i) the principal amount of the applicable Series of Series 2009B, C and D Bonds Outstanding is at least equal to 25% of the principal amount of all Obligations Outstanding under the Master Indenture, or (ii) the Trustee and all other holders of Obligations requesting such acceleration hold at least 25% of all Obligations Outstanding under the Master Indenture.

### **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 2009B, C and D 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 2009B, C and D Bonds as the same shall become due and payable.

### **Bankruptcy**

The Series 2009B, C and D 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 2009B, C and D Bonds described herein upon any default will depend upon the exercise of various remedies specified by the 2009 Loan Agreement, 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 2009 Loan Agreement, 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 2009B, C and D 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 2009B, C and D 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 2009 Loan Agreement 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 2009B, C and D 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 2009 Loan Agreement, 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 there under. 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 there under and does not discriminate unfairly.

### **Considerations Relating to Additional Debt**

Subject to the coverage and other tests set forth therein, the Resolution, the 2009 Loan Agreement and the Master Indenture 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 2009B, C and D 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 2009B, C and D Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payer 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 comparable regulations or attempts by third-party payers 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 payer.
- 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 tax" 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 2009B, C and D Bonds and the level of charitable donations to the Obligated Group.

## **PART 10 - THE AUTHORITY**

### **Background, Purposes and Powers**

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created 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, 2009, the Authority had approximately \$38.6 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, 2009 were as follows:

| <b><u>Public Programs</u></b>   | <b><u>Bonds Issued</u></b> | <b><u>Bonds Outstanding</u></b> | <b><u>Notes Outstanding</u></b> | <b><u>Bonds and Notes Outstanding</u></b> |
|---|----------------------------|---------------------------------|---------------------------------|---|
| State University of New York<br>Dormitory Facilities .....                | \$ 2,250,196,000           | \$ 974,760,000                  | \$ 0                            | \$ 974,760,000                            |
| State University of New York Educational<br>and Athletic Facilities ..... | 12,287,697,999             | 5,146,033,149                   | 0                               | 5,146,033,149                             |
| Upstate Community Colleges of the<br>State University of New York.....    | 1,431,000,000              | 604,840,000                     | 0                               | 604,840,000                               |
| Senior Colleges of the City University<br>of New York .....               | 9,663,821,762              | 2,934,864,213                   | 0                               | 2,934,864,213                             |
| Community Colleges of the City University<br>of New York .....            | 2,364,178,350              | 508,140,787                     | 0                               | 508,140,787                               |
| BOCES and School Districts .....  | 2,419,101,208              | 1,894,490,000                   | 0                               | 1,894,490,000                             |
| Judicial Facilities .....   | 2,161,277,717              | 731,557,717                     | 0                               | 731,557,717                               |
| New York State Departments of Health<br>and Education and Other.....      | 5,198,240,000              | 3,538,100,000                   | 0                               | 3,538,100,000                             |
| Mental Health Services Facilities .....                                   | 6,811,595,000              | 3,676,845,000                   | 0                               | 3,676,845,000                             |
| New York State Taxable Pension Bonds....                                  | 773,475,000                | 0                               | 0                               | 0   |
| Municipal Health Facilities<br>Improvement Program .....                  | <u>985,555,000</u>         | <u>781,415,000</u>              | <u>0</u>                        | <u>781,415,000</u>                        |
| Totals Public Programs.....   | <u>\$46,346,138,036</u>    | <u>\$20,791,045,866</u>         | <u>\$ 0</u>                     | <u>\$20,791,045,866</u>                   |

| <b><u>Non-Public Programs</u></b>                                 | <b><u>Bonds Issued</u></b> | <b><u>Bonds Outstanding</u></b> | <b><u>Notes Outstanding</u></b> | <b><u>Bonds and Notes Outstanding</u></b> |
|---|----------------------------|---------------------------------|---------------------------------|---|
| Independent Colleges, Universities<br>and Other Institutions..... | \$17,477,266,020           | \$ 8,830,846,644                | \$35,975,000                    | \$ 8,866,821,644                          |
| Voluntary Non-Profit Hospitals.....                               | 13,541,719,309             | 7,933,610,000                   | 0                               | 7,933,610,000                             |
| Facilities for the Aged .....                                     | 1,996,020,000              | 966,245,000                     | 0                               | 966,245,000                               |
| Supplemental Higher Education Loan<br>Financing Program.....      | <u>95,000,000</u>          | <u>0</u>                        | <u>0</u>                        | <u>0</u>                                  |
| Totals Non-Public Programs.....                                   | <u>\$33,110,005,329</u>    | <u>\$17,730,701,644</u>         | <u>\$35,975,000</u>             | <u>\$17,766,676,644</u>                   |
| Grand Totals Bonds and Notes .....                                | <u>\$79,456,143,365</u>    | <u>\$38,521,747,510</u>         | <u>\$35,975,000</u>             | <u>\$38,557,722,510</u>                   |

### **Outstanding Indebtedness of the Agency Assumed by the Authority**

At June 30, 2009, the Agency had approximately \$361.5 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, 2009 were as follows:

| <b><u>Public Programs</u></b>                      | <b><u>Bonds Issued</u></b> | <b><u>Bonds Outstanding</u></b> |
|--|----------------------------|---------------------------------|
| Mental Health Services Improvement Facilities..... | \$ 3,817,230,725           | \$ 0                            |
| <b><u>Non-Public Programs</u></b>                  | <b><u>Bonds Issued</u></b> | <b><u>Bonds Outstanding</u></b> |
| Hospital and Nursing Home Project Bond Program.... | \$ 226,230,000             | \$ 3,255,000                    |
| Insured Mortgage Programs .....                    | 6,625,079,927              | 350,549,720                     |
| Revenue Bonds, Secured Loan and Other Programs ... | <u>2,414,240,000</u>       | <u>7,670,000</u>                |
| Total Non-Public Programs .....                    | <u>\$ 9,265,549,927</u>    | <u>\$ 361,474,720</u>           |
| Total MCFFA Outstanding Debt.....                  | <u>\$ 13,082,780,652</u>   | <u>\$ 361,474,720</u>           |



## 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:

ALFONSO L. CARNEY, Jr., Esquire, *Chair*, New York.

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2010.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on June 20, 2007. 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 expires on March 31, 2010.

JACQUES JIHA, Ph.D., *Secretary*, Woodbury.

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is an Executive Vice President and the Chief Financial Officer of Earl G. Graves, Ltd., a multi-media company that includes *Black Enterprise* magazine. He is also a member of the Investment Advisory Committee of the New York Common Retirement Fund. Mr. Jiha has previously served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller and as Co-Executive Director of the New York Local Government Assistance Corporation (LGAC). Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Mr. Jiha has served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expires on March 31, 2010.

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-1980s. Mr. Ruder is a member of the board of the New York State Foundation for Science, Technology and Academic Research (NYSTAR), and also serves as chair of the board of the Adirondack Council, board member and secretary of the New York Metro Chapter of the World Presidents' Organization, and an advisory board member of 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 expired on March 31, 2009 and by law he continues to serve until a successor shall be chosen and qualified.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on December 15, 2008. 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. 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, 2010.

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.

GERARD ROMSKI, Esq., Mount Kisco.

Mr. Ronski was appointed as a Member of the Authority by the Temporary President of the State Senate on June 8, 2009. He is Counsel and Project Executive for “Arverne By The Sea,” where he is responsible for advancing and overseeing all facets of “Arverne by the Sea,” one of New York City’s largest mixed-use developments located in Queens, NY. Mr. Ronski is also of counsel to the New York City law firm of Bauman, Katz and Grill LLP. He formerly was a partner in the law firm of Ross & Cohen, LLP (now merged with Duane Morris, LLP) for twelve years, handling all aspects of real estate and construction law for various clients. He previously served as Assistant Division Chief for the New York City Law Department’s Real Estate Litigation Division where he managed all aspects of litigation arising from real property owned by The City of New York. Mr. Ronski is a member of the Urban Land Institute, Council of Development Finance Agencies, the New York State Bar Association, American Bar Association and New York City Bar Association. He previously served as a member of the New York City Congestion Mitigation Commission and the Board of Directors for the Bronx Red Cross. Mr. Ronski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

ROMAN B. HEDGES, Ph.D., Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He is the former Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means. He 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.

CAROLE F. HUXLEY, *Interim Commissioner of Education of the State of New York*, Albany; *ex-officio*.

Carole Huxley was appointed Interim Education Commissioner on July 1, 2009. Ms. Huxley retired in November 2006 after serving for 24 years as Deputy Commissioner for Cultural Education in the New York State Education Department where she was responsible for the New York State Archives, State Library, State Museum and aid to libraries, records repositories and public broadcasting statewide. She came to New York from the National Endowment for Humanities in Washington, DC where she was Director of the Division of Special Programs. Prior to this, Ms. Huxley was with the American Field Service (AFS International) in New York City. She began her career in education teaching high school English in Woodbury, Connecticut. Ms. Huxley holds a Masters of Arts in Teaching from Harvard University and a Bachelor of Arts degree from Mount Holyoke College.

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.

ROBERT L. MEGNA, *Budget Director of the State of New York, Albany; ex-officio.*

Mr. Megna was appointed Budget Director on June 15, 2009. He is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than \$90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. Prior to this he served as head of the Economic and Revenue Unit of the New York State Division of the Budget where he was responsible for State Budget revenue projections and the development and monitoring of the State Financial Plan. Mr. Megna was Assistant Commissioner for Tax Policy for the Commonwealth of Virginia. He also served as Director of Tax Studies for the New York State Department of Taxation and Finance and as Deputy Director of Fiscal Studies for the Ways and Means Committee of the New York State Assembly. Mr. Megna was also an economist for AT&T. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the Executive Director and chief administrative and operating officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

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 and Portfolio Monitoring. 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 swap and similar agreements; overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. 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.

STEPHEN D. CURRO, P.E. 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. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CARRA WALLACE is the Managing Director of the Office of Executive Initiatives (OEI). In that capacity, she oversees the Authority's Communications and Marketing, Opportunity Programs, Environmental Initiatives, Client Outreach, Training, Executive Projects, and Legislative Affairs units. Ms. Wallace is responsible for strategic efforts in developing programs, maximizing the utilization of Minority and Women Owned Businesses, and communicating with Authority clients, the public and governmental officials. She possesses more than twenty years of senior leadership experience in diverse private sector businesses and civic organizations. Ms. Wallace most recently served as Executive Vice President at Telwares, a major telecommunications service firm. Prior to her service at Telwares, Ms. Wallace served as Executive Vice President of External Affairs at the NYC Leadership Academy. She holds a Bachelor of Science degree in management from the Pepperdine University Graziadio School of Business and Management.

### **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 2009B, C and D 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 Series 2009 Projects 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, 2009. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

## **PART 11 - LEGALITY OF THE SERIES 2009B, C AND D BONDS FOR INVESTMENT AND DEPOSIT**

Under New York State law, the Series 2009B, C and D Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the Series 2009B, C and D Bonds.

## **PART 12 - NEGOTIABLE INSTRUMENTS**

The Series 2009B, C and D Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2009B, C and D Bonds.

## **PART 13 - TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009B, C and D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Series 2009B, C and D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2009B, C and D Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including the City of New York). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2009B, C and D Bonds. The Authority and the Institution has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2009B, C and D Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2009B, C and D Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series

2009B, C and D Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2009B, C and D Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009B, C and D Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Winston & Strawn LLP, counsel to the Obligated Group and NSLIJ, regarding the current qualification of the Institution as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Series 2009B, C and D Bonds as substantially related to the Institution's charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications, limitations and exceptions. Furthermore, Winston & Strawn LLP cannot give and has not given any opinion or assurance about the future activities of the Institution, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service (the "IRS"). Failure of any of the Institution to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series 2009B, C and D Bonds in a manner that is substantially related to the Institution's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2009B, C and D Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2009B, C and D Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2009B, C and D Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on the Series 2009B, C and D Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2009B, C and D Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2009B, C and D Bonds. Prospective purchasers of the Series 2009B, C and D Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation regulations or litigation as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2009B, C and D Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Institution, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Institution have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2009B, C and D Bonds ends with the issuance of the Series 2009B, C and D Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Institution or the Beneficial Owners regarding the tax-exempt status

of the Series 2009B, C and D Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Institution and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Institution legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009B, C and D Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2009B, C and D Bonds, and may cause the Authority, the Institution or the Beneficial Owners to incur significant expense.

#### **PART 14 - STATE NOT LIABLE ON THE SERIES 2009B, C AND D 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 Series 2009B, C and D Resolutions specifically provides that the Series 2009B, C and D Bonds shall not be a debt of the State nor shall the State be liable thereon.

#### **PART 15 - COVENANT BY THE STATE**

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

#### **PART 16 - LEGAL MATTERS**

Certain legal matters incidental to the authorization and issuance of the Series 2009B, C and D Bonds by the Authority are subject to the approval of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2009B, C and D Bonds. The proposed form of Bond Counsel's opinion regarding the Series 2009B, C and D Bonds is set forth in Appendix G hereto.

Certain legal matters will be passed upon for the Institution, the Representative and the Obligated Group by their counsel, Winston & Strawn LLP, New York, New York, for the Banks by their counsel, Emmet, Marvin & Martin, LLP, New York, New York, and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2009B, C and D Bonds or, neither questioning nor affecting the validity of the Series 2009B, C and D Bonds or the proceedings and authority under which they are to be issued.

#### **PART 17 - UNDERWRITING AND REMARKETING**

The Series 2009B, C and D Bonds are being purchased by Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated (the "Underwriters") for whom Citigroup Global Markets Inc. is acting as Lead Manager. The Underwriters have agreed, subject to certain conditions, to purchase the Series 2009B, C and D Bonds from the Authority at an aggregate purchase price of \$124,421,762.88 (which represents the aggregate par amount of the Series 2009B, C and D Bonds, less the Underwriters' discount of \$578,237.12) and to make a public offering of the Series 2009B, C and D Bonds at a price



that is not in excess of the public offering prices stated on the cover of this Official Statement. The Underwriters will be obligated to purchase all such Series 2009B, C and D Bonds if any are purchased.

Citigroup Global Markets Inc. is also serving as Remarketing Agent with respect to the Series 2009B and C Bonds. Morgan Stanley & Co. Incorporated is also serving as Remarketing Agent with respect to the Series 2009D Bonds.

The Series 2009B, C and D 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 Underwriter.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Series 2009B, C and D Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of Bonds.

#### **PART 18 - CONTINUING DISCLOSURE**

So long as the Series 2009B, C and D Bonds bear interest at the Weekly Rate, the Series 2009B, C and D Bonds are exempt from Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, and the Authority, the Institution, the Representative and the Banks will not be required to provide any continuing disclosure in accordance with the Rule.

#### **PART 19 - RATINGS**

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, Inc. ("S&P"), and Fitch, Inc. ("Fitch") respectively, have assigned the long-term and short-term ratings on the Series 2009B, C, and D Bonds shown in the chart below. Such ratings are conditioned on the issuance of the Letters of Credit by the related Credit Facility Providers. In the case of Moody's and S&P, the long-term ratings of the Series 2009B, C and D Bonds reflect a combined analysis of the ratings of the related Credit Facility Provider and the Obligated Group, and the short-term ratings of the respective Banks. The Fitch ratings for the Series 2009B, C and D Bonds reflect the ratings of the respective Letter of Credit Bank. Moody's, S&P, and Fitch have also assigned underlying long-term ratings to the Bonds, as shown below, based upon the senior long-term unenhanced debt of the Obligated Group, which ratings are independent of the related Letter of Credit. The Obligated Group furnished to the rating agencies certain information and material concerning itself and the Series 2009B, C and D Bonds. An explanation of the significance of such ratings may be obtained only from the rating agencies furnishing the same. Certain information and materials not included in this Official Statement were furnished to the rating agencies. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating agencies, if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market prices of the Series 2009B, C and D Bonds.

|              | <u>Moody's</u>   |                   | <u>S&amp;P</u>   |                   | <u>Fitch</u>     |                   |
|--------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
|              | <u>Long-Term</u> | <u>Short-Term</u> | <u>Long-Term</u> | <u>Short-Term</u> | <u>Long-Term</u> | <u>Short-Term</u> |
| Series 2009B | Aaa              | VMIG 1            | AAA              | A-1+              | AA-              | F1+               |
| Series 2009C | Aaa              | VMIG 1            | AAA              | A-1+              | AA-              | F1+               |
| Series 2009D | Aaa              | VMIG 1            | AAA              | A-1               | A+               | F1+               |
| Underlying   | Baa1             |                   | A-               |                   | A-               |                   |

## PART 20 - MISCELLANEOUS

Reference in this Official Statement to the Act, the General Resolution, the Series 2009B, C and D Resolutions, the Letters of Credit, the Reimbursement Agreements, the 2009 Loan Agreement, the Mortgages, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations, the Series 2009B, C and D LOC Obligations and the Intercreditor Agreement do not purport to be complete. Investors should refer to the Act, the General Resolution, the Series 2009B, C and D Resolutions, the Letters of Credit, the Reimbursement Agreements, the 2009 Loan Agreement, the Mortgages, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations and the Intercreditor Agreement for full and complete details of their provisions. Copies of the General Resolution, the Series 2009B, C and D Resolutions, the Letters of Credit, the Reimbursement Agreements, the 2009 Loan Agreement, the Mortgages, the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Series 2009B, C and D Obligations, the Series 2009B, C and D LOC Obligations and the Intercreditor Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2009B, C and D Bonds are fully set forth in the General Resolution and the Series 2009B, C and D Resolutions. Neither any advertisement of the Series 2009B, C and D Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2009B, C and D 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 Members of the Obligated Group, the Institution, the Representative, the Series 2009 Projects and the NSLIJ System was supplied by the Institution and the Representative. 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.

"Appendix A - Certain Definitions," "Appendix C - Summary of Certain Provisions of the Loan Agreement," "Appendix D - Summary of Certain Provisions of the Resolutions" and "Appendix G - Proposed Form of Approving Opinion of Bond Counsel" have been prepared by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel.

"Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the 2009B, C and D Supplemental Indentures" has been prepared by Winston & Strawn LLP, counsel to the Obligated Group and the Representative.

"Appendix F - Summary of Certain Provisions of the Reimbursement Agreements" has been prepared by Emmet, Marvin & Martin, LLP, New York, New York, Bank Counsel.

The combined financial statements of the Obligated Group as of December 31, 2008 and 2007 and for the years then ended included in Appendix B-1(b) have been audited by Ernst & Young LLP, independent auditors, as stated in their report therein. Management's introduction to the combined audited financial statements included in Appendix B-1 and the unaudited interim combined financial statements of the Obligated Group for the six months ended June 30, 2009 included in Appendix B-2 have been provided by the NSLIJ System.

The Institution and the Representative has reviewed the parts of this Official Statement describing the Institution, the Obligated Group, the NSLIJ System and the Representative under the headings, "INTRODUCTION," "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009B, C and D BONDS," "THE SERIES 2009B, C AND D BONDS," "THE PLAN OF FINANCE," "ANNUAL DEBT SERVICE REQUIREMENTS," "ESTIMATED SOURCES AND USES OF FUNDS," THE

OBLIGATED GROUP” AND “RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP”. The Institution and the Representative will certify as of the date hereof and of delivery of the Series 2009B, C and D 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 Representative has also reviewed “Appendix B-1(a) - Management’s Introduction to the Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors,” “Appendix B-1(b) - Audited Combined Financial Statements of the North Shore-Long Island Jewish Obligated Group for the Years Ended December 31, 2008 and 2007 with Report of Independent Auditors” and “Appendix B-2 - Unaudited Interim Combined Financial Statements for the Six Months Ended June 30, 2009.” The Representative will certify as of the date hereof and of delivery of the Series 2009B, C and D Bonds that such Appendices do not contain any untrue statement of a material fact and does 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 Institution and the Representative have agreed to indemnify the Authority, the Underwriters, the Remarketing Agent and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The Obligated Group has agreed with the Authority to furnish, or cause to be furnished, no later than 60 days subsequent to the last day of each of the first three quarters in each fiscal year to (1) the Authority and (2) the MSRB, the following information: (a) the unaudited combined financial statements of the Obligated Group, including the combined statements of financial position as of the end of such quarter, the combined statements of operations, the combined statements of changes in net assets, the combined statements of cash flows, the combining statement of financial position and the combining statement of operations; (b) utilization statistics of each Member of the Obligated Group for such quarter, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits, ambulatory surgery visits and home care visits (if applicable) or, such other or different statistics as are appropriate at the time of calculation; and (c) major payer mix of the Obligated Group by percentage of gross revenue. In addition, the Institution has agreed with the Authority to furnish, or cause to be furnished, to each of the parties identified in clauses (1) and (2) above the Audited Combined Financial Statements of the Obligated Group within 120 days after the completion of each fiscal year. Each of the foregoing requirements may be waived, modified or amended by the Authority in its sole and absolute discretion without notice to or consent of the Holders.

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

DORMITORY AUTHORITY OF  
THE STATE OF NEW YORK

By: /s/ PAUL T. WILLIAMS, JR.  
Authorized Officer

## APPENDIX A

### CERTAIN DEFINITIONS

In addition to the other terms defined in this Official Statement, when used herein and in the summaries of the provisions of the Master Indenture, the 2009B Supplemental Indenture, the 2009C Supplemental Indenture, the 2009D Supplemental Indenture, the General Resolution, the Series 2009B Resolution, the Series 2009C Resolution, the Series 2009D Resolution and the Loan Agreement, the following terms have the meanings ascribed to them below.

*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 HealthCare 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;

*Additional Indebtedness* means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the Obligations under the Master Indenture issued in connection with the Series 2009 Bonds or the related transactions or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group;

*Affiliate* means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by any Member or the Obligated Group Representative or their respective successors or assigns or by any Person which directly or indirectly controls a Member or the Obligated Group Representative and any joint ventures in which any of the Members or the Obligated Group Representative participates. 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;

*Alternative Parity Indebtedness* means indebtedness issued by an Institution, or any other Member of the Obligated Group, or any other issuer on behalf of the Institution, or any other Member of the Obligated Group, and secured by the pledge of, or a parity lien against or upon, the property subject to the Mortgage in accordance with the Intercreditor Agreement;

*Annual Administrative Fee* means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in the amount stated in the Loan Agreement;

*Applicable* means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, or Debt Service Reserve Fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to a particular Project, (ii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iii) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project for an Institution, (iv) with respect to any Loan Agreement, Mortgage or Obligation, the Loan Agreement, Mortgage or Obligation, as applicable, relating to a particular Project for an Institution, (v) with respect to any Institution or Trustee, the respective Institution or Trustee identified in the Applicable Series Resolution, (vi) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution and (vii) with respect to any Credit Facility or Credit Facility Provider, the Credit Facility or Credit Facility Provider, if any relating to a particular Series of Bonds;

*Arbitrage Rebate Fund* means the fund so designated and established by the Applicable Series Resolution pursuant to the Resolution;

*Audited Combined Financial Statements* means, as defined in each of the 2009 Supplemental Indentures, the financial statements (if any) of the Obligated Group for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”) and specified in the agreements of the Members of the Obligated Group to provide continuing disclosure as required by the Rule;

*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 will hereafter succeed 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 Series Resolution, unless otherwise provided in the Applicable Series Resolution;

*Authorized Denomination* means during any Daily Rate Period or any Weekly Rate Period, \$100,000 or any integral multiple of \$5,000 in excess thereof;

*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 Chairman, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the General Counsel, the Chief Information Officer, a Managing Director, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such 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;

*Authorized Representative* means, with respect to the Obligated Group Representative, the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel, and, with respect to each Member of the Obligated Group, the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel, or any other person or persons designated an Authorized Representative of such Member by an Officer’s Certificate of the Obligated Group Representative or such Member of the Obligated Group, respectively, signed by the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel and filed with the Master Trustee;

*Available Moneys* means:

- (i) proceeds of any Series of Bonds, including, without limitation, Refunding Bonds, or proceeds of other bonds, notes or obligations, issued to refund the Series 2009B, C and D Bonds expressly available to pay the principal or Redemption Price of or interest on the Series 2009B, C and D Bonds, provided that, as to such proceeds, an opinion of counsel experienced in bankruptcy matters is delivered to the Trustee and each Rating Service (other than S&P) then rating the Series 2009B, C and D Bonds (which opinion is reasonably acceptable to each Rating Service

- then rating the Series 2009B, C and D Bonds) to the effect that the payment of such proceeds to the holders of the Bonds the Series 2009B, C and D Bonds would not constitute transfers avoidable under 11 U.S.C. § 547(b) and recoverable from the holders of the Series 2009B, C and D Bonds under 11 U.S.C. § 550(a) if the Authority or the Institution were the debtor in a case under the Bankruptcy Code;
- (ii) money derived from drawings under any Credit Facility or Liquidity Facility relating to the Series 2009B, C and D Bonds and the investment earnings thereon that are not commingled with any other moneys,
  - (iii) with respect to Option Bonds, moneys derived from the remarketing of such Bonds that are directly paid to or held by the Tender Agent for the payment of the Purchase Price of such Bonds in accordance herewith,
  - (iv) money held by the Trustee (other than in the Arbitrage Rebate Fund or the Credit Facility Provider Repayment Fund) and subject to a first-priority perfected lien under the Resolution for a period of at least 123 days (or, in the case of any money provided by a person that is an “insider” of the Institution under 11 U.S.C. §101(31), one year) and not commingled with any moneys so held for less than said period and during which period no petition in bankruptcy was filed by or against, and no receivership, insolvency, assignment for the benefit of creditors or other similar proceeding has been commenced by or against, the Authority or any Institution unless such petition or proceeding was dismissed and all applicable appeal periods have expired without an appeal having been filed, and the investment earnings thereon, that are not commingled with any other moneys, or
  - (v) any money as to which an opinion of counsel experienced in bankruptcy matters is delivered to the Trustee and each Rating Service (other than S&P) then rating the Series 2009B, C and D Bonds (which opinion is reasonably acceptable to each Rating Service then rating the Series 2009B, C and D Bonds) to the effect that the payment of such moneys to the holders of the Bonds as debt service or as the Purchase Price would not constitute transfers avoidable under 11 U.S.C. § 547(b) and recoverable from the holders of the Bonds under 11 U.S.C. § 550(a) if the Authority or an Institution were the debtor in a case under the Bankruptcy Code;

*Balloon Long-Term Indebtedness* means Long-Term Indebtedness other than a Demand Obligation 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;

*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;

*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;

*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 Trustee* means The Bank of New York Mellon, a New York banking corporation and any successor to its duties under the Related Bond Indenture;

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

*Book Value* when used in connection with Property, Plant and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once;

*Business Day* means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed or other day on which the New York Stock Exchange is closed or on which banks are authorized to be closed in the City of New York, New York, or the cities in which the principal office of the Trustee, the Applicable Credit Facility Provider, a Substitute Credit Facility Provider or the Tender Agent are located;

*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;

*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;

*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 investment banking firm or other financial institution of national repute for having the skill and experience necessary to render the particular report required by the provision of the Master Indenture 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;

*Contract Documents* means any general contract or agreement for the construction of the Series 2009 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 the Series 2009 Project, and any amendments to the foregoing;

*Control Agreement* means any agreement whereby the Obligated Group, a secured party and a banking institution have agreed in an authenticated record (such as a signed writing) that the banking institution will comply with instructions originated by the secured party directing disposition of the funds in a deposit account held by such banking institution as security for the benefit of the secured party without further consent by the Obligated Group;

*Conversion* means a change in the Rate Mode of a Variable Rate Bond made in accordance with the provisions of the Applicable Bond Series Certificate;

*Conversion Date* means the day on which the interest rate on a Variable Rate Bond is converted from one Rate Mode to a different Rate Mode or was proposed to be converted from one Rate Mode to



another Rate Mode, which date must be a Reset Date or an Interest Payment Date for the applicable Variable Rate Bond;

*Conversion Notice* means a notice given pursuant to the Conversion provisions of a Bond Series Certificate;

*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 will 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, 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 and other costs, charges and fees, including those of the Authority, in connection with the foregoing;

*Cost* or *Costs of the Project* means, with respect to a Project, the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such Project, 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 material men, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project, (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, 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, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution will be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project, (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 (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, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Resolution or to the Loan Agreement, a Mortgage, or a Reserve Fund Facility;

*Credit Facility*, as used in the Master Indenture, means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness to provide credit or liquidity support for such Indebtedness;

*Credit Facility*, as used in the Resolution, means any municipal bond insurance policy satisfactory to the Authority which insures payment of principal and of redemption premium, if agreed to by the Credit Facility Issuer and the Institution, and interest on the Bonds of any Series when due and issued and delivered to the Trustee or similar insurance or guarantee if so designated, all in accordance with the Applicable Series Resolution;

*Credit Facility Issuer* or *Credit Facility Provider* 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 the successor or assign of the obligations of such firm, association or corporation under such Credit Facility;

*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;

*Daily Rate* means the rate at which a Variable Rate Bond in the Daily Rate Mode bears interest, as established in accordance with the Applicable Bond Series Certificate;

*Daily Rate Mode* means a Rate Mode in which a Variable Rate Bond in such Rate Mode bears interest at a Daily Rate;

*Daily Rate Period* means a period beginning on a Conversion Date or on a Business Day and extending to, but not including, the next succeeding Business Day, during which such Variable Rate Bond in the Daily Rate Mode bear interest at the Daily Rate;

*Days-Cash-On-Hand* means, for the Obligated Group, as of any date, the product of 365 times or 180 times, as the case may be, (i) the unrestricted cash and cash equivalents plus unrestricted marketable securities (in accordance with generally accepted accounting principles) as reflected in the Audited Financial Statements of the Obligated Group at December 31, including board and management designated assets and interest funds in the trustee revenue funds which are to be applied to the current year's interest expense, divided by (ii) the operating and non-operating expenses of the Obligated Group for the twelve or six months, as the case may be, excluding from such expenses: (a) depreciation and amortization of debt and bond issuance costs, (b) any amount included in the operating and non-operating expenses representing bad debt expense, and (c) any extraordinary or non-recurring item;

*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 the fund so designated, created and established pursuant to the Resolution; provided, however, there is no Debt Service Reserve Fund relating to the Variable Rate Bonds;

*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, (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, and (v) stripped securities where the principal-only and interest-only strips of noncallable obligations are issued by the U.S. Treasury or Resolution Funding Corp. or securities stripped by the Federal Reserve Bank of New York;

*Defeasance Security* means (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), an

obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America, which, in each case, is not subject to redemption prior to maturity other than at the option of the holder thereof or which has been irrevocably called for redemption on a stated future date or (b) an Exempt Obligation (i) which 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) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or 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 (other than obligations the payment of the principal of which is not fixed as to amount or time of payment) 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 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) which are rated by Moody's and Standard & Poor's in the highest rating category of each such rating service for such Exempt Obligation; provided, however, that such term will not mean any interest in a unit investment trust or mutual fund;

*Defeased Municipal Obligations* means obligations of state or local government municipal bond issuers rated the highest rating by S&P, Fitch or Moody's, 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 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 has been discharged, or provision for the discharge of which has 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;

*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;

*Derivative Agreement* means, without limitation,

- (a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;

- (b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;
- (c) any contract to exchange cash flows or payments or series of payments;
- (d) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and
- (e) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, or minimize investment risk or to protect against any type of financial risk or uncertainty;

*Derivative Period* means the period during which a Derivative Agreement is in effect;

*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 the Master Indenture;

*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;

*Excluded Property* means any Property that is not Health Care Facilities of the Obligated Group;

*Exempt Obligation* means 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 (i) is excludable from gross income under Section 103 of the Code and (ii) is not an item of tax preference within the meaning of Section 57(a)(5) of the Code;

*Expiration Date* when used in connection with a particular Credit Facility means the date on which such Credit Facility will expire, as such date may be extended from time to time or any earlier date on which the Credit Facility will terminate, expire or be cancelled;

*Facility Provider* means the issuer of a Reserve Fund Facility delivered to the Trustee pursuant to the Resolution;

*Fiscal Year* means the fiscal year of each Member of the Obligated Group, which will 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 will be the period set forth in such notice;

*Fitch* means Fitch, Inc., its successors and their assigns, and, if such entity will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee;

*Fixed Rate* means the rate at which a Variable Rate Bond bears interest to its maturity during the Fixed Rate Period, as established in accordance with the Applicable Bond Series Certificate;

*Fixed Rate Mode* means a Rate Mode in which a Variable Rate Bond in such Rate Mode bears interest at a Fixed Rate;

*Fixed Rate Period* means the period from and including the Conversion Date and extending to and including the date of maturity of such Variable Rate Bond in the Fixed Rate Mode;

*Governing Body* means, when used with respect to any Member of the Obligated Group and 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 or the Obligated Group Representative are exercised;

*Government Obligation* means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America is pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export-Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Company; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, and (j) upon the approval of the Authority and all Applicable Credit Facility Issuers, (A) an obligation of any federal agency and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or (B) an obligation of any other agency or instrumentality of the United States of America created by Act of Congress, provided such obligation is rated at least "A" by S&P and Moody's at all times;

*Governmental Requirements* means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or the 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 the Project or any part thereof, Mortgaged Property or any part of either including, but not limited to, Article 28 and 28-B of the Public Health Law of the State of New York;

*Governmental Restrictions* means federal, state or other applicable governmental laws, regulations, rulings, judgments, court orders or consent decrees affecting any Member of the Obligated Group and its health care facilities including (a) Articles 28 and 28-B of the Public Health Law, and (b) those placing restrictions and limitations on (i) the fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (ii) the amount or timing of the receipt of such fees or charges;

*Gross Receipts* as used in the Master Indenture means all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source, 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 on tangibles, contract rights, general intangibles, healthcare insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, 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 will not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, and any income derived therefrom to the extent specifically restricted by the donor or grantor to a special object or purpose

inconsistent with (A) paying debt service on an Obligation or (B) meeting any commitment of a Member under a Related Loan Agreement; (ii) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group or (iii) 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, contract rights, payment on tangibles, general tangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired derived from the Excluded Property which constitutes real property;

*Gross Receipts Revenue Fund* means the fund established pursuant to the Master Indenture;

*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 under the Master Indenture. For the purposes of the Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group will have executed and delivered its Guaranty will, 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 20% of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty will 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 Ratio), provided that if there will have occurred a payment by any 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, 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made will be taken into account;

*Health Care Facilities* means the Mortgaged Property and any other Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance, diagnosis and treatment of patients or to otherwise provide health care and services. Any Property whose primary function or functions is other than the care, maintenance diagnosis and to treatment of patients providing health care services and which has incidental health care services provided on its premises, will not be deemed to be Health Care Facilities;

*Holder* means an owner of any Obligation issued in other than bearer form;

*Income Available for Debt Service* means, with respect to the Obligated Group, as to any period of twelve (12) consecutive calendar months, its Excess (Deficiency) of Revenue and Gains and Losses over Expenses (as such capitalized terms are defined by generally accepted accounting principles) before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; *provided, however*, that (1) no determination thereof will 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 (including other than temporary impairment of marketable securities), (c) the termination value of, as well as unrealized gains and losses on, Derivative Agreements of a Member of the Obligated Group, or (d) any extraordinary or non-recurring item, including payments on a called Guaranty, and (2) revenues will 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 will not include obligations of any Member of the Obligated Group to another Member of the Obligated Group;

*Institution* means Long Island Jewish Medical Center, a not-for-profit hospital corporation;

*Insurance Consultant* means a firm or Person selected by the Obligated Group Representative 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, the term “Insurance Consultant” will include qualified in house risk management officers employed by any Member of the Obligated Group or an Affiliate;

*Intercreditor Agreement* means the Intercreditor Agreement, dated as of August 1, 2003 as corrected and amended as of April 28, 2005, October 18, 2006, May 31, 2007 and September 17, 2009, by and among the Members of the Obligated Group, the Authority, the Nassau County Industrial Development Agency, the Representative, The Bank of New York Mellon, as trustee for the other Outstanding Related Bonds, and The Bank of New York Mellon, as security agent;

*Interest Payment Date* means during any Weekly Rate Period, the first Wednesday of each calendar month; provided, however, that if so provided in a Certificate of Determination the first Interest Payment Date may be a date that is different from the date on which interest would otherwise be payable; provided, further, that interest on Pledged Bonds will be payable at the times required by the Reimbursement Agreement. During any Daily Rate Period or Weekly Rate Period the date on which Pledged Bonds are remarketed shall be an Interest Payment Date for such remarketed Pledged Bonds. If any such date is not a Business Day, the Interest Payment Date shall be the succeeding Business Day;

*Investment Agreement* means an agreement for the investment of moneys with a Qualified Financial Institution;

*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;

*Liquidity Facility* means an irrevocable letter of credit, surety bond, loan agreement, standby purchase agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, under which moneys may be obtained for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms of the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds. A Liquidity Facility may also be a Credit Facility. The initial Credit Facility is also a Liquidity Facility.

*Loan Agreement* means the Loan Agreement, dated as of July 29, 2009, by and between the Authority and the Institution relating to the loan of proceeds of Variable Rate Bonds;

*Long-Term Debt Service Coverage Ratio* means for any period of time the ratio determined by dividing the 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, also 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 a period of thirty (30) years) on a level debt service basis at an interest rate equal to the rate borne by such Indebtedness on the date calculated, 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 will be included in such calculation or
  - (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank 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, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year will be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;
- (ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness the interest on such Indebtedness will 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), except that with respect to new Variable Rate Indebtedness (and the incurrence thereof) the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued and thereafter will be calculated as set forth above;
- (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 will not be included in the Long-Term Debt Service Requirement;
- (iv) with respect to any guaranties, in accordance with the Definition of "Guaranty" in the Master Indenture;
- (v) with respect to Indebtedness for which a Member of the Obligated Group will have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness, the principal or notional amount of such Derivative Agreement will be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counter party of the Derivative Agreement has not defaulted on its payment obligations thereunder will be calculated by adding (a) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms (provided that, with respect to new



Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued), and (b) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement), and subtracting (c) the amount of interest payable by the counter party of the Derivative Agreement at the rate specified in the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement); *provided, however*, that to the extent that the counter party of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group will be the interest calculated as if such Derivative Agreement had not been executed; and

- (vi) with respect to a Derivative Agreement that does not relate to underlying Indebtedness which has been entered into by any Member of the Obligated Group, the principal or notional amount of such Derivative Agreement will 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 counter party of the Derivative Agreement has not defaulted on its payment obligations thereunder, will be calculated by taking (a) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (b) the amount of interest payable by the counter party of the Derivative Agreement at the rate specified in the Derivative Agreement;

*provided, however*, that Escrowed Interest and Escrowed Principal will be excluded from the determination of Long-Term Debt Service Requirement; provided, further, however, that in connection with the calculation of “Long-Term Debt Service Requirement”, in no event will 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;

*Long-Term Indebtedness* means all Indebtedness having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including:

- (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;

*Mandatory Tender* means an event which requires a Series of Variable Rate Bonds to be tendered for purchase in accordance with the Applicable Bond Series Certificate;

*Master Indenture* means the Master Trust Indenture dated as of July 1, 1998, as amended and restated as of August 1, 2003, including any other amendments or supplements thereto;

*Master Trustee* means The Bank of New York Mellon, New York, New York (as successor in interest to the United States Trust Company of New York), and its successors in the trusts created under the Master Indenture;

*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 each of North Shore University Hospital, Long Island Jewish Medical Center, Glen Cove Hospital f/k/a/ North Shore University Hospital at Glen Cove, Plainview Hospital f/k/a North Shore University Hospital at Plainview, Forest Hills Hospital f/k/a/ North Shore University Hospital at Forest Hills and North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation f/k/a North Shore University Hospital for Extended Care and Rehabilitation and any other Person becoming a Member of the Obligated Group pursuant to the Master Indenture;

*Moody's* means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee;

*Mortgage* means the Mortgage or Mortgages, as the case may be, granted by the Institution in connection with the Loan Agreement, and/or the Applicable Series 2009 Obligation, in form and substance satisfactory to an Authorized Officer of the Authority, on the Mortgaged Property, as security for the performance of the Institution's obligations under the Loan Agreement and/or the Applicable Series 2009 Obligation, with respect to the Variable Rate Bonds, as applicable, as such Mortgage may be amended or modified from time to time;

*Mortgaged Property* means the real property, fixtures, personal property and other property interests described in and mortgaged pursuant to the 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;

*Obligated Group* means, collectively, the Members of the Obligated Group;

*Obligation* means the evidence of particular Indebtedness issued under the Master Indenture as a joint and several obligation of each Member of the Obligated Group. Obligation may also include the evidence or a particular obligation of each Member of the Obligated Group under a Derivative Agreement;

*Officer's Certificate* means a certificate signed by the Authorized Representative of such Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer's Certificate presented pursuant to the Master Indenture will state that it is being delivered pursuant to (and will identify the section or subsection of), and will incorporate by reference and use in all appropriate instances all terms defined in, the Master Indenture. Each Officer's Certificate will state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer's Certificate is delivered or will state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith;

*Operating Assets* means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by each 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 and other Property held for investment purposes;

*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;

*Optional Tender Date* means any Business Day during a Daily Rate Period or a Weekly Rate Period;

*Outstanding*, when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any Bond cancelled by the Applicable Trustee at or before such date; (ii) any Bond deemed to have been paid in accordance with the Resolution; and (iii) any Bond in lieu of or in substitution for which another Bond has been authenticated and delivered pursuant to the Resolution;

*Outstanding* means, as of any date of determination, (i) when used with reference to Obligations, all Obligations theretofore issued or incurred and not paid and discharged other than (A) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (B) Defeased Obligations and (C) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, and (ii) when used with reference to Indebtedness other than Indebtedness evidenced by an Obligation, all Indebtedness theretofore issued or incurred and not paid and discharged, other than Indebtedness deemed paid and no longer outstanding under the documents pursuant to which such Indebtedness was incurred; *provided, however*, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Indenture, Obligations or Related Bonds that are owned by the Obligated Group Representative or any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member or the Obligated Group Representative will be deemed not to be Outstanding, *provided further, however*, that for the purposes of determining whether the Master Trustee will be protected in relying on any such direction, consent, or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned will be deemed to be not Outstanding;

*Paying Agent* means, with respect to an 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 will be so appointed;

*Permitted Encumbrances* means (i) the Loan Agreement, (ii) the Resolution, (iii) the Mortgage, (iv) any instrument recorded pursuant to the Loan Agreement, (v) all Obligations entered into by the Institution under the Master Indenture, (vi) any other encumbrances or matters approved in writing by the Authority subject to compliance with applicable Governmental Requirements, (vii) those matters referred to in any title insurance policy described in the Loan Agreement and accepted by the Authority, and (viii) any Permitted Liens allowed under the Master Indenture subject to compliance with all applicable Governmental Requirements and the security interests provided for in the Loan Agreement;

*Permitted Liens* shall have the meaning given to such term found in the summary of the Master Indenture under the heading “Limitations on Creation of Liens”;

*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;

*Principal Payment Date* means, for each Series of Variable Rate Bonds, July 1;

*Pledged Bond* means a Bank Bond, as such term is defined in the applicable Reimbursement Agreement;

*Project* means any eligible hospital project, nursing home project or other project qualified under the Act or otherwise qualified for funding by the Authority through the issuance of obligations under the laws of the State of New York and with respect to the Variable Rate Bonds, the Project as set forth in the Loan Agreement;

*Projected Period* means (i) in the case of Indebtedness incurred to finance a capital addition or any repair to Operating Assets, each of the two full Fiscal Years following the date such capital addition or repair is estimated to be installed or completed and (ii) in the case of Indebtedness incurred for any other purpose, each of the two full Fiscal Years following the date such Indebtedness is proposed to be incurred; provided that the Projected Period will, in connection with the Related Bonds issued by the Authority, at the option of the Authority, be for such other period as the Authority may determine;

*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;

*Provider Payments* means any payments made by a Facility Provider pursuant to its Reserve Fund Facility;

*Purchase Price* means (i) when used in relation to Tendered Bonds, other than Variable Rate Bonds tendered upon a Conversion from a Term Rate Mode, an amount equal to (a) 100% of the principal amount of any Variable Rate Bond tendered or deemed tendered to the Tender Agent for purchase pursuant to the Bond Series Certificate or (b) the amount payable to the registered owner of a Pledged Bond following receipt by such owner of a purchase notice from the Remarketing Agent; and (ii) when used in relation to Tendered Bonds mandatorily tendered pursuant to the Bond Series Certificate upon Conversion from a Term Rate Mode on a date other than a Reset Date, an amount equal to the Redemption Price that would be payable if such Variable Rate Bonds had been called for redemption on the Conversion Date; plus in each case accrued and unpaid interest thereon to the date of purchase; provided, however, that, in each case, if the date of purchase is an Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date; and, provided, further, as described in the Bond Series Certificate, if any Variable Rate Bond is a Pledged Bond and is subsequently remarketed, such remarketed Variable Rate Bond shall accrue interest from and including the date on which it is remarketed so that its Purchase Price on remarketing shall be par;

*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 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 rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility or financial guaranty agreement in connection with Outstanding Bonds;

- (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 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 rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility or financial guaranty agreement in connection with Outstanding Bonds;
- (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 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 rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility or financial guaranty agreement in connection with Outstanding Bonds;
- (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or 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 hereunder purchased from such corporation, are insured by an insurer that meet 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 will 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, with respect to each Interest Payment Date, (i) during any Daily Rate Period or any Weekly Rate Period, the close of business on the Business Day preceding such Interest Payment

Date and (ii) during any Fixed Rate Period, the close of business on the 15th day of the calendar month immediately preceding any calendar month in which an Interest Payment Date occurs, regardless of whether such day is a Business Day;

*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;

*Reimbursement Agreement* means an agreement pursuant to which a provider of a Credit Facility (and Liquidity Facility, if applicable) has agreed to provide the Credit Facility (and Liquidity Facility, if applicable), and, in connection the Variable Rate Bonds, the Series 2009B Reimbursement Agreement, Series 2009C Reimbursement Agreement or Series 2009D Reimbursement Agreement, collectively;

*Related Agreements* means the Remarketing Agreement and agreement entered into in connection with a Credit Facility or Liquidity Facility, to which the Institution is a party;

*Related Bond Indenture* means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued;

*Related Bond Issuer* means the issuer of any issue of Related Bonds;

*Related Bonds* means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (i.e., a “Related Bond Issuer”) (“governmental issuer”), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Obligated Group Representative or a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer;

*Related 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 or any similar instrument relating to the loan of proceeds of Related Bonds to a Member of the Obligated Group;

*Remarketing Agent* when used in connection with the Variable Rate Bonds in the Daily Rate Mode, the Weekly Rate Mode or the Term Rate Mode means the applicable remarketing agent for such Variable Rate Bonds appointed and serving in such capacity pursuant to the Applicable Bond Series Certificate and, for the Series 2009B Bonds and Series 2009C Bonds, initially means Citigroup Global Markets Inc., or any successor remarketing agent, and for the Series 2009D Bonds, initially means Morgan Stanley & Co. Incorporated, or any successor remarketing agent;

*Remarketing Agreement* means the Remarketing Agreement dated as of September 17, 2009 by and among the Authority, the Members of the Obligated Group, the Representative and the applicable Remarketing Agent in connection with the Applicable Series of Variable Rate Bonds, as the same may be amended or supplemented from time to time in accordance with the provisions thereof, or any subsequent agreement relating to the powers, duties and obligations of a successor remarketing agent;

*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;

*Representative or Obligated Group Representative* means North Shore-Long Island Jewish Healthcare, Inc., formerly known as North Shore Health System, a New York not-for-profit corporation;

*Required Ratios* means a Long-Term Debt Service Coverage Ratio and Days Cash on Hand, as required by the Applicable Supplemental Indenture;

*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 or General Resolution* means the “North Shore Health System Obligated Group Revenue Bond Resolution,” adopted by the Authority on June 24, 1998, as amended, supplemented or modified pursuant to the terms thereof;

*Revenues* means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement, or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation, which are assigned by the Resolution to the 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 Arbitrage Rebate Fund);

*S&P* means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee;

*Securities* means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, as the time an investment therein is made or such security is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “Aa” or better by Moody’s or “AA” or better by S&P or is rated which a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) with the consent of the Credit Facility Issuers, common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or its stock is deposited in any fund or account established hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “Aa” or better by Moody’s or “AA” by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and the Credit Facility Issuer;

*Semi-Annual Testing Date* means each June 30 and December 31 of each year;

*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 2009 Obligations* means the Series 2009B Obligation, Series 2009C Obligation and Series 2009D Obligation;

*Series 2009 Bonds* means the Variable Rate Bonds and all Bonds issued contemporaneously with the issuance of the Variable Rate Bonds;

*Series 2009B Bonds* means the Dormitory Authority of the State of New York North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B;

*Series 2009C Bonds* means the Dormitory Authority of the State of New York North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C;

*Series 2009D Bonds* means the Dormitory Authority of the State of New York North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D;

*Series 2009B Obligation* means the Obligation issued pursuant to the Master Indenture and numbered 31;

*Series 2009C Obligation* means the Obligation issued pursuant to the Master Indenture and numbered 32;

*Series 2009D Obligation* means the Obligation issued pursuant to the Master Indenture and numbered 33;

*Series 2009B Reimbursement Agreement* initially means the Letter of Credit and Reimbursement Agreement dated as of September 17, 2009, by and between TD Bank, N.A. and the Institution;

*Series 2009C Reimbursement Agreement* initially means the Letter of Credit and Reimbursement Agreement dated as of September 17, 2009, by and between JPMorgan Chase Bank, National Association and the Institution;

*Series 2009D Reimbursement Agreement* initially means the Letter of Credit and Reimbursement Agreement dated as of September 17, 2009, by and between Bank of America, N.A. and the Institution;

*Series 2009B Resolution* means the Series 2009B Resolution Authority authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B, adopted July 29, 2009;

*Series 2009C Resolution* means the Series 2009C Resolution Authority authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C, adopted July 29, 2009;

*Series 2009D Resolution* means the Series 2009D Resolution Authority authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D, adopted July 29, 2009;

*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;

*Short-Term Indebtedness* means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group, including:

- (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;
- (ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and
- (iii) installment purchase or conditional sale contracts having an original term of one year or less;



*SIFMA Municipal Index* means the SIFMA Municipal Swap Index disseminated by Municipal Market Data, a Thomson Financial Services Company or its successor; or, if at the time a Rate is to be determined Municipal Market Data has not provided the relevant information on the SIFMA Municipal Index for the most recent Wednesday, then the rate determined by Municipal Market Data on the Tuesday next preceding the beginning of the Rate Period for which such Rate is to be determined;

*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;

*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;

*Substitute Credit Facility* means an irrevocable direct-pay letter of credit issued and delivered to the Trustee in accordance with the Bond Series Certificate upon the expiration or earlier termination of a Credit Facility, by one or more of a bank, 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, 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, or an insurance policy or any other instrument of credit enhancement issued and delivered to the Trustee in accordance with the Bond Series Certificate upon the expiration or earlier termination of a Credit Facility to replace the Credit Facility;

*Supplement* means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture;

*Supplemental Resolution* means any resolution of the members of the Authority amending or supplementing the Resolution, any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution;

*Tax-Exempt Organization* means a Person organized under the laws of the United States of America or any state 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;

*Tender Agent* means the Trustee, who is appointed as Tender Agent pursuant to the Bond Series Certificate and having the duties, responsibilities and rights provided therein, and its successor or successors and any successor Trustee which may at any time be substituted in its place pursuant thereto;

*Tender Notice* means the notice delivered by the Holders of any Variable Rate Bond subject to Optional Tender pursuant to the Bond Series Certificate;

*Tendered Bond* means a Variable Rate Bond or portion thereof in an Authorized Denomination mandatorily tendered or tendered at the option of the Holder thereof for purchase in accordance with the Applicable Bond Series Certificate, including a Variable Rate Bond or portion thereof deemed tendered, but not surrendered on the applicable Tender Date;

*Term Bonds* means with respect to Bond of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments;

*Term Rate* means the rate at which any Variable Rate Bond bears interest during a Term Rate Period, as established in accordance with the Applicable Bond Series Certificate;

*Term Rate Mode* means a Rate Mode designated as such in a Conversion Notice in which a Variable Rate Bond in such Rate Mode bears interest at a Term Rate;

*Term Rate Period* means a period commencing on the Conversion Date or a Reset Date and extending to and including the next succeeding Reset Date, which Reset Date must be a Business Day at least 365 days from such Conversion Date or Reset Date;

*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, including specifically, but without limitation, the forgiveness of any debt;

*Trustee* means a bank or trust company appointed as Trustee for a Series of the Bonds pursuant to the Applicable Series Resolution or the Bond Series Certificate delivered under the Resolution and having the duties, responsibilities and rights provided for in the Resolution 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. The Trustee for the Variable Rate Bonds is The Bank of New York Mellon, a New York banking corporation and any successor to its duties under the Resolution;

*Variable Rate Bonds* means the Series 2009B Bonds, Series 2009C Bonds and Series 2009D Bonds, collectively, each of which will bear interest at variable interest rates, such bonds are also referred to in the forepart of this Official Statement as the Series 2009B, C, and D Bonds;

*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;

*Weekly Rate* means the rate at which a Variable Rate Bond bears interest during a Weekly Rate Period, as established in accordance with the Applicable Bond Series Certificate;

*Weekly Rate Mode* means a Rate Mode in which a Variable Rate Bond in such Rate Mode bears interest at a Weekly Rate;

*Weekly Rate Period* means a period commencing on a Conversion Date or the Wednesday of a calendar week and extending to and including the next succeeding Tuesday;

*2009 Supplemental Indentures* means the 2009B Supplemental Indenture, 2009C Supplemental Indenture and 2009D Supplemental Indenture, collectively;

*2009B Supplemental Indenture* means the Supplemental Indenture for Obligation No. 31;

*2009C Supplemental Indenture* means the Supplemental Indenture for Obligation No. 32; and

*2009D Supplemental Indenture* means the Supplemental Indenture for Obligation No. 33.

**APPENDIX B-1(a)**

**MANAGEMENT'S INTRODUCTION TO THE  
AUDITED COMBINED FINANCIAL STATEMENTS OF THE  
NORTH SHORE-LONG ISLAND JEWISH OBLIGATED GROUP  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
WITH REPORT OF INDEPENDENT AUDITORS**

**APPENDIX B-1(b)**

**AUDITED COMBINED FINANCIAL STATEMENTS OF THE  
NORTH SHORE-LONG ISLAND JEWISH OBLIGATED GROUP  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
WITH REPORT OF INDEPENDENT AUDITORS**

**APPENDIX B-2**

**UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS FOR THE SIX MONTHS  
ENDED JUNE 30, 2009**

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement. Such summary does not purport to be complete or definitive and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Unless otherwise indicated, references to section numbers in this summary refer to sections in the Loan Agreement. Defined or definitive terms used herein have the meanings ascribed to them in Appendix A.

#### **Termination**

The Loan Agreement will remain in full force and effect until no Variable Rate Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution have been made or provision made for the payment thereof; *provided, however*, that the provisions found under the caption “Arbitrage” and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the Loan Agreement will nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority will 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 satisfaction of the Mortgage and the release or surrender of any security interests granted by the Institution to the Authority pursuant to the Loan Agreement.

*(Section 41)*

#### **Project Financing**

The Authority agrees to use its best efforts to issue and deliver the Variable Rate Bonds. The proceeds of the Variable Rate Bonds will be applied as specified in the Resolution, the Series Resolutions or the Bond Series Certificates relating to the Variable Rate Bonds.

*(Section 4)*

#### **Construction of Project**

The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution, the Series Resolutions and under the Loan Agreement, the Institution will complete the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of the Project in connection with which the Authority has issued Bonds, substantially in accordance with the Contract Documents relating thereto. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the 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 the Authority and the Department of Health, which approval will not be unreasonably withheld. The Authority shall have no obligation to issue Additional Bonds or provide additional funds other than the moneys available to the Institution under the provisions of the Resolution or under the Loan Agreement.

*(Section 5)*

#### **Amendment of the Project; Sale or Conveyance of the Project or Mortgaged Property; Additional Bonds**

The Project may be amended by agreements supplementing the Loan Agreement and upon compliance with Governmental Requirements and with the prior written consent of an Authorized Officer of the Authority and the Department of Health to decrease, increase or otherwise modify the scope

thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing, furnishing and equipping of the Project which the Authority is authorized to undertake.

Except as provided in the Loan Agreement, the Institution covenants that it will not transfer, sell, encumber or convey any interest in the Project or the Mortgaged Property or any part thereof or interest therein, including development rights, without complying with Governmental Requirements and obtaining the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Institution to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the change will not have an effect on the status of the taxability of interest on the Variable Rate Bonds for federal income taxation purposes. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit in the Debt Service Fund an amount not to exceed the principal amount of the Bonds Outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. In addition, the Institution may remove, transfer, sell or convey equipment, furniture or fixtures in the Project, or which comprise a part of the Project, provided that, unless otherwise approved by the Authority and the Department of Health, the Institution substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced or the property being so removed, transferred, sold or conveyed is done so in the ordinary course of business or constitutes furnishings not essential to the operation of the Mortgaged Property.

The Authority, upon the request of the Institution, may, but is not required to, issue Bonds to provide moneys required for the cost of completing the Project in excess of the moneys in the applicable account in the Construction Fund. Nothing contained in the Loan Agreement or in the Resolution is to be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent to reserve to the Authority full and complete discretion to decline to issue such Bonds.

*(Section 6)*

### **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 Debt Service Fund, but excluding moneys from the Debt Service Reserve Fund, and excluding interest accrued but unpaid on investments held in the Debt Service Fund, the Institution unconditionally agrees to pay or cause to be paid, so long as the 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 Variable Rate Bonds, payment of its proportionate share of the Authority Fee and the Department of Health fee, if applicable;

(b) On or before the date of delivery of the Variable Rate Bonds, 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) With respect to Variable Rate Bonds the interest on which is paid more frequently than semi-annually, on or before the day that is four (4) Business Days prior to the Interest Payment Date, the interest coming due on such Variable Rate Bonds, assuming that such Variable Interest Rate Bonds will bear interest at the actual interest rate for each Variable Interest Rate Period, as appropriate, for which the interest rate has been determined prior to the date of deposit and for the Interest Rate Period or portion thereof immediately preceding the Interest Payment Date when the Variable Interest Rate for such period is not available at a rate per annum equal to the rate per annum for such Bonds in the immediately preceding Variable Interest Rate Period,

plus 1% per annum (reconciliation with the actual Variable Interest Rate for the period for which the actual Variable Interest Rate was not available at the time of deposit will occur in the next month);

(d) On the first (1st) day of each month commencing on the first (1st) day of the twelfth month immediately preceding the Principal Payment Date on which the principal or a Sinking Fund Installment of Bonds becomes due, one-twelfth (1/12) of the Institution's proportionate share of the principal and Sinking Fund Installments on the Bonds coming due on the next Principal Payment Date; *provided, however*, that, if there are less than twelve (12) such payment dates prior to the Principal Payment Date on which principal or Sinking Fund Installments come due on the Bonds, on each payment date prior to the Principal Payment Date the Institution shall pay with respect to such Bonds an amount equal to the Institution's proportionate share of the principal and Sinking Fund Installments of such Bonds coming due on such Principal 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 such Principal Payment Date;

(e) Unless the redemption of Bonds at the option of the Authority or any purchase thereof in lieu of optional redemption (at the direction of the Institution with the consent of the Authority) is subject to the condition that sufficient money is available on the redemption date or the purchase date, unless waived by the Authority, or unless such Bonds are held by the Credit Facility Provider and are subject to mandatory redemption, at least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds or Bonds contracted to be purchased, is to be paid, the amount required to pay the Institution's proportionate share of the Redemption Price or purchase price in lieu of redemption of such Bonds;

(f) On December 10 of each Bond Year, commencing December 10, 2009, one-half (1/2) of the Institution's proportionate share of the Annual Administrative Fee payable, in arrears, during such Bond Year in connection with the Variable Rate Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year;

(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 the Loan Agreement 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 Mortgage, the Resolution, the Master Indenture and the Series 2009 Obligations and any other Obligations issued under the Master Indenture securing any Bonds 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 or the financing or construction of the Project;

(h) Promptly upon demand by an Authorized Officer of the Authority (a copy of which will be furnished to the Trustee), the Institution's proportionate share of all amounts required to be paid by the Institution as a result of an acceleration pursuant to the provisions described under the caption "Defaults and Remedies" below;

(i) Promptly upon demand by an Authorized Officer of the Authority, the Institution's proportionate share of the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds 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; and

(j) On the Business Day immediately preceding an Interest Payment Date, if the amount on deposit in the 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 Institution's proportionate share of the amount of such deficiency.

Subject to the provisions of the Resolution and the Loan Agreement, the Institution will receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (e) 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 Principal Payment Date, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such Principal Payment Date. The amount of the credit will be equal to the Institution's proportionate share of the principal amount of the Bonds so delivered.

The Authority directs the Institution, and the Institution agrees, to make the Institution's proportionate share of the payments required by paragraphs (c), (d), (e), (f), (g) and (h) above directly to the Trustee for deposit and application in accordance with the Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in a Construction Fund or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraph (a) above directly to the Authority, and the payments required by paragraph (l) above, directly to the Commissioner of Health.

The Institution agrees that it is also obligated to make all payments when due on the applicable Series 2009 Obligations to the holders of such Series 2009 Obligations, and that the applicable holders will be entitled to so receive all payments when due on the Series 2009 Obligations, it being the intention of the parties to the Loan Agreement that the Series 2009 Obligations and the Loan Agreement are separate (but not duplicative) obligations of the Institution (and, to the extent provided in the applicable Series 2009 Obligation, of the Obligated Group), that payments by the Institution (or the Obligated Group) to the Trustee pursuant to the applicable Series 2009 Obligation relating to the Institution's proportionate share of the Variable Rate Bonds, will serve as a credit against amounts due from the Institution to the Authority pursuant to the Loan Agreement with regard to the Variable Rate Bonds and that payments by the Institution to or upon the order of the Authority pursuant to the Loan Agreement will serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the applicable Series 2009 Obligations.

The Institution further agrees that it is obligated to make equity contributions as are required in connection with the issuance of the Variable Rate Bonds and the completion of the Institution's Project, which amounts are set forth in the Loan Agreement.

2. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in this subdivision), all moneys paid by the Institution to the Trustee pursuant to the Loan Agreement or otherwise held by the Trustee will be applied in reduction of the Institution's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with the Resolution. Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolutions to the contrary (except as otherwise specifically provided for in this subdivision), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (c), (d), (e), (f), (g) and (h) in the preceding paragraph 1. (other than moneys received by the Trustee pursuant to the

section of the Resolution pertaining to compensation of the Trustee, which will be retained and applied by the Trustee for its own account) will be received by the Trustee as agent for the Authority in satisfaction of the Institution's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (e) of this subdivision) held by it in the Construction Fund to the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution will 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 or Purchase Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee will hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of the Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of the Bonds.

3. The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement will be complete and unconditional and the amount, manner and time of making such payments will not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Trustee, or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete the Project or the completion thereof with defects, failure of the Institution to occupy or use the Project, any declaration or finding that the Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; *provided, however*, that nothing in the Loan Agreement will be construed to release the Authority from the performance of any agreements on its part contained in the Loan Agreement or any of its other duties or obligations, and in the event the Authority fails 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 has no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project, beyond the extent of moneys available in the Construction Fund established for such Project.

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

4. The Authority has the right in its sole discretion to make on behalf of the Institution any payment required pursuant to the provisions described under this caption "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" which has not been made by the Institution when due. No such payment by the Authority will limit, impair or otherwise affect the rights of the Authority under the provisions found under the caption "Defaults and Remedies" below arising out of the Institution's failure to make such payment and no payment by the Authority will be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

5. The Institution, if it is not then in default under the Loan Agreement, will have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid will be deposited in accordance with the directions of an Authorized Officer of the Authority in the Debt Service Fund or held by the 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 the Loan Agreement, the Authority agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the 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

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)*

### **Incurrence of Alternative Parity Indebtedness**

Alternative Parity Indebtedness may only be incurred under the Loan Agreement, to the extent permitted by law, with the written consent of the Authority and in accordance with the provisions of the Master Indenture.

*(Section 11)*

### **The Mortgage; Lien on Fixtures, Furnishings and Equipment**

The Institution will execute and deliver to the Authority the Mortgage in recordable form, acceptable to an Authorized Officer of the Authority, to secure all obligations and liabilities of the Institution under the Loan Agreement.

As further security for all obligations and liabilities of the Institution under the Loan Agreement, the Institution will grant to the Authority a security interest in such fixtures, furnishings and equipment owned by the Institution which then are or thereafter will be (i) located in or on any Mortgaged Property or (ii) used in connection therewith as may be acceptable to an Authorized Officer of the Authority, and in all proceeds thereof and in all fixtures, furnishings and equipment that are owned by the Institution which may be substituted therefor. The Institution covenants that such fixtures, furnishings and equipment and replacements and proceeds thereof owned by the Institution will at the time the security interest therein is granted to the Authority be free from any other security interest, other than Permitted Encumbrances.

Prior to any assignment of the Mortgage to the Trustee or the Master Trustee, the Authority and the Department of Health, without the consent of the Trustee or the Holders of any of the Bonds, may consent to (i) the amendment, modification, release, termination or satisfaction of the Mortgage and, the release of real property and fixtures subject to the Mortgage or other security interest from the lien thereof all upon such terms and conditions as the Authority may require and (ii) the release or subordination of any security interest evidenced by the Mortgage in any furnishings or equipment.

The Institution covenants it will not transfer, sell or convey any interest in any furnishings or equipment located in or on or used in connection with the Mortgaged Property without complying with Governmental Requirements and without the prior approval of an Authorized Officer of the Authority or, in the event the Mortgage has been assigned to the Trustee or the Master Trustee, without the prior approval of the Trustee or the Master Trustee.

If any Mortgaged Property or any interest therein is disposed of while Bonds are Outstanding, the Institution will, absent a prior written agreement with the Authority as to the replacement of such Mortgaged Property or interest therein, pay the net proceeds of such disposition to the Trustee for deposit in the Debt Service Fund. Notwithstanding the foregoing, the Institution may remove, transfer, sell or convey equipment, furniture or fixtures in Mortgaged Property provided that, unless otherwise approved by the Authority, the Institution substitutes for such equipment, furniture or fixtures additional equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced or the property being so removed, transferred, sold or conveyed is done so in the ordinary course of business or constitutes furnishings not essential to the operation of the Mortgaged Property.

*(Section 12)*

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

The Institution consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to paragraphs (c), (d), (e), (f), (g) and (h) of paragraph 1 under the above caption "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, including without limitation the Mortgage, the Series 2009 Obligations and any security interest in the fixtures, furnishings and equipment, as their interests may appear. The Government Obligations, Exempt Obligations and other Securities pursuant to the provisions of subdivision 1 under the above caption "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the above caption "Reserve Fund" 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 will be specifically assigned by the Authority to the Trustee. The Institution further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the provisions under this caption "Consent to Pledge and Assignment by the Authority," the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment will be limited to securing the Institution's obligation to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan Agreement. Any realization upon the Mortgaged Property or any pledge made or security interest granted by the Loan Agreement will not, by operation of law or otherwise, result in cancellation or termination of the Loan Agreement or the obligations of the Institution under the Loan Agreement.

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, the Mortgage, the Master Indenture and the Continuing Disclosure Agreement, to incur the indebtedness contemplated in the Loan Agreement and to pledge, grant a security interest in and assign to the Authority and the Trustee for the benefit of the Holders of the Bonds, the Government Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement in the manner and to the extent provided in the Loan Agreement and in the Resolution, subject to federal and State laws and regulations which limit security interests in Medicaid and Medicare receivables. The Institution further covenants, warrants and represents that except with respect to Additional Bonds or Alternative Parity Indebtedness, any and all pledges, security interests in and assignments made or to be made pursuant to the Loan Agreement are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, other than the Permitted Encumbrances, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant to the Loan Agreement or to the Mortgage (subject, however, to federal and State laws and regulations which limit security interests in Medicaid and Medicare receivables), 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 the Mortgage are and will be valid and legally enforceable obligations of the Institution in accordance with their terms. The Institution further covenants that it will at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Government Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement and all of the rights of the Authority under the Loan Agreement and the Holders of Bonds under the Resolution against all claims and demands of all persons whomsoever. The Institution further covenants, warrants and represents that the execution and delivery of the Loan Agreement, and the consummation of the transaction contemplated in the Loan Agreement and compliance with the provisions of the Loan Agreement, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Exempt Obligations and Securities delivered to the Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the

terms or provisions of, or constitute a default under, the 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 a 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 14)*

### **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 letter or other notification as represented to the Internal Revenue Service 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 will not perform any act or enter into any agreement which will adversely affect such federal income tax status and will 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 will 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 15)*

### **Maintenance of Corporate Existence**

The Institution covenants that, except as permitted under the Master Indenture, it will maintain its corporate existence, will continue to operate as a not-for-profit organization as set forth in its certificate of incorporation, 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 Institution as an institution as set forth in its certificate of incorporation, providing such services as it may from time to time determine, 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 has occurred and is continuing and prior written notice has been given to the Authority and the Trustee, 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 exclusion from gross income of the interest on the Bonds for federal income tax purposes, (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 the Mortgage and furnishes to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation will be in compliance with each of the provisions of the Loan Agreement and will meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, will provide the Authority with such other certificates and opinions as may reasonably be required by the Authority.

In addition to the above, the sale, transfer, consolidation, merger, acquisition or other disposition of the Mortgaged Property, or any change in the operator or in the control of the Institution will be subject to and will be accomplished in compliance with all Governmental Requirements.

*(Section 17)*

### **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 has sole and exclusive control of, possession of and responsibility for (i) the Project financed under the Loan Agreement; (ii) the operation of such Project and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of such Project.

*(Section 19)*

### **Restrictions on Religious Use**

The Institution agrees that with respect to the Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or portion thereof will not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; *provided, however*, that the foregoing restriction will not prohibit the free exercise of any religion; and *provided, further*, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof to be used without regard to the above stated restriction, said restriction will not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as an Authorized Officer of the Authority deems necessary to determine whether the Project or any portion thereof financed by Bonds is being used for any purpose proscribed by the Loan Agreement. The Institution agrees that prior to any disposition of any portion of the Project for less than fair market value, it will execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in the Project, the real property on or in which such portion of such Project is situated) will exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project will not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction will further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction will also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of the Project, or the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction will be without any force or effect. For the purposes of the provisions under this caption "Restrictions on Religious Use," an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, will be considered a sale for the fair market value thereof.

*(Section 20)*

### **Maintenance, Repair and Replacement**

The Institution agrees that, throughout the term of the Loan Agreement, it will, at its own expense, hold, operate and maintain the Project and the Mortgaged Property in a careful, prudent and economical manner, and keep the same, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and will from time to time make all necessary and proper repairs,

replacements and renewals so that at all times the operation of the Project and the Mortgaged Property may be properly and advantageously conducted. The Institution will have the right to remove or replace any type of fixtures, furnishings and equipment in the Project which may have been financed by the proceeds of the sale of Bonds provided the Institution substitutes for any removed or replaced fixtures, furnishings and equipment, additional fixtures, furnishings and equipment having equal or greater value and utility than the fixtures, furnishings and equipment so removed or replaced.

The Institution further agrees that it will pay at its own expense all extraordinary costs of maintaining, repairing and replacing the Project except insofar as funds are made available therefor from proceeds of insurance, condemnation or eminent domain awards.

(Section 22)

### **Covenant as to Insurance**

1. The Institution will procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers, insurance of the type and in the amounts customarily maintained by institutions providing services similar to those provided by the Institution. All policies of insurance required under this caption "Covenant as to Insurance" will be primary to any insurance maintained by the Authority.

2. The Institution will, with respect to the Project and the Mortgaged Property, at the times specified in the following paragraphs, procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers acceptable to the Authority, the following insurance:

(a) with respect to any building on the Mortgaged Property the construction of which will not have been completed (and until insurance is procured pursuant to paragraph (b) of this subdivision), all risk builders' risk insurance against direct physical loss or damage or with respect to the acquisition and installation of equipment or machinery in lieu of all risk builders' risk, an installation floater on an all risk basis. The amount of such insurance will be on a one hundred percent (100%) replacement value basis on the insurable portion;

(b) at all times (except during a period when builders' risk insurance is in effect as required by paragraph (a) of this subdivision 2), all risk property insurance against direct physical loss or damage to the Project and/or the Mortgaged Property in an amount not less than one hundred percent (100%) of the replacement value thereof (such replacement value to be determined on the basis of replacement costs without allowance for depreciation), exclusive of excavations and foundations and similar property normally excluded under New York standard forms; *provided, however*, that the inclusion of the Project or the Mortgaged Property under a blanket insurance policy or policies of the Institution insuring against the aforesaid hazards in an amount aggregating at least one hundred percent (100%) of the insurable value of the insured property, exclusive of excavations and foundations and similar property normally excluded under the New York standard forms, will constitute complete compliance with the provisions of this paragraph with respect to the Project or the Mortgaged Property; *provided further*, that in any event, each such policy will be in an amount sufficient to prevent the Institution and the Authority from becoming co-insurers under the applicable terms of such policy;

(c) at all times, statutory workers' compensation insurance, covering loss resulting from injury, sickness, disability or death of employees and employer's liability insurance with limits of at least \$1,000,000 for each accident, each sickness, and aggregate occupational illness or sickness;

(d) at all times, statutory disability benefits;

(e) at all times, commercial general liability insurance protecting the Authority and the Institution against loss or losses from liabilities arising from bodily injury of persons or damage to the property of others caused by accident or occurrence, with limits of not less than \$1,000,000 per accident or occurrence on account of injury to persons or property damage with \$2,000,000 policy aggregate, excluding liability imposed upon the Authority or the Institution by any applicable workers' compensation law;

(f) commencing with the date on which the Project or any improvement on the Mortgaged Property or any part thereof is completed or first occupied, or any equipment, machinery, fixture or personal property covered by comprehensive boiler and machinery coverage is accepted, whichever occurs earlier, insurance providing comprehensive boiler and machinery coverage in an amount considered adequate by the Authority, which insurance may include deductible provisions approved by the Authority;

(g) professional liability insurance providing protection for loss resulting from legal obligations caused or allegedly caused by malpractice or alleged malpractice, with limits of at least in the amount in effect at the time of execution of the Loan Agreement but in any event not less than \$1,000,000 per occurrence and \$2,000,000 annual aggregate; and

(h) each other form of insurance which the Institution is required by law to provide and such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority.

3. Any insurance procured and maintained by the Authority or the Institution pursuant to the provisions under this caption "Covenant as to Insurance," including any blanket insurance policy, may include deductible provisions reasonably satisfactory to the Authority and the Institution. In determining whether or not any insurance required by the provisions under this caption "Covenant as to Insurance" is reasonably obtainable or if the deductible on any such insurance is a reasonable deductible, the Authority may rely solely and exclusively upon the advice and judgment of any insurance consultant chosen by the Institution and approved by the Authority, and any such decision by the Authority, based upon such advice and judgment, will be conclusive.

4. No provision under this caption "Covenant as to Insurance" will be construed to prohibit the Institution from self-insuring against any risk at the recommendation of any insurance consultant chosen by the Institution and approved by the Authority; *provided, however*, that self-insurance plans will not cover property, plant and equipment. The Institution will also cause an annual evaluation of such self-insurance plans to be performed by an independent insurance consultant. The Institution will provide adequate funding of such self-insurance if and to the extent recommended by such insurance consultant and approved by the Authority.

5. Each policy maintained pursuant to the Loan Agreement will provide that the insurer writing such policy will provide at least thirty (30) days' notice in writing to the Authority of the cancellation or non-renewal of or material change in the policy unless a lesser period of notice is expressly approved in writing by the Authority. The Institution, not later than November 15 of each year, will provide to the Authority and the Insurer certificate(s) of insurance describing all policies of insurance maintained as of June 30 by the Institution as set forth above under paragraph 2. of this caption "Covenant as to Insurance" stating with respect to each such policy (i) the insurer, (ii) the insured parties or loss payees, (iii) the level of coverage, and (iv) such other information as the Authority may have reasonably requested.

6. In the event the Institution fails to provide the insurance required under this caption "Covenant to Insurance," the Authority may effect at any time thereafter to procure and maintain the required insurance at the expense of the Institution.

(Section 23)



## **Damage or Condemnation**

In the event of a taking of the Project or the Mortgaged Property or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of such Project or Mortgaged Property, which substantially impairs the use of such Project or Mortgaged Property or part thereof for its intended purpose, or which results in the receipt by the Institution of insurance, condemnation or eminent domain proceeds that, pursuant to the Master Indenture, are required to be applied to repair or replace the Project or the Mortgaged Property, then and in such event the entire proceeds of any insurance, condemnation or eminent domain award will be paid upon receipt thereof by the Institution or the Authority, and subject to the terms of the Intercreditor Agreement, to the Trustee for deposit in the Construction Fund established in connection with such Project, and

1. if within 120 days from the receipt by the Authority of actual notice or knowledge of the occurrence, the Institution and the Authority agree in writing that the Project, the Mortgaged Property or the affected portion thereof will be repaired, replaced or restored and a certificate of an Authorized Officer of the Institution, which certificate has been reviewed by the Authority, stating that adequate resources are available to comply with the covenants and provisions of the Master Indenture after such repair, replacement or restoration is undertaken, the Institution will proceed to repair, replace or restore the Project, the Mortgaged Property or the affected portion thereof, including all fixtures, furniture, equipment and effects, to its original condition, insofar as possible with such changes and additions as will be appropriate to the needs of the Institution and approved in writing by the Authority. The funds required for such repair, replacement or restoration will be paid from time to time as the work progresses, subject to such conditions and limitations as the Authority may reasonably impose, from the proceeds of insurance, condemnation or eminent domain awards received by reason of such occurrence and, to the extent such proceeds are not sufficient, from funds to be provided by the Institution; or

2. if no agreement for the repair, restoration or replacement of the Project, the Mortgaged Property or the affected portion thereof will be reached by the Authority and the Institution within such 120-day period, all respective proceeds (other than the proceeds of builders' risk insurance which will be deposited pursuant to the Resolution and the applicable Series Resolution or Bond Series Certificate) will be delivered to the Trustee for deposit to the Debt Service Fund for application at the direction of the Authority in accordance with the Resolution.

*(Section 24)*

## **Taxes and Assessments**

The Institution will pay when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Institution or any of its property. The Institution will file exemption certificates as required by law. The Institution agrees to exhibit to an Authorized Officer of the Authority within ten (10) days after written demand by such Authorized Officer, certificates or receipts issued by the appropriate authority showing full payment of all taxes, assessments, water and sewer charges and other impositions; *provided, however*, the good faith contest of such impositions and deposits with the Authority of the full amount of such impositions will be deemed to be complete compliance with the requirement. Notwithstanding the foregoing, the Authority in its sole discretion, after notice in writing to the Institution, may pay any charges, taxes and assessments which may be levied or assessed upon the Project or the Mortgaged Property and which are not paid by the Institution when due, unless the imposition of such charges, taxes or assessments are being contested in good faith and the Institution has deposited with the Authority the full amount of such charges, taxes or assessments. The Institution agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Debt Service Fund on the date such payment was made by the Authority.

*(Section 25)*

## Defaults and Remedies

1. As used in the Loan Agreement the term “Event of Default” means:

(a) the Institution defaults in the timely payment of any amount payable pursuant to the Loan Agreement 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;

(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 has been given by the Authority or the Trustee, provided that, if, in the determination of the Authority, such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it will 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, continuing or cured, the Authority will be in default in the payment or performance of any of its obligations under the Resolution or an “Event of Default” (as defined in the Resolution) has been declared under the Resolution so long as such default or Event of Default remains uncured or the Trustee or Holders of the Variable Rate Bonds will be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Institution is in default under the Mortgage, or the Obligated Group will be in default under the Master Indenture or under any Obligation issued under the Master Indenture, and in either case such default continues beyond any applicable grace period;

(e) the Institution will (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 will 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 will 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 will be filed against the Institution and such petition will not be dismissed within ninety (90) days;

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

(h) a petition to dissolve the Institution will be filed by the Institution with the Secretary of State of the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Institution;

(i) an order of dissolution of the Institution will 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 will remain undismitted or unstayed for an aggregate of thirty (30) days;

(j) a petition is 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 will remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction is made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order will 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 will have been entered; or

(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 Variable Rate Bonds is rendered against the Institution and at any time after forty-five (45) days from the entry thereof, (i) such judgment will not have been discharged, or (ii) the Institution will 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 will have been granted or entered, and will 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.

2. Upon the occurrence of an Event of Default, the Authority will provide written notice of such Event of Default to the Trustee and the Department of Health upon receiving knowledge thereof, *provided, however*, that failure to give such notice will 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 Series 2009 Obligations relating to the Variable Rate Bonds immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Variable Rate 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 Series 2009 Obligations to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of the Mortgage, the Master Indenture or the Series 2009 Obligations;

(e) permit, direct or request the Trustee to liquidate all or any portion of the assets of the Debt Service Reserve Fund 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 Institution's proportionate share of the payment of the principal, Sinking Fund Installment, if any, or redemption price of and interest on the Variable Rate Bonds, or any other obligation or liability of the Institution or the Authority arising from the Loan Agreement or from the Resolution;

(f) to the extent permitted by law, (i) enter upon the Project and complete the construction of the Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Project, all at the risk, cost and expense of the Institution, consent to such entry being given by the Institution

pursuant to the Loan Agreement, (ii) at any time discontinue any work commenced in respect of the construction of the 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 the 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 the Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against the Project or against any moneys of the Authority applicable to the construction of the Project, or which have been or may be incurred in any manner in connection with completing the construction of the Project or for the discharge of liens, encumbrances or defects in the title to the Project or against any moneys of the Authority applicable to the construction of the 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 will be liable to the Authority for all sums paid or incurred for construction of the Project whether the same will be paid or incurred pursuant to the provisions of this paragraph (f) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever will be paid by the Institution to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the Institution 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;

(g) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, under the Mortgage, or by law, including foreclosure of the Mortgage, and any other action or proceeding permitted by the terms of the Loan Agreement, the Mortgage or by law; and

(h) realize upon any security interest in the fixtures, furnishings and equipment on or used in connection with the Project or the Mortgaged Property including any one or more of the following actions: (i) enter the Project or the Mortgaged Property and take possession of any such fixtures, furnishings and equipment; or (ii) sell, lease or otherwise dispose of such fixtures, furnishings and equipment either together with a sale, lease or other disposition of the Project or the Mortgaged Property pursuant to the Loan Agreement or to the Mortgage, or separately, whether or not possession has been secured; *provided, however*, that if sold, leased or otherwise disposed of separately, such sale, lease or other disposition will be in commercially reasonable manner and upon five days' prior written notice to the Institution of the time and place of such sale.

3. All rights and remedies given or granted to the Authority in the Loan Agreement 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 will 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 subdivision 2 of this caption "Defaults and Remedies" and its consequences if such Events of Default will be cured. No such annulment will extend to or affect any subsequent default or impair any right consequent thereto.

5. The Institution will 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 29)*

### **Arbitrage**

The Institution covenants that it will 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 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Institution covenants that it will comply with the instructions and requirements of the Tax Certificate and Agreement, which is incorporated in the Loan Agreement as if set forth fully in the Loan Agreement, unless otherwise advised by Bond Counsel. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) will not, pursuant to an arrangement, formal or informal, purchase Bonds 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 and, to the extent of the Institution's share of any rebate requirement or yield reduction payment (each as referred to in the Tax Certificate and Agreement) required to be paid, 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.

*(Section 34)*

### **Amendments to Loan Agreement**

The Loan Agreement may be amended only in accordance with the Resolution and each amendment will be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which will be filed with the Trustee; *provided, however*, that no amendment or waiver of any provisions of the Loan Agreement may be made without the prior written consent of the Commissioner of Health.

*(Section 40)*

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a brief summary of certain provisions of the Resolution, as amended by a Supplemental Resolution adopted by the Authority on July 23, 2003 (the "Supplemental Resolution"). Any changes due to the amendments contained in the Supplemental Resolution have been noted herein. Such summary does not purport to be complete or definitive and reference is made to the Resolution and the Supplemental Resolution for full and complete statements of each of their provisions. Unless otherwise indicated, references to section numbers in this summary refer to sections in the Resolution. Defined terms herein have the meaning ascribed to them in Appendix A.

#### **Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts**

The Resolution authorizes the Authority to issue 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 will be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series will 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 will hold or own the same from time to time, the Resolution and the Applicable Series Resolution will be deemed to be and will 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 and the covenants and agreements set forth to be performed by or on behalf of the Authority will 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, will 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)

#### **Option of Authority to Assign Certain Rights and Remedies to the Trustee**

As security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, Outstanding Bonds of a Series and for the performance of each other obligation of the Authority under the Resolution, the Authority may grant, pledge and assign to the Applicable Trustee all of the Authority's estate, right, title, interest and claim in, to and under the Applicable Loan Agreement, Applicable Mortgage, or Applicable Obligation, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under such Loan Agreement, Mortgage or Obligation, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the Resolution) all Applicable Revenues, Gross Receipts, insurance proceeds, sale proceeds and other payments and other security now or hereafter payable to or receivable by the Authority under such Loan Agreement, Mortgage or Obligation, and the right to make all waivers and agreements in the name and on behalf of the Authority, as Trustee for the benefit of the Applicable Bondholders, and to perform all other necessary and appropriate acts under the Applicable Loan Agreement, Mortgage or Obligation, subject to the following conditions: (a) that, unless and until the Authority grants, pledges or assigns such rights under the Loan Agreement, the Mortgage or the Obligation to the Trustee, the Authority may, in its sole discretion, unless the consent of the Applicable Credit Facility Issuer is required, and without consent of the Trustee or Bondholders modify, amend or release any provisions of such Loan Agreement, the Mortgage or the Obligation as provided in

the Resolution; (b) that the Holders of the Applicable Bonds, if any, will not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; (c) that, unless and until the Applicable Trustee will, in its discretion when an “Event of Default” (as defined in “Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS -- Defaults and Remedies”) under the Applicable Loan Agreement has occurred and is continuing, so elect, by instrument in writing delivered to the Authority and the Applicable Institution (and then only to the extent that the Trustee will so elect), the Trustee will not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions contained in the Loan Agreement or the Mortgage to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision); the Authority, however, is to remain liable to observe and perform all the conditions and covenants, in the Loan Agreement and the Mortgage to be observed and performed by it; and (d) that the Mortgage may not be assigned by any party thereto without the written consent of the other parties thereto except to the Trustee as permitted by the Resolution; provided, however, that any grant, pledge and assignment by the Authority of moneys, revenues, accounts, rights or other property of the Applicable Institution made with respect to the Loan Agreement pursuant to this paragraph will secure, in the case of the Applicable Loan Agreement and Mortgage, only the payment of the amounts payable under such Loan Agreement or any Mortgage.

*The following two paragraphs were amended by the Supplemental Resolution and are summarized as follows:*

Notwithstanding the foregoing, upon any occurrence of a withdrawal from the Debt Service Reserve Fund which has not been restored within thirty (30) days from the date of such withdrawal, the Authority, upon the request of one or more Credit Facility Issuers, if any, or upon the request of the Holders of not less than 25% in principal amount of the Outstanding Bonds of an Applicable Series which are not secured by a Credit Facility, is obligated to assign to the Trustee: (i) its interest in the Applicable Loan Agreement, (ii) the Applicable Obligation, and (iii) the Applicable Mortgage and the security interest in the fixtures, furnishings and equipment now or hereafter owned by the Applicable Institution and located in or used in connection with the Mortgaged Property.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in this Section, the Trustee will accept such grant, pledge and assignment which acceptance will be evidenced in writing and signed by an Authorized Officer of the Trustee.

The provisions of this Section are in all events subject to the provisions found under the caption “Right of Authority to Release Mortgage and Gross Receipts Pledge”.

*(Section 1.04)*

## **Refunding Bonds**

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered to refund all Outstanding Bonds of one or more Series of Bonds, one or more series of bonds or other obligations, a portion of a Series of Outstanding Bonds or a portion of a series of bonds or other obligations, a portion of a maturity of a Series of Outstanding Bonds or a portion of a maturity of bonds or other obligations. The Authority by resolution of its members may issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of this Section and of the 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.

The proceeds, including accrued interest, of such Refunding Bonds will 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.

*(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 an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of an Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to an Applicable Series Resolution.

*(Section 2.06)*

### **Pledge of Revenues**

The proceeds from the sale of an Applicable Series of Bonds, the Applicable Revenues and all funds authorized by the Resolution and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund, are by the Resolution, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under an Applicable Series Resolution with respect to such Series, all in accordance with the provisions of the Resolution and thereof. The pledge made by the Resolution, subject to the adoption of an Applicable Series Resolution, will relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge will not secure any such other Series of Bonds. The pledge made by 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 Applicable Revenues and all funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution which are pledged by the Resolution and pursuant to the Applicable Series Resolution will immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge will 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 will 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 Applicable Revenues and the funds established by the Resolution and pursuant to the Applicable Series Resolution, which pledge will constitute a first lien thereon.

*(Section 5.01)*

### **Establishment of Funds**

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;  
Debt Service Fund;



## Debt Service Reserve Fund; and Arbitrage Rebate 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 by the Resolution, other than the Applicable Arbitrage Rebate Fund, will be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but will 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 will 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 will 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 will deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority will remit to the Trustee and the Trustee will 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 will 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 in connection, with which such Bonds were issued.

3. Payments for Costs of an Applicable Project will 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 will be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the 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 will 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 Institution with respect to an Applicable Project will 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 Loan Agreement.

5. An Applicable Project will 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 will be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the 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 will 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 Institution, will specify the date of completion.

Upon receipt by the Trustee of the certificate required pursuant to this subdivision, 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, will 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; and

Second: 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 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 will promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

2. The Applicable Revenues, including all payments received under the Applicable Loan Agreement, Mortgage, Master Indenture and the Obligations, will 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 Loan Agreement. 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 will 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 for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to the Applicable Facility Provider;

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; and

Third: 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 by 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 or Mortgage in accordance with the terms thereof and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Fourth.

3. After making the payments required by subdivision 1 of this Section, the balance, if any, of the Revenues then remaining will, 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 by the Resolution. The Trustee will notify the Authority and the Institution promptly after making the payments required by subdivision 1 of this Section, of any balance of Revenues then remaining.

*(Section 5.05)*

### **Debt Service Fund**

1. The Trustee will on or before the business day preceding each Interest Payment Date 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 Resolution.

The amounts paid out pursuant to this Section will be irrevocably pledged to and applied to such payments.

2. In the event that on the fourth business day preceding any Interest Payment Date the amount in the Applicable Debt Service Fund will 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 will 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 will notify the Authority, the Applicable Facility Provider, Credit Facility Issuer, 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 of this Section, the Authority may, at any time subsequent to the first principal payment date of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Applicable Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by the Institution and delivered to the Trustee in accordance with the Loan Agreement will be canceled upon receipt thereof by the Trustee and evidence of such cancellation will be given to the Authority. The principal amount of each Term Bond so canceled will 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 payable on or prior to the next succeeding principal payment date, the interest on Applicable Outstanding Bonds payable on the earlier of the next succeeding Interest Payment Date, 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, will 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 will 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 will 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 the Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Bond Series Certificate or (ii) as may otherwise be directed by the Authority.

*(Section 5.06)*

### **Debt Service Reserve Fund**

1. (a) The Trustee will deposit to the credit of the Applicable Debt Service Reserve Fund such proceeds of the sale of Bonds, if any, as will 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, are delivered to the Trustee by the Applicable Institution for the purposes of the Applicable Debt Service Reserve Fund.

(b) In lieu of or in substitution for moneys, Government 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 will 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 will 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.

2. Moneys held for the credit of the Applicable Debt Service Reserve Fund will 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 will 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 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 hereunder.

*The following paragraph (5) was added by the Supplemental Resolution and is summarized as follows:*

3. Upon any occurrence of a withdrawal from the Debt Service Reserve Fund which has not been restored within thirty (30) days from the date of such withdrawal, the Authority, upon the request of one or more Credit Facility Issuers, if any, or upon the request of the Holders of not less than 25% in principal amount of the Outstanding Bonds of a Series which are not secured by a Credit Facility, is obligated to assign to the Trustee: (i) its interest in the Applicable Loan Agreement, (ii) the Applicable Obligation, and (iii) the Applicable Mortgage and the security interest in the fixtures, furnishings and equipment now or hereafter owned by the Applicable Institution and located in or used in connection with the Mortgaged Property.

*(Section 5.07)*

### **Arbitrage Rebate Fund**

The Trustee will deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of the Resolution, will 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 will be set forth in such directions.

Moneys on deposit in the Applicable Arbitrage Rebate Fund will 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 will 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 will 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 will 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 and the 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 will so notify the Authority and the Applicable Institution. Upon receipt of such notice, the Authority may request the Trustee to redeem all such Outstanding Bonds. The Trustee will, 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 in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, will, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing (which direction will specify the amount thereof to be so invested), in Government Obligations, deposits fully insured by the Federal Deposit Insurance Corporation or Exempt Obligations.

2. In lieu of the investment of moneys in obligations authorized in subdivision 1 of this Section, the Trustee will, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, invest moneys in (i) interest-bearing time deposits, certificates of deposit or other similar investment arrangements including, but not limited to, written repurchase agreements relating to Government Obligations, with banks, trust companies, savings banks, savings and loan associations, or securities dealers approved by the Authority the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation; or (ii) Investment Agreements; provided that (w) each such investment will permit the moneys so deposited or invested to be available for use at the times at, and in the amounts in, which the Authority reasonably believes such moneys will be required for the purposes of the Resolution, (x) all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement will be continuously and fully secured by ownership of or a security interest in Government Obligations of a market value determined by the Trustee or its agent that is at least equal to the amount deposited or invested including interest accrued thereon, (y) the obligations securing such interest-bearing time deposit or certificate of deposit or which are the subject of such other similar investment arrangement will be deposited with and held by the Trustee or an agent of the Trustee approved by the Authority, and (z) the Government Obligations securing such time deposit or certificate of deposit or which are the subject of such other similar investment arrangements will be free and clear of claims of any other person.

3. Obligations purchased or other investments made as an investment of moneys in any fund held by the Trustee under the provisions of the Resolution will 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 will be retained in, credited or charged, as the case may be, to such fund unless otherwise provided in a Series Resolution.

4. In computing the amount in any fund held by the Trustee under the provisions of the Resolution, obligations purchased as an investment of moneys therein or held therein will be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in a

Debt Service Reserve Fund will be valued at the market value thereof, plus accrued interest and except that Investment Agreements will be valued at original cost, plus accrued interest.

5 The Authority, in its discretion, may direct the Trustee to, and the Trustee will, 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 this Section. Except as otherwise provided in the Resolution, the Trustee will sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it will be necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee will 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 subdivisions 1, 2 and 3 of this Section. The details of such investments will 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 will also describe all withdrawals, substitutions and other transactions occurring in each such fund in the previous month.

6. No part of the proceeds of any Applicable Series of Bonds or any other funds of the Authority will 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)*

#### **Enforcement of Duties and Obligations of the Institution**

The Authority will take all legally available action to cause an Institution to perform fully all duties and acts and comply fully with the covenants of such Institution required by the Applicable Mortgage and Loan Agreement in the manner and at the times provided in such Mortgage or Loan Agreement; provided, however, that the Authority may delay, defer or waive enforcement of one or more provisions of said Mortgage or Loan Agreement (other than provisions requiring the payment of moneys or the delivery of Securities to the Trustee for deposit to any fund or account established under the Resolution) if the Authority determines such delay, deferment or waiver will not materially adversely affect the interests of the Holders of the Bonds of an Applicable Series.

*(Section 7.06)*

#### **Deposit of Certain Moneys in the Construction Fund**

In addition to the proceeds of Bonds of an Applicable Series to be deposited in the Applicable Construction Fund, any moneys paid or letter of credit or other security payable to the Authority for the acquisition, construction, reconstruction, renovation or equipment of an Applicable Project and any moneys received in respect of damage to or condemnation of such Project will be deposited in the Applicable Construction Fund.

*(Section 7.07)*

#### **Amendment of Mortgage, Loan Agreement or Obligation**

An Applicable Mortgage or Loan Agreement may be modified so long as the Applicable Institution will be obligated to make all payments required thereunder such that the Trustee can comply with the payment terms of the Resolution, as amended, and the payment terms of the Applicable Series Resolution, as amended. Principal payments of an Applicable Loan Agreement and Mortgage may not be extended or deferred without delivery of a certificate of an Authorized Officer of the Trustee stating that

such deferral or extension will not adversely affect the Authority's ability to pay interest coming due or principal at maturity of the Applicable Series of Bonds. Any Obligation may be amended or modified in the manner provided in the Master Indenture.

*(Section 7.10)*

### **Notice as to Event of Default Under Loan Agreement**

The Authority will notify the Applicable Trustee in writing that an "Event of Default" under a Loan Agreement, as such term is defined in such Loan Agreement, has occurred and is continuing, which notice will be given within five (5) days after the Authority has obtained actual knowledge thereof.

*(Section 7.11)*

### **Tax Exemption: Rebates**

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Applicable Series, the Authority will comply with the provisions of the Code applicable to the Bonds of each Applicable Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Receipts of each Applicable Series of Bonds, reporting of earnings on the Gross Receipts of each Applicable Series of Bonds, and rebates of Excess Earnings to the Department of the Treasury of the United States of America. In furtherance of the foregoing, the Authority will 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 will 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 will not entitle the Holder of Bonds of any other Applicable Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority's failure to comply with the provisions of this Section or of the Code.

*(Section 7.12)*

### **Right of Authority to Release Mortgage and Gross Receipts Pledge**

1. Notwithstanding anything in the Resolution or the Loan Agreement to the contrary, the Authority (i) may issue Series of Bonds pursuant to the Resolution without obtaining a Mortgage or interest in Gross Receipts to the extent permitted by applicable law, and (ii) by the Resolution reserves the right to enter into any and all amendments with respect to any Applicable Mortgage and Loan Agreement (as may be necessary or appropriate to reflect the amendment, assignment or release of the Mortgage or the pledge of the Gross Receipts), including granting the Institution a complete release from the Mortgage or Gross Receipts or assigning such Mortgage or Gross Receipts to a Master Trustee, provided, however, prior to any such amendment, assignment or release the Institution will have caused there to be delivered to the Authority, the Trustee, the Master Trustee and the Applicable Credit Facility Issuer the following:

(a) A certificate of an Authorized Officer of the Institution to the effect that immediately subsequent to such amendment or release, the Institution will remain in compliance with all the terms and conditions of the Applicable Loan Agreement (as so amended) and no event of default will exist thereunder;



(b) An opinion of Bond Counsel to the effect (i) that such amendment or release is duly authorized by the Resolution and the Laws of the State and no further action or approval is necessary by the Authority to permit the Authority to execute and deliver such amendment or release; and (ii) that such amendment or release will constitute the valid and binding undertaking of the Authority and is not in conflict with any law, regulation or ruling of which counsel has knowledge which is binding upon the Authority;

(c) The Institution has executed an amendment to the Applicable Loan Agreement pursuant to which it agrees that it will not encumber or permit any liens on the real property or Project that was subject to the Applicable Mortgage, except Permitted Encumbrances (as such term is defined in the Applicable Loan Agreement); and

(d) In the event the Authority is receiving substitute collateral for any such release or amendment or, if otherwise required by the Authority, an opinion of Bond Counsel to the effect that the receipt of such collateral will not adversely affect the interest on the Bonds being excluded from gross income for federal income tax purposes, nor adversely affect the treatment of interest on the Bonds for State income tax purposes.

2. Notwithstanding anything in the Resolution or the Applicable Loan Agreement to the contrary, the Authority is authorized to release the security interest in Gross Receipts granted to it by the Institution under the Applicable Loan Agreement by executing the necessary releases and termination statements in connection therewith, provided, however, prior to any such release, the following conditions have been met:

(a) Each Applicable Credit Facility Issuer has delivered to the Authority its written consent therefor;

(b) The Institution has delivered to the Authority a certificate to the effect that the Institution is in compliance with all the terms and conditions of the Applicable Loan Agreement and no event of default which is continuing and is not cured has occurred thereunder;

(c) The Institution has executed an amendment to the Applicable Loan Agreement pursuant to which the Institution covenants that it will not encumber the Applicable Gross Receipts in any manner other than for Permitted Encumbrances.

*(Section 7.14)*

### **Modification and Amendment Without Consent**

Notwithstanding any other provisions of the Resolution regarding Series Resolutions, Supplemental Resolutions, and amendments of Resolutions, the Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution will 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 Applicable Revenues, the Applicable Mortgage, 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 will not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution will cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution will 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 will 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 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)*

### **Powers of Amendment**

Any modification or amendment of the Resolution and of the rights and obligations of the Authority which will be deemed to affect an Applicable Series of Bonds and of the Holders of the Bonds of such Applicable Series under the Resolution, in any particular, may be made by an Applicable Supplemental Resolution, with the written consent given as hereinafter provided in the Resolution, (i) of the Holders of at least two-thirds (2/3) in principal amount of the Bonds Outstanding of an Applicable Series at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two-thirds (2/3) in principal amount of the Bonds of the Applicable Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of an Applicable Series or of any installment of interest thereon or a

reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or will reduce the percentages or otherwise affect the classes of Bonds of an Applicable Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, an Applicable Series will be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of an Applicable Series or maturity would be affected by any modification or amendment of the Resolution and any such determination will be binding and conclusive on the Authority and all Holders of Bonds of an Applicable Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of an Applicable Series or maturity would be so affected by any such modification or amendment of the Resolution.

*(Section 10.01)*

### **Modifications by Unanimous Consent**

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds of an Applicable Series under the Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of such Supplemental Resolution certified by the Authority and the consent of the Holders of all of the Bonds then Outstanding of the Applicable Series, such consent to be given as provided in the Resolution, except that no notice to such Bondholders either by mailing or publication will be required.

*(Section 10.03)*

### **Events of Default**

An event of default will exist under the Resolution and under an Applicable Series Resolution (called "event of default" in the Resolution) if:

- (a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments or Redemption Price of any such Bond is not made by the Authority when the same becomes 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 is not made by the Authority when the same become due and payable; or
- (c) With respect to the Applicable Series of Bonds, the Authority defaults in the due and punctual performance of the covenants contained in the Resolution and, as a result thereof, the interest on the Bonds of such Series are no longer be excludable from gross income under Section 103 of the Code; or

***The following subsection (d) was amended by the Supplemental Resolution and is summarized as follows:***

- (d) With respect to the Applicable Series of Bonds, the Authority defaults 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 continues for thirty (30) days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by the Trustee, which may

give such notice in its discretion and will 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, unless if such default is not capable of being cured within 30 days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof; or

(e) The Authority has notified the Trustee that an “Event of Default”, as defined in the Loan Agreement, arising out of or resulting from the failure of the Institution to comply with the requirements of the Loan Agreement has occurred and is continuing and all sums payable by the Institution under the Loan Agreement have been declared to be immediately due and payable, which declaration has not been annulled.

An event of default under the Resolution in respect of an Applicable Series of Bonds will 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 above under the caption “Events of Default”, other than an event of default specified in paragraph (c) above under the caption “Events of Default,” 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 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 the Credit Facility Issuer or Credit Facility Issuers making such deposit, will, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest will become and be immediately due and payable, anything in the Resolution or in any Series Resolution or in the Bonds to the contrary notwithstanding. In the event that a Credit Facility Issuer will make any payments of principal of or interest on any Bonds pursuant to a Credit Facility and the Bonds are accelerated, such 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 prior to the stated maturity dates thereof. At any time after the principal of the Bonds has 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 will, with the written consent of the Credit Facility Issuers which have issued 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 written consent of the Applicable Credit Facility Issuers, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys 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 have accumulated and are available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this Section) have been paid or a sum sufficient to pay the same 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 Section) have been remedied to the satisfaction of the Trustee. No such annulment will 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 may proceed, and upon the written request of the Applicable Facility Provider or Facility Providers, if any, of not less than twenty-five per centum (25%) of the aggregate principal amount of Reserve Fund Facilities, or of the Applicable Credit Facility Issuers which have issued 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 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 above caption "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 Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, will proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under the Applicable Series Resolution or in aid or execution of any power in the Resolution or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee will deem most effectual to protect and enforce such rights, including the foreclosure of any Mortgage assigned to the Trustee.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee will 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 Series Resolution or of the Applicable 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 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 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)*

### **Priority of Payments After Default**

If at any time the moneys held by the Trustee in the Applicable funds and accounts and under the Applicable Series Resolution are not sufficient to pay the principal of and interest on the Bonds of the Applicable Series as the same become due and payable (either by their terms or by acceleration of maturity under the provisions of the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, will be applied (after payment of all amounts owing to the Trustee under the Resolution) as follows:

(a) Unless the principal of all the Bonds of the Applicable Series have become or been declared due and payable, all such moneys will be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of such maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds; or

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which will have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available is not sufficient to pay in full all of such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds of the Applicable Series will have become or been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon such Bonds 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 Bond of such Series over and other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in said Bonds.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose will constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Authority, to any Holder of Bonds of any Applicable Series or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions hereof as may be applicable at the time of application by the Trustee. Whenever the Trustee will exercise such discretion in applying such moneys, it will fix the date (which will be on an Interest Payment Date unless the Trustee will deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the fixing of any such date.

*(Section 11.05)*

### **Limitation of Rights of Individual Bondholders**

No Holder nor the Credit Facility Issuer of a Credit Facility of any of the Bonds of an Applicable Series will 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 Credit Facility Issuer previously will 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 Consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) under the caption "Events of Default," the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series with the consent of the Applicable Credit Facility Issuer, will have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, will have accrued, and will 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 will 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 will have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution 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 under the Resolution and thereunder. It is understood and intended that no one or more of the Credit Facility Issuers or Holders of the Bonds of an Applicable Series secured by the Resolution and by an Applicable Series Resolution will 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 will 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 will 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 will not be impaired without the consent of such Holder.

*(Section 11.08)*

### **Defeasance**

1. If the Authority will 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 Applicable 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 will be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Applicable Loan Agreement, the Mortgage and the Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, will 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, will endorse the Applicable Mortgage for cancellation and return the same to the Applicable Institution together with a release of the Mortgage in proper form for recordation, and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and will turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the 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 will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice will have been given to the Applicable Trustee.

2. Bonds of an Applicable Series for which moneys will have been set aside, will 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 will be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of this Section. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will 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 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in the Resolution, notice of redemption on

said date of such Bonds, (b) there will have been deposited with the Trustee either moneys in an amount which will 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, will 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 will 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 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 will give written notice to the Trustee of its selection of the maturity for which payment will be made in accordance with this Section. The Trustee will select which Bonds of such Series and which maturity thereof will be paid in accordance with this Section in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities will be withdrawn or used for any purpose other than, and will 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, will, 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, will, to the extent certified by the Trustee to be in excess of the amount required by the Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Loan Agreement 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 will be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

3. Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of an Applicable Series which remain unclaimed for three (3) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, will at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent will thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series will look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date will 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 will be returned to the Authority.



4. No principal or Sinking Fund Installment of or installment of interest on a Bond will be considered to have been paid, and the obligation of the Authority for the payment thereof will continue, notwithstanding that a Credit Facility Issuer pursuant to the 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 becoming effective under the Resolution, each Applicable Credit Facility Issuer will have received (a) the final official statement delivered in connection with the refunding 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 Credit Facility Issuer and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to such 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 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)*

*The following Section was amended by the Supplemental Resolution and is summarized as follows:*

#### **Holders of Bonds Deemed Holders of the Obligation**

In the event that any request, direction or consent is required or permitted by the Master Indenture to be given by the Holders of any Obligations issued thereunder, with respect to an Obligation issued thereunder to secure any Bonds, the Authority or its successor or assign will be the Holder of the Applicable Obligation for such Series of Bonds for the purpose of any such request, direction or consent. To the extent any such Obligation will secure a Series of Bonds that is secured by a Credit Facility, the written consent of the Applicable Credit Facility Issuer, unless a Credit Facility Default has occurred and be continuing, will also be required for any such request, direction or consent. To the extent any such Obligation will secure a Series of Bonds that is not secured by a Credit Facility, the Authority may only give such request, direction or consent if the Rating Services providing a rating on the Applicable Series of Bonds confirms that such ratings on the Applicable Series of Bonds will not change as a result of the request, direction or consent.

*(Section 13.02)*

## APPENDIX E

### SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE 2009B, C AND D SUPPLEMENTAL INDENTURES

The Master Trust Indenture contains terms and conditions relating to the issuance and sale of the 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, the 2009B Supplemental Indenture, the 2009C Supplemental Indenture and the 2009E Supplemental Indenture (the 2009B Supplemental Indenture, the 2009C Supplemental Indenture and the 2009E Supplemental Indenture are collectively referred to herein as, the "2009B, C and D Supplemental Indentures"), and reference is made to such Master Trust Indenture and 2009B, C and D Supplemental Indentures, copies of which are available from the Authority or the Master Trustee. This summary uses various terms defined in the Master Trust Indenture and the 2009B, C and D Supplemental Indentures and such terms as used in the Master Trust Indenture and 2009B, C and D Supplemental Indentures will have the same meanings as so defined.

#### MASTER TRUST INDENTURE

##### **Amount of Indebtedness**

Subject to the terms, limitations and conditions established in the Master Trust Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Trust Indenture 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 under the Master Trust Indenture are not limited, except as limited by the provisions of the Master Trust Indenture, including the provisions described under the heading "Limitations or Indebtedness", or of any Supplement. Any Member of the Obligated Group proposing to incur Long-Term Indebtedness, whether evidenced by Obligations issued or by evidences of Indebtedness issued or Guaranties entered into pursuant to documents other than the Master Trust Indenture, will, at least seven 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 paragraphs of the provisions described under the heading herein "Limitations or Indebtedness" under which such Indebtedness will be incurred, to the Obligated Group Representative with copies to the other Members of the Obligated Group, the Master Trustee and, for so long as Related Bonds of the Authority are outstanding, the Authority, and any such Member of the Obligated Group proposing to incur such Indebtedness, in an amount equal to or exceeding two million dollars (\$2,000,000), will obtain the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee, which consent shall be further 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 under the Master Trust Indenture. (*Section 2.01*)

##### **Security; Restrictions on Encumbering Property; Payment of Principal and Interest**

(a) Any Obligation issued pursuant to the Master Trust Indenture will be a general obligation of each Member of the Obligated Group.

In connection with the issuance of Obligation Nos. 1 through 9, prior to the date of the amendment and restatement of the Master Trust Indenture, North Shore University Hospital, Glen Cove Hospital, Plainview Hospital, Forest Hills Hospital and North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation pledged to the Related Bond Issuers a security interest in their respective gross receipts, as such term is defined in the Related Loan Agreements. Furthermore, in connection with the issuance of certain outstanding indebtedness, prior to the date of the amendment and

restatement of the Master Trust Indenture and prior to its entry into the Obligated Group, Long Island Jewish Medical Center pledged to the Authority a security interest in its Gross Receipts, as such term is defined in the Related Loan Agreement. In connection with the amendment and restatement of the Master Trust Indenture, the aforementioned Related Bond Issuers have assigned to the Master Trustee their respective security interest in the Gross Receipts 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 under the Master Trust Indenture, each Member of the Obligated Group affirms its pledge, assignment and grant to the Master Trustee of a security interest in its Gross Receipts.

If any Event of Default has 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 the Master Trust Indenture), and any Gross Receipts thereafter received, will immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to the Master Trust Indenture. Upon receipt, all such Gross Receipts will be held by the Master Trustee in trust for the Holders from time to time of all Obligations issued and Outstanding under the Master Trust Indenture, without preference or priority of any one Obligation over any other Obligation. Prior to its receipt of a request from the Master Trustee pursuant to the Master Trust 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 the Master Trust Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee will 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 agree to take no action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated by the Master Trust Indenture, 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 the Master Trust Indenture, there will 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 will also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Trust Indenture as may be necessary or appropriate to include as security under the Master Trust Indenture 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 will, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to the Master Trust Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to the Master Trust Indenture.

(b) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens or as may be otherwise provided in the Master Trust Indenture) any of its Property.

(c) Each Obligation will 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 the Master Trust Indenture at the place, on the dates and in the manner provided in the Master Trust 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 will have occurred and be continuing, or any Member of the Obligated Group will have failed to make a periodic deposit in respect of the interest on, or principal of any Related Bonds within three days after the same will have become payable, 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 or such required deposit has been made, as the case may be, such Gross Receipts to be applied in accordance with the Master Trust Indenture.

(e) Each Member of the Obligated Group covenants and agrees that, so long as any Related Bonds of the Authority are Outstanding, and unless in connection with a lien otherwise permitted under the Master Trust Indenture, it shall not enter into any Control Agreement unless it shall have delivered to the Authority (i) an opinion of counsel, which counsel is reasonably acceptable to the Authority, 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 relationships. (*Section 3.01*)

### **Covenants as to Corporate Existence, Maintenance of Properties, Etc.**

Each Member of the Obligated Group covenants:

(a) Except as otherwise expressly provided in the Master Trust Indenture, to preserve its corporate or other legal existence and all its 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 contained in the Master Trust Indenture will 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 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 will be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of a Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in 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 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 or its predecessors 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 contained in the Master Trust Indenture will 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 will 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 will 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 under the Master Trust Indenture) whose validity, amount or collectibility is being contested in good faith.

(f) At all times to comply 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.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (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 if and to the extent that its Governing Body will 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 the Master Trust Indenture will remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, or fail to take any action which failure, in the Opinion of Bond Counsel, would result in the interest on any Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes. (*Section 3.02*)

## **Insurance**

Except as may otherwise be required in a Loan Agreement, 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. (*Section 3.03*)

## **Insurance and Condemnation Proceeds**

(a) Unless otherwise provided in the Mortgages or Loan Agreements, amounts that do not exceed 20% 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 may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that exceed 20% 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 will be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; provided, however, subject to the terms of the Related Loan Agreement, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two 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 1.50, 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 (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in subsection (i) of this section to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and any Loan Agreement and Mortgage, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section. (*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 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 the Master Trust Indenture, which is set forth on Schedule A attached thereto, 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 of the Master Trust Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien thereunder;

(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to paragraph (e) under the heading "Consolidation, Merger, Sale or Conveyance" herein or paragraph (e) under the heading "Parties Becoming Members of the Obligated Group" herein;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by paragraph (d) under the heading "Limitations on Indebtedness" herein;

(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 under the heading "Limitations on Indebtedness" herein, 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 of the Master Trust Indenture on creation of Liens on Property of the Obligated Group;

(ix) So long as no Event of Default exists under the Master Trust 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 under the heading "Limitations on Indebtedness" herein;

(x) Any Lien on Property which secures Indebtedness or Derivative Agreements that do not exceed in aggregate 20% of Total Operating Revenue as reflected in the most recent Audited Combined Financial Statements of the Obligated Group;

(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;

(xii) 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;

(xiii) Any Lien securing all Obligations on a parity basis;

(xiv) 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;

(xv) 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;

(xvi) Liens on those items described in, or the right to receive the items described in, clauses (x), (y) and (z) of the definition of Gross Receipts in “Appendix A - Certain Definitions” herein;

(xvii) Liens on Property due to rights of third party payers for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) Any Lien created in the Loan Agreements;

(xix) The Mortgages; and

(xx) Any Lien on Excluded Property. (*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, set forth under this heading. 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 contained in under the heading “Amount of Indebtedness,” and a certified resolution of the Governing Board of such Member of the Obligated Group.

(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 Long-Term Indebtedness incurred pursuant to the provisions described in this clause (a)(i)(A) does not exceed 20% of Total Operating Revenues, or

(B) The Long-Term Debt Service Coverage Ratio for each of the most recent two periods of 12 full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Combined Financial Statements available 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 1.20; or

(ii) (1) an Officer’s Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for each of the two periods mentioned in subsection (a)(i)(B) under this heading, excluding the proposed Long-Term Indebtedness, is at least 1.20 and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.20 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two full Fiscal Years succeeding the date on which such capital improvements are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, 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 compliance with the tests set forth in this subparagraph (a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio set forth in this clause (a)(ii)(2) is equal to or greater than 1.50; *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 will be reduced to the maximum coverage permitted by such Governmental Restrictions 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 if, prior to the incurrence of such Long-Term Indebtedness, (i) 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 will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) 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 15%.

(c) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness will not at any time exceed 20% of Total Operating Revenues as reflected in the Audited Combined Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Combined Financial Statements are available; provided, however, if Related Bonds issued by the Authority are Outstanding, the Obligated Group must first obtain the written consent of the Authority prior to issuing Short-Term Indebtedness in excess of 15% of Total Operating Revenues for the most recent period of twelve consecutive months for which Audited Combined Financial Statements are available; and provided further, that there will be a period of at least 30 consecutive calendar days during each such period of twelve consecutive calendar months for which Audited Combined Financial Statements are available during which Short-Term Indebtedness will not exceed 3% of Total Operating Revenues. For purposes of this paragraph (c), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed 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; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set for in this paragraph (c), Short-Term Indebtedness secured by accounts receivable will not be taken into account except to the extent provided in paragraph (f) under this heading.

(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 under this heading; 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 will be treated as Short-Term Indebtedness for the purposes of the tests set forth in paragraph (c) under this heading.

(g) Indebtedness may be incurred in an amount limited to the cost of completion 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 will 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 one of subsections (a)(i) or a(ii) under this heading may be reclassified as Indebtedness incurred pursuant to any other of such subsections 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 will not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision will not be taken into account in testing compliance with any debt incurrence test pursuant to this Section.

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 75% of the three-month average outstanding accounts receivable of the Obligated Group that are 90 days old or less as calculated in accordance with generally accepted accounting principles. The three-month average will be calculated based on the month end available balances for the three full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. Accounts receivable that are more than 90 days old may not be sold, pledged, assigned or otherwise disposed or encumbered. (*Section 3.06*)

### **Long-Term Debt Service Coverage Ratio**

(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 capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements 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) If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof, as derived from the most recent Audited Combined Financial Statements for the most recent Fiscal Year, is not met the Obligated Group covenants to retain a Consultant within 30 days of the delivery of the aforementioned Audited Combined Financial Statements to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. Any Consultant so retained will be required to submit such recommendations within 45 days

after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by Governmental Restrictions, follow the recommendations of the Consultant. So long as a Consultant will be retained and each Member of the Obligated Group will follow such Consultant's recommendations to the extent permitted by such Governmental Restrictions, this Section will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the Obligated Group will not be required to retain a Consultant to make recommendations pursuant to this subsection (b) more frequently than biennially. (*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 Combined 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 provided there will be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with the requirements set forth under the heading "Long-Term Debt Service Coverage Ratio" and the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Audited Combined Financial Statements have been reported upon by independent certified public accountants (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate) and such Long-Term Debt Service Coverage Ratio is not less than 1.20 and not less than 65% of what it would have been were such Transfer not to take place.

(iv) To any Person if the aggregate Book Value of the Property Transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed 10% of the Book Value of all Property of the Obligated Group as shown in the Audited Combined 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 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 further, however, that the proceeds from such Property Transferred are used only to acquire Property or to repay Long-Term Indebtedness.

(vi) To a Person which at the time of the Transfer is not a Member of the Obligated Group or successor corporation pursuant to a merger or consolidation permitted by the Master Trust Indenture, without limit, if such Person or successor corporation will, at the time of such Transfer, become a Member of the Obligated Group pursuant to the Master Trust Indenture.

(b) 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 will 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 under the heading "Limitations on Indebtedness" regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(c) Nothing contained under this heading is intended to prohibit the Transfer of Property, including cash, for payment of goods and services in the ordinary course of business of, or for the acquisition of Property by, the Members of the Obligated Group. (*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 will 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 the Master Trust Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Trust Indenture and any Supplement hereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Trust Indenture; and

(iii) 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 will 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

(iv) 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 of assets had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Combined Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would have been not less than 1.10, (B) if such merger, consolidation or sale of assets had occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Combined Financial Statements are available (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate), the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" would have been satisfied for the incurrence of an additional \$1.00 of Additional Indebtedness, and (C) the unrestricted net assets plus temporarily restricted net assets of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor corporation as reflected in the most recent Audited Combined Financial Statements.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation will succeed to and be substituted for its predecessor, with the same effect as if it had been named herein as such predecessor or had become a Member of the Obligated Group pursuant to the provisions described under the heading “Parties Becoming Members of the Obligated Group,” as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Trust Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Trust Indenture prescribed, the Master Trustee will authenticate and will deliver Obligations that such successor corporation will have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Trust Indenture will in all respects have the same security position and benefit under the Master Trust Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Trust Indenture as though all of such Obligations had been issued under the Master Trust Indenture 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 the Master Trust Indenture as may be appropriate.

(d) In the event that the Officer’s Certificate described in subparagraph (a)(iv) under this heading 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 the Master Trust Indenture 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 pursuant to this Section will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions of the Master Trust Indenture immediately after such Person or successor corporation became a Member of the Obligated Group.

(f) All references herein to successor corporations will be deemed to include the surviving corporation in a merger. (*Section 3.09*)

### **Filing of Audited Combined Financial Statements, Certificate of No Default; Other Information**

The Obligated Group covenants that it will:

(a) Within 30 days after receipt of the audit report mentioned below, but in no event later than 150 days after the end of each Fiscal Year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of the Audited Combined Financial Statements as of the end of such fiscal reporting period accompanied by the opinion of independent certified public accountants. Such Audited Combined Financial Statements will be prepared in accordance with generally accepted accounting principles and will include such statements necessary for a fair presentation. Such statements shall include the combined statements of financial position, the combined statements of operations, the combined statements of changes in net assets and the combined statements of cash flows of such fiscal reporting period.

(b) Within 30 days after receipt of the audit report mentioned above, but in no event later than 150 days after the end of each Fiscal Year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested or on whose behalf the Master Trustee may have so requested, an Officer’s Certificate and a report of

independent certified public accountants stating the Long-Term Debt Service Coverage Ratio for such fiscal reporting period and stating whether, to the best knowledge of the signers, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Trust Indenture and, if so, specifying each such default of which the signers may have knowledge.

(c) If an Event of Default will have occurred and be continuing, (i) file with the Master Trustee and the Authority (so long as there are Related Bonds of the Authority outstanding) such other financial statements and information concerning its operations and financial affairs (or of any consolidated or Obligated Group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) 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 or at such other times as the Master Trustee may reasonably request.

(d) Within 30 days after its receipt thereof, file with the Master Trustee and the Authority (so long as there are Related Bonds of the Authority outstanding) a copy of each report which any provision of the Master Trust 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 and corporations which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by the provisions described under the heading “Consolidation, Merger, Sale or Conveyance” 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 will 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 the Master Trust Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Trust 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 under the Master Trust Indenture, (ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Trust Indenture will be paid in accordance with the terms thereof and of the Master Trust Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, will be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee 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 and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors’ rights generally, equity principles and laws dealing with fraudulent conveyances and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there will be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction

would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative will be provided to the Master Trustee demonstrating that (i) after giving effect to the admission of such Person as a Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of such Person and the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person will become a member of the Obligated Group and (ii) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming that the Person or corporation which is becoming a Member of the Obligated Group had become a Member at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Combined Financial Statements are available (which period of 12 full consecutive months will have ended not more than 18 calendar months prior to the date of the Officer's Certificate).

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions described under the heading "Limitations on Indebtedness" immediately after such Person became a Member of the Obligated Group. (*Section 3.11*)

### **Withdrawal from the Obligated Group**

(a) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative and, if Related Bonds of the Authority are outstanding, the prior written consent of the Authority; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any 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 will be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) (A) An Officer's Certificate of the Obligated Group Representative demonstrating that (1) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming such withdrawal to have occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Combined Financial Statements are available, (2) the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Audited Combined Financial Statements are available (x) would not, if such withdrawal had occurred at the end of such period, be reduced by more than 35%; provided, however, that in no event will such ratio be reduced to less than 1.20, or (y) would be greater than in the absence of such withdrawal, and (3) after giving effect to the withdrawal of such Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Member of the Obligated Group withdraws from the Obligated Group; or (B) a written report of a Consultant demonstrating that the

forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (B) above may be evidenced by an Officer's Certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent twelve month period for which Audited Combined Financial Statements of the Obligated Group are available; and

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee, the Authority and each Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of the Master Trust Indenture and any agreements or other documents relating to the Master Trust Indenture, the Obligations or the Related Bonds.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, any guaranty by such Member pursuant hereto will be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Trust Indenture will cease. (*Section 3.12*)

## **Events of Default**

Event of Default, as used herein, will mean any of the following events:

(a) The Members of the Obligated Group will fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Trust Indenture when and as the same will become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or of any Supplement;

(b) Any Member of the Obligated Group will fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Trust Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, will 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 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 be such that it cannot be corrected within 30 days after the receipt of such notice, it will 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 will occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued under the Master Trust Indenture;

(d) (i) Any Member of the Obligated Group will fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Trust Indenture), which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, and any period of grace with respect thereto will have expired, or (ii) there will 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 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, which event of default will not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness will have been accelerated; provided, however, that such default will not constitute an Event of Default within the meaning of this Section if within 30 days (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith will commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; and

(f) The institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due. (*Section 4.01*)

#### **Acceleration; Annulment of Acceleration.**

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Trust Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, will, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations will become and be immediately due and payable, anything in the Obligations or in any other section of the Master Trust Indenture to the contrary notwithstanding. In the event Obligations are accelerated there will 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 will have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Trust Indenture will have been paid or a sum sufficient to pay the same will 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) will have been remedied or waived pursuant to the provisions under the heading “Waiver of Event of Default”, then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding will, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon. (*Section 4.02*)

### **Additional Remedies and Enforcement of Remedies**

(a) Upon the occurrence and continuance of an Event of Default under the Master Trust Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or upon the request of the Credit Facility Issuer, if any, with respect to any series of Obligations or Related Bonds, together with indemnification of the Master Trustee to its satisfaction therefor, will, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Trust Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, will deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Bring suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State of New York;

(vi) Enforcement of any Mortgage granted by any Member of the Obligated Group to secure any one or more Obligations; and

(vii) Enforcement of any other right of the Holders conferred by law or by the Master Trust Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, will, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised will be necessary or expedient (i) to prevent any impairment of the security under the Master Trust Indenture by any acts which may be unlawful or in violation thereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Trust Indenture and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

(c) Upon the occurrence of an Event of Default, the Master Trustee may, and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, realize upon any security interest which the Master Trustee may have in Gross Receipts and will establish and maintain a Gross Receipts Revenue Fund into which will be deposited all Gross Receipts as and when

received. All amounts deposited into the Gross Receipts Revenue Fund will 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 and, if Related Bonds of the Authority are Outstanding, approved by the Authority or the Authority's designee, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) such other amounts as may be required by the Master Trust Indenture and any Supplement thereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund will 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 will 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 will be paid to the Master Trustee, as the Authority may direct; (iv) forbid any Member to 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. (*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 will be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to the Master Trust Indenture and with respect to the payment of Obligations thereunder, as follows:

(a) Unless the principal of all Outstanding Obligations will 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 will 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 will have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available will 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 Credit Facility Issuer with respect to any series of Obligations or Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above.

(b) If the principal of all Outstanding Obligations will have become or have been declared due and payable, to the payment of the principal and interest 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 the principal of all Outstanding Obligations will have been declared due and payable, and if such declaration will 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 the principal of all Outstanding Obligations will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys will be applied by it at such times, and from time to time, as the Master Trustee will 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 will apply such moneys, it will 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 will cease to accrue. The Master Trustee will 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 will not be required to make payment to the Holder of any unpaid Obligation until such Obligation will be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Moneys held in the Gross Receipts Revenue Fund will be invested in Government Obligations, which mature or are redeemable at the option of the holder not later than such times as will be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments will be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments. Unless otherwise provided in the Master Trust Indenture, the Master Trustee will sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it will be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee will not be liable or responsible for making any such investment in the manner provided above and will 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 will be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

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 will be paid to the Person entitled to receive the same; if no other Person will be entitled thereto, then the balance will 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**

If an Event of Default will have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding will 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 of the Master Trust Indenture or for the appointment of a receiver or any other proceedings under the Master Trust Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Trust Indenture, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee will have the right to decline to follow any such direction if the Master Trustee in good faith will 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 will impair the right of the Master Trustee in its discretion to take any other action under the Master Trust Indenture which it may deem proper and which is not inconsistent with such direction by the Holders provided, further, however, that the Credit Facility Issuer, if any, with regard to any series of Obligations or any series of Related Bonds secured by Obligations, and not the Holders, will 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 will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion will have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Trust Indenture, or before the completion of the enforcement of any other remedy thereunder.

(c) Notwithstanding anything contained in the Master Trust Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, will waive any Event of Default under the Master Trust Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of the section captioned "Acceleration; Annulment of Acceleration" herein, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same will 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 under the Master Trust Indenture, the Members of the Obligated Group, the Master Trustee and the Holders will be restored to their former positions and rights thereunder, respectively, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent thereon. (*Section 4.09*)

### **Appointment of Receiver**

Upon the occurrence of any Event of Default, unless the same shall have been waived as provided in the Master Trust Indenture, 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 of the Master Trust Indenture 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

will confer. Each Member of the Obligated Group, respectively, 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 will, within 10 days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default will 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) under the heading “Events of Default”, the Master Trustee will 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 or, if no Event of Default will have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal will 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 by the Master Trust Indenture. Written notice of such resignation or removal will be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal will take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group Representative within 30 days of the date notice of resignation or removal is given, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee will be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Trust Indenture will execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment under the Master Trust Indenture, and thereupon such successor Master Trustee, without further action, will become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor will execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee will execute any and all documents necessary or

appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee will 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 10 days after its assumption of the duties under the Master Trust Indenture, will mail a notice of such assumption to each registered Holder. (*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, 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 in the Master Trust Indenture.
- (b) To correct or supplement any provision in the Master Trust Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Master Trust Indenture and which will 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 the Master Trust Indenture.
- (d) To qualify the Master Trust 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 under the Master Trust Indenture, so long as no Event of Default has occurred and is continuing thereunder.
- (f) To obligate a successor to any Member of the Obligated Group as provided in the provisions described under the heading “Parties Becoming Members of the Obligated Group”.
- (g) To comply with the provisions of any federal or state securities law.
- (h) So long as no Event of Default has occurred and is continuing under the Master Trust Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under the Master Trust Indenture has occurred and is continuing, to make any change to the provisions of the Master Trust 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 Long-Term Debt Service Coverage Ratio for the most recent period of 12 consecutive calendar months preceding the date of delivery of the report for which there are Audited Combined Financial Statements available was at least 1.75; or (B) evidence satisfactory to the Master Trustee to the effect that (i) there exists for each Related Bond or Obligation, which is not pledged to secure Related Bonds, credit enhancement consisting of a surety bond, insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains

outstanding and provides for payment in full of principal and interest on such Related Bond or Obligation when due) or the Obligated Group has delivered, respectively, to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each Holder of an outstanding Obligation which is not pledged to secure Related Bonds and with respect to which there is no trustee, credit enhancement of the types described above in this subpart, and (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 based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change;

(ii) if any series of Obligations or Related Bonds are rated based on credit enhancement of such Obligations or Related Bonds (whether in the form of a financial guaranty insurance policy, letter of credit, surety bond or otherwise) and not on the underlying credit of the Obligated Group, the issuer of such credit enhancement will consent in writing to such amendment or modification; 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;

provided, however, that no amendment will be made pursuant to this clause (h) which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of the Master Trust Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event will such ratio be reduced to less than 1.10 (or less than 1.00 if Governmental Restrictions make it impossible for a Long-Term Debt Service Coverage Ratio, of at least 1.10 to be maintained or demonstrated), (2) the definition of any 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 the definitions of Affiliate, Audited Combined Financial Statements, Book Value, Non-Recourse Indebtedness, Operating Assets, Property, Plant and Equipment or Total Operating Revenues, or (3) Sections 3.01, 3.02(a), 3.05(b)(xii), 3.05(b)(xvi), 3.05(b)(xvii), 3.06(a)(i)(A), 3.08(a)(ii), 3.08(a)(iii), 3.09, 3.11, 3.12, 4.01 through 4.12, inclusive, 5.04, 6.01(h), 6.02(a), 7.01 or 8.02 of the Master Trust Indenture. (*Section 6.01*)

### **Supplements Requiring Consent of Holders**

(a) Other than Supplements referred to under the heading “Supplements Not Requiring Consent with Holders” and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding will have the right, with consent of each Credit Facility Issuer insuring Obligations or Related Bonds, from time to time, anything contained in the Master Trust Indenture 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 Trustee of such Supplements as will 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 in the Master Trust Indenture; provided, however, nothing in this Section will 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 the Master Trust Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group will request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as will be prescribed by each Member of the Obligated Group following the request, the Master Trustee will receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section for the Supplement in question which instrument or instruments will refer to the proposed Supplement and will 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 will have consented thereto.

(c) Any such consent will 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 the Master Trust Indenture. At any time after the Holders of the required principal amount or number of Obligations will have filed their consents to the Supplement, the Master Trustee will make and file with each Member of the Obligated Group a written statement to that effect. Such written statement will be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding will have consented to and approved the execution of such Supplement as provided in the Master Trust Indenture, no Holder will 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 will deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which will have been mutilated, destroyed, lost or stolen and which will have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation will have become due and payable and money sufficient to pay the same will 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 will be Defeased Obligations, and if in all cases the Members of the Obligated Group will also pay or cause to be paid all other sums payable under the Master Trust Indenture by the Members of the Obligated Group or any thereof, then the Master Trust Indenture will 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, will execute proper instruments acknowledging satisfaction of and discharging the Master Trust Indenture. Each Member of the Obligated Group, respectively, 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 the Master Trust Indenture or such Obligations. (*Section 7.01*)

### **Evidence of Acts of Holders**

Except as otherwise provided in a Related Bond Indenture, in the event that any request, direction or consent is requested or permitted under the Master Trust Indenture of the Holders of any Obligation securing an issue of Related Bonds, (i) each Related Bond Issuer shall be deemed to be such Holder for the purpose of any such request, direction or consent, or (ii) in the event such series of Related Bonds or Obligation is secured by a Credit Facility, so long as the issuer of such Credit Facility is not then in default on its obligations under such Credit Facility, the Credit Facility Issuer shall be deemed to be the Holder of such Obligation or Obligations pledged as security for such Related Bonds. (*Section 8.01*)

## **2009B, C and D Supplemental Indentures**

### **Mortgages**

To secure, among other things, the prompt payment of the principal of, redemption premium, if any, and the interest on Obligation No. 31, Obligation No. 32 and Obligation No. 33 and the performance by each Member of the Obligated Group of its other obligations under the 2009B, C and D Supplemental Indentures and under the Master Trust Indenture, each Member of the Obligated Group has executed and delivered its respective Mortgage to the Authority. The Authority may modify or release or grant a parity interest in the lien of the Mortgages subject to the provisions of the Related Bond Indenture, Article 3 of the Master Trust Indenture, the 2009B, C and D Supplemental Indentures, the Intercreditor Agreement and the Mortgages. In the event of such modification, release or grant of a parity interest in the lien of the Mortgages, the Master Trustee shall, upon request of the Authority, execute a release of its security interest or other appropriate consent document with respect to such Mortgage so modified or released. (*Section 3*)

### **Direction to Assign Mortgage**

Anything in the Master Trust Indenture to the contrary notwithstanding, the Authority may, and upon the occurrence and continuance of an event of default specified in subsections (a), (b), (d), (e) and/or (f) of the section captioned "Events of Default" hereinabove, will, as mortgagee and in accordance with the Related Bond Indenture, grant, pledge and assign to the Applicable Bond Trustee all of the estate, right, title, interest and claim in, to and under the Mortgages with respect to Obligation No. 31, Obligation No. 32 and Obligation No. 33, as applicable, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under such Mortgages, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the 2009B, C and D Supplemental Indentures) all Revenues, insurance proceeds, sale proceeds and other amounts and other security now or hereafter payable to or receivable by the Authority under such Mortgages, and the right to make all waivers and agreements in the name and on behalf of the Authority, and to perform all other necessary and appropriate acts under such Mortgages. (*Section 12*)

### **Master Trustee as Mortgage Agent**

Pursuant to the Intercreditor Agreement, the Bond Trustee has acknowledged that the Master Trustee will act as agent to act on its behalf in any suit, action or proceeding brought to enforce any of its rights as beneficiary under the Mortgages. The Master Trustee shall undertake to act as agent to the Bond Trustee as provided in the Supplemental Indenture. (*Section 13*)

## **Distribution of Proceeds from Enforcement of Rights under the Mortgage**

Any proceeds received from the enforcement of the rights of the Master Trustee or the Bond Trustee as beneficiaries under any particular Mortgages shall, notwithstanding any provision in the Master Trust Indenture to the contrary, be distributed by the Master Trustee in the following order:

- (a) First, to satisfy any amounts then due and owing under the Loan Agreements specifically secured by such Mortgages or under Obligation No. 31, Obligation No. 32 and Obligation No. 33, as applicable;
- (b) Second, to satisfy any amounts then due and owing under any Loan Agreement or Obligation issued to the Authority to secure a series of Related Bonds; and
- (c) Third, to satisfy any remaining amounts then due and owing under any Obligations in direct proportion to the amount then due and owing under each such Obligation.

Notwithstanding the foregoing, the Authority may in its discretion and in accordance with the provisions of the Intercreditor Agreement, grant to the Holder of any Obligation an interest in the Mortgage or proceeds thereof with respect to Obligation No. 31, Obligation No. 32 and Obligation No. 33, as applicable, on a parity with or subordinate to the payments to be made pursuant to (a), (b) or (c) above. In addition, notwithstanding anything contained elsewhere in the 2009B, C and D Supplemental Indentures or in the Master Trust Indenture, the Mortgages or the Loan Agreements, the Authority shall not release the lien of any such Mortgages without the prior written consent of the Credit Facility Issuer, if applicable, of the Related Bonds to which such Obligation relates. (*Section 15*)

## **Discharge of Supplement**

Upon payment by the Obligated Group of a sum, in cash or Defeasance Securities (as defined in the 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 2009B, C and D Bonds, as applicable, to be deemed to have been paid within the meaning of the Related Bond Indenture and to pay all other amounts referred to in the Related Bond Indenture, accrued and to be accrued to the date of discharge of the Related Bond Indenture, Obligation No. 31, Obligation No. 32 and Obligation No. 33, as applicable, will be deemed to have been paid and to be no longer Outstanding under the Master Trust Indenture and the applicable 2009B, C and D Supplemental Indentures will be discharged. (*Section 16*)

## **Reporting Requirements**

The Obligated Group covenants that it will:

- (a) No later than 60 days subsequent to the last day of each of the first three quarters in each fiscal year, furnish to (1) the Authority (so long as any Related Bonds of the Authority are outstanding), and (2) the MSRB, the following information: (A) the unaudited combined financial statements of the Obligated Group, including the combined statements of financial position as of the end of such quarter, the combined statements of operations, the combined statements of changes in net assets, the combined statements of cash flows, the combining statement of financial position and the combining statement of operations; (B) utilization statistics of each Member of the Obligated Group, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits, ambulatory surgery visits and home care visits (if applicable) or, such other or different statistics as are appropriate at the time of calculation; and (C) major payer mix of the Obligated Group by percentage of gross revenue;

(b) No later than 120 days subsequent to the last day of each fiscal year, to each of the parties identified in clauses (1) and (2) of the foregoing paragraph, to the Related Bond Trustee and applicable rating services, (1) copies of the combined financial statements of the Obligated Group, audited by an independent public accountant satisfactory to the Authority and prepared in conformity with generally accepted accounting principles applied on a consistent basis, except that such Audited Combined Financial Statements may contain such changes as are concurred in by such accountants, (2) copies of the combining unaudited balance sheet and statement of operations for the Members of the Obligated Group, and (3) such other statements, reports and schedules describing the finances, operation and management of each Member of the Obligated Group (or of the Obligated Group) and such other information reasonably required by an Authorized Officer of the Authority; and

(c) Not later than 120 days after the end of the Fiscal Year, to the Related Bond Trustee, the Authority and such other parties as an Authorized Officer of the Authority may designate, including rating services, a certificate stating whether each Member of the Obligated Group is in compliance with the provisions of the Master Trust Indenture, Loan Agreement and the Mortgages. (*Section 18*)

Each of the forgoing requirements may be waived, modified or amended by the Authority without notice to or consent of the Holders.

### **Required Ratios**

For so long as Obligation No. 31, Obligation No. 32, Obligation No. 33 and/or any Related Bonds of the Authority remain Outstanding, the following provisions shall apply:

(a) Days Cash on Hand. The Obligated Group covenants that the number of Days Cash on Hand, as of each semi-annual testing date set forth below, shall not be less than 30 for the Obligated Group.

(b) The Required Ratios shall be tested semi-annually as of June 30, based on the Obligated Group's unaudited combined financial statements, and December 31, based on the Obligated Group's Audited Combined Financial Statements, of each year (each a "Semi-Annual Testing Date"), and a Certificate of an Authorized Officer of the Obligated Group Representative shall be delivered on the date the related financial statements are delivered, in accordance with the provisions described under the heading "Reporting Requirements" above, to the Master Trustee, any Credit Facility Issuer and the Authority, certifying as to the Long-Term Debt Service Coverage Ratio and Days Cash on Hand as of such date and certifying compliance with the Required Ratios.

(c) If, on any Semi-Annual Testing Date, the Long-Term Debt Service Coverage Ratio is less than 1.25 or the Days Cash on Hand is less than the applicable requirement set forth in subsection (a) above, then the Obligated Group shall within 75 days of the end of such testing period, but in no event less than 20 days following notice from the Authority to do so, (i) prepare a scope of work for a Consultant in form and content acceptable to the Authority, (ii) retain a Consultant acceptable to the Authority, (iii) require such Consultant, within 15 days of its appointment, to commence work on a report to be delivered to the Obligated Group and the Authority recommending changes with respect to the operation and management of the Obligated Group's facilities, and (iv) to the extent permitted by Governmental Restrictions, implement such Consultant's recommendation in a timely manner. Any report of a Consultant prepared within the previous 12-month period pursuant to the provisions of the Master Trust Indenture shall, if addressed to the Authority and meeting the requirements of clause (iii) above, be deemed to satisfy the foregoing requirement to procure a Consultant's report and, in any event, the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this clause more frequently than biennially.

(d) For so long as the Obligated Group is not in compliance with the Required Ratios, the Obligated Group Representative shall deliver to the Authority (i) within 90 days of delivery of a

Consultant's report pursuant to paragraph (c) above, a certified copy of a resolution adopted by the Governing Body of the Representative acknowledging receipt of such report on behalf of itself and the Members of the Obligated Group and a report setting forth in reasonable details the steps the Obligated Group proposes to take to implement some or all of the recommendations of such Consultant, to the extent permitted by Governmental Restrictions, and (ii) quarterly reports showing the progress made by the Obligated Group in achieving compliance with the Required Ratios and, if applicable, implementing the recommendations of the Consultant.

(e) If the Obligated Group shall fail to maintain the Required Ratios as required by paragraph (b) above, the Obligated Group shall nonetheless be considered to be in compliance with the provisions described under this heading so long as the Obligated Group has satisfied the requirements of paragraphs (c) and (d) above to the reasonable satisfaction of the Authority. If the Obligated Group shall (i) fail to provide the Authorized Officer's Certificate required by paragraph (b) above by the required date, or (ii) fail to satisfy the requirements of paragraphs (c) and (d) above to the reasonable satisfaction of the Authority, the Authority shall be entitled to notify the members of the Obligated Group's Governing Body and of each Member's Board of such noncompliance, and to enforce the provisions of this heading by specific performance.

(f) Notwithstanding the foregoing, and so long as any Related Bonds of the Authority are Outstanding, if, (i) on any Semi-Annual Testing Date the Days Cash on Hand have decreased by 30% or more within the prior 12-month period, or (ii) on any Semi-Annual Testing Date the Days Cash on Hand have decreased by 50% or more within the prior 24-month period, then the Obligated Group shall, within 30 days of such Semi-Annual Testing Date, deliver written notice to the Authority of such decrease and cooperate with the Authority in evaluating the cause(s) for such decrease. If the Obligated Group shall (A) fail to provide the written notice required by (i) above by the required date, or (B) fail to cooperate with the Authority to its reasonable satisfaction, the Authority shall be entitled to notify the members of the Governing Body of the Representative and the members of the Governing Body of each Member of such noncompliance, and to enforce the provisions of this heading by specific performance.

(g) In no event, however, shall failure to satisfy the provisions set forth in paragraphs (a), (b), (c), (d), (e) and (f) above constitute an Event of Default under the Master Trust Indenture, it being understood that the sole remedies for noncompliance shall be the right of the Authority to seek specific performance and/or to notify Governing Body members as aforesaid.

(h) Notwithstanding anything in the 2009B, C and D Supplemental Indentures to the contrary, the Obligated Group covenants that in no event shall the Long-Term Debt Service Coverage Ratio be less than 1.00 at any time.

(i) Notwithstanding anything the 2009B, C and D Supplemental Indentures or in the Master Trust Indenture to the contrary, the provisions set forth under this heading are made solely for the benefit of the Authority and the Holder of Obligations securing Related Bonds of the Authority (including the successors or assigns thereof), and no other person, partnership, association or corporation shall acquire or have any right thereunder or by virtue thereof. (*Section 19*)

### **Supplemental Provisions to the Master Trust Indenture**

(a) The last paragraph of **Section 3.06(g)** of the Master Trust Indenture is supplemented, for so long as Obligation No. 31, Obligation No. 32, Obligation No. 33 and/or any Related Bonds of the Authority remain Outstanding, to read as follows:

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 50% of the three month average outstanding accounts receivable of the Obligated Group that are ninety days old or less as calculated in accordance with generally accepted accounting principles. With

the written consent of the Authority, so long as there are Related Bonds of the Authority outstanding, the percentage of accounts receivable identified in the preceding sentence may be increased to 75%. The three month average shall be calculated based on the month end available balances for the three full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. Accounts receivable that are more than ninety days old may not be sold, pledged, assigned or otherwise disposed or encumbered.

(b) **Section 3.08** of the Master Trust Indenture is supplemented, for so long as Obligation No. 31, Obligation No. 32, Obligation No. 33 and/or any Related Bonds of the Authority remain Outstanding, by the inclusion of the following as subsection (d) thereunder:

(d) Other than as provided in subsection (c) above, each Member of the Obligated Group will not Transfer cash, marketable securities or other liquid investments to any Person other than a Member of the Obligated Group, if following such transfer, based upon pro-forma projections determined in good faith by management of the Obligated Group, the Obligated Group would be unable to satisfy the requirements set forth in Section 19 hereof as of the next testing date. Unsecured loans to Persons other than Members of the Obligated Group shall be treated as Transfers of cash.

(c) Notwithstanding anything herein or in the Master Trust Indenture to the contrary, the provisions set forth in this Section 20 are made solely for the benefit of the Authority and the Holder of Obligations securing Related Bonds of the Authority (including the successors or assigns thereof), and no other person, partnership, association or corporation shall acquire or have any right thereunder or by virtue thereof. (*Section 20*)

## **APPENDIX F**

### **SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENTS**

The following is a brief summary of certain provisions of the Reimbursement Agreements. The following summary does not purport to be complete, and reference is made to the Reimbursement Agreements for full and complete statements of such provisions. Defined terms used herein shall have the meanings ascribed to them in the Official Statement.

#### **The Letters of Credit**

Each Bank has agreed to issue its Letter of Credit, and, in return, LIJMC has agreed to reimburse each Bank for each payment made by the Bank to the Trustee in connection with each draw on the Letter of Credit. LIJMC has agreed to pay to each Bank, quarterly in arrears, a non-refundable letter of credit fee, calculated as a percentage of the stated amount of its respective Letter of Credit in effect from time to time. The stated amount of each Letter of Credit shall be reduced as the Principal Component (as defined in the Letter of Credit) is reduced. Each Letter of Credit shall expire on September 17, 2012 unless sooner terminated or extended pursuant to its terms.

#### **Payment Provisions**

LIJMC shall make payments due under the Reimbursement Agreements in lawful currency of the United States and in immediately available funds. All payments made by LIJMC to each Bank shall be made without set off or counterclaim.

#### **Representations and Warranties of LIJMC**

LIJMC represents and warrants to the Banks that (i) LIJMC is duly formed, validly existing and in good standing under the laws of the State of New York; (ii) LIJMC has the corporate power and authority to execute, deliver and perform all of its obligations under the Reimbursement Agreement; (iii) the execution, delivery and performance of the Reimbursement Agreement will not violate, in any material respect, any law or any contractual restriction binding on or affecting LIJMC; (iv) no authorization or approval by, or notice to or filing with, any governmental authority is required in connection with the execution, delivery and performance by LIJMC of the Reimbursement Agreement or any related document that has not been obtained or made, (v) there is no material litigation pending or threatened against LIJMC; (vi) LIJMC is in compliance in all material respects with all requirements of law to which it is subject; and (vii) LIJMC has filed all of its tax returns required to be filed by it and has paid all of its taxes, if any.

#### **Affirmative Covenants**

LIJMC shall (i) furnish the Bank with annual audited combined financial statements of the Obligated Group within 120 days of the end of each fiscal year and with unaudited combined financial statements of the Obligated Group within 60 days of the end of each of the first three quarters in each fiscal year; (ii) LIJMC shall give notice to the Bank of Events of Default, litigation and other events that would adversely affect its business; (iii) LIJMC shall comply with the requirements of all material applicable laws, regulations and orders of any governmental entity; (iv) LIJMC shall keep all of its property in good condition and shall keep its property adequately insured; (v) LIJMC shall pay all of its taxes, assessments and governmental charges as well as judgments, mechanics' liens and other similar claims unless contested in good faith and adequate reserves are established therefor; (vi) LIJMC shall keep proper books of record; and (vii) together with the Obligated Group, comply with certain financial covenants.

## Negative Covenants

LIJMC shall comply with certain negative covenants set forth in Article III of the Master Trust Indenture, concerning (i) the creation or incurrence of additional indebtedness or the guaranty of any debt other than that permitted in the Master Trust Indenture; (ii) the creation or allowance of any liens other than those permitted under the Master Trust Indenture; (iii) the sale or disposition of any of its assets, or the merger or consolidation with any other person or entity, other than as permitted in the Master Trust Indenture.

## Defaults and Remedies

The occurrence of any one or more of the following events shall constitute an "Event of Default" under the Reimbursement Agreements:

(a) Failure of LIJMC to make any payment required to be made under the Reimbursement Agreement which failure is not cured within three Business Days of the date such payment becomes due.

(b) Failure to observe certain financial covenants of LIJMC contained in the Reimbursement Agreement.

(c) Failure by LIJMC to perform any other term, condition or covenant of the Reimbursement Agreement or any other agreement, instrument or document delivered pursuant thereto which remains unremedied for a period of 30 days after written notice has been given by the Bank to LIJMC; provided that if such failure is not curable within such 30-day period, LIJMC will have an additional period to cure such failure not to exceed 90 days in the aggregate if LIJMC has commenced to cure such failure during the initial 30-day cure period and is at all times thereafter diligently and continuously proceeding to cure such failure.

(d) (i) Except as otherwise provided in paragraphs (ii) and (iii) below, LIJMC fails to perform (beyond any applicable notice or grace period) any term, condition or covenant of any bond, note, debenture, loan agreement, indenture (including the Master Trust Indenture), guaranty, trust agreement, mortgage or other instrument or agreement in connection with the borrowing of money or the deferred purchase price of a fixed asset to which LIJMC is a party or by which it is bound, or by which any of its properties or assets may be affected (a "Debt Instrument") evidencing an outstanding principal balance of more than \$5,000,000 which, as a result of any such failure, is declared due and payable prior to the date on which such Debt Instrument would otherwise become due and payable; or

(ii) LIJMC fails (beyond any applicable notice or grace period) to make any required payment of principal or interest with respect to any Debt Instrument which evidences an outstanding principal balance of more than \$5,000,000; except that such default shall not constitute an Event of Default if within 30 days written notice is given to the Bank that LIJMC is contesting the payment of such indebtedness by appropriate legal proceedings, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the indebtedness is commenced, LIJMC in good faith commences proceedings to contest the obligation to pay the indebtedness and if a judgment relating to such indebtedness has been entered against LIJMC (a) the execution of such judgment has been stayed, or (b) sufficient monies are escrowed with a bank or trust company for the payment of such indebtedness; or

(iii) Any event or condition occurs which, under the terms of the applicable Series of Bonds or the other applicable bond documents, permits acceleration of the applicable Series Bonds, which is not cured within any applicable cure period other than any default in the payment of the principal or redemption price of or interest on or the purchase price of the Bonds which results from a failure of the Bank to honor a draft properly drawn under and in accordance with the Letter of Credit; provided, however, to the extent such event or condition is waived under the applicable Series of Bonds or the Bond Documents, such "Event of Default" shall not constitute an Event of Default under this paragraph (d)(iii).



(e) Any representation or warranty made in writing to the Bank in the Reimbursement Agreement or in connection with the issuance of the Letter of Credit or in any certificate, statement or report made in compliance with the Reimbursement Agreement, is false in any material respect when made.

(f) An order for relief under the United States bankruptcy laws is entered against LIJMC; or LIJMC becomes insolvent, generally fails to pay its debts as they become due, makes an assignment for the benefit of creditors, files a petition in bankruptcy, is adjudicated insolvent or bankrupt, petitions or applies to any tribunal for the appointment of a receiver or any trustee for it or a substantial part of its assets, or commences any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction; or if there is filed any such petition or application, or any such proceeding has been commenced against it, which remains undismissed for a period of 60 days or more; or LIJMC by any act or omission indicates its consent to approval of or acquiescence in any such petition, application or proceeding or the appointment of a receiver of or any trustee for it or any substantial part of its properties, or suffers any such receivership or trusteeship to continue undischarged for a period of 60 days or more.

(g) Any judgment or judgments against LIJMC aggregating more than a minimum amount specified in the Reimbursement Agreement or any attachment, levy or execution against any of its properties with respect to claims aggregating in excess of such amount which is not fully covered by insurance shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 60 days or more; or

(h) LIJMC shall (other than as a result of a change in law) cease to be exempt from federal, state or local income taxes (except with respect to unrelated trade or business income).

(i) Any permit, license, authorization, approval or consent granted of any federal, state or local government authority (“Government Consent”) granted to or obtained by LIJMC that is, in the reasonable judgment of the Bank, material to the operations of LIJMC, expires without renewal or is suspended or revoked and such expiration, suspension or revocation is not fully remedied or cured within 60 days or otherwise stayed by legal proceedings, or (ii) LIJMC becomes subject to any injunction or other order prohibiting it from operating under any such material Government Consent and such injunction or order is not fully terminated, dissolved or rescinded within 60 days thereafter or otherwise stayed by legal proceedings; or (iii) LIJMC fails to apply for any Government Consent that is, in the reasonable judgment of the Bank, material to the operations of LIJMC within 60 days of the date required to be obtained.

(j) LIJMC loses its eligibility for reimbursement as a provider of health care services under the Medicare or Medicaid program or any other equivalent government insurance program that is a successor thereto (except where the validity of such loss in eligibility is being contested in good faith and by appropriate proceedings).

(k) Any Member of the Obligated Group withdraws from the Obligated Group without the prior written consent of the Representative, the Authority and the Bank.

(l) Any of the Bonds, the Master Trust Indenture, the Supplemental Indenture, the Obligation of the relevant Series, the Series Certificate of the relevant Series, the Resolution of the relevant Series, the Loan Agreement, the Reimbursement Agreement or the Letter of Credit is deemed not to be in full force and effect.

Upon the occurrence of an Event of Default, the Bank has the following options: (i) by notice to LIJMC, declare all obligations of LIJMC under the Reimbursement Agreement immediately due and payable; (ii) after notifying the Authority and the Trustee in writing that an Event of Default has occurred and providing the Trustee with thirty (30) days within which to draw on the Letter of Credit for the

purpose of effecting a mandatory tender or redemption of the applicable Bonds, terminate the Letter of Credit; and/or (iii) proceed to enforce all other remedies available to it under its Reimbursement Agreement, the related bond documents and applicable law.

## APPENDIX G

### PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

September \_\_, 2009

Dormitory Authority of the State of New York  
515 Broadway  
Albany, New York 12207

Re: \$50,000,000 Dormitory Authority of the State of New York North  
Shore-Long Island Jewish Obligated Group Revenue Bonds, Series  
2009B

\$37,500,000 Dormitory Authority of the State of New York North  
Shore-Long Island Jewish Obligated Group Revenue Bonds, Series  
2009C

\$37,500,000 Dormitory Authority of the State of New York North  
Shore-Long Island Jewish Obligated Group Revenue Bonds, Series  
2009D

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Ladies and Gentlemen:

We have acted as bond counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with the issuance of \$50,000,000 aggregate principal amount of its North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B (the "Series 2009B Bonds"), \$37,500,000 aggregate principal amount of its North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C (the "Series 2009C Bonds") and \$37,500,000 aggregate principal amount of its North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D (the "Series 2009D Bonds", together with the Series 2009B Bonds and Series 2009C Bonds, the "Series 2009 Bonds"), issued pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), including, without limitation, as amended by the Health Care Financing Consolidation Act, constituting Chapter 83 of the Laws of 1995 of New York (constituting Title 4-B of Article 8 of the New York Public Authorities Law), which authorized the Authority to issue bonds pursuant to the New York State Medical Care Facilities Finance Agency Act, as amended, constituting Chapter 392 of the Laws of 1973 of New York, as amended (constituting Chapter 6 of Title 18 of the New York Unconsolidated Laws), and the Authority's North Shore Health System Obligated Group Revenue Bond Resolution, adopted June 24, 1998, as supplemented and amended (the "Resolution"), and the Series 2009B Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009B, adopted July 29, 2009, including the Bond Series Certificate executed and delivered concurrently with the issuance of the Series 2009B Bonds related thereto (collectively, the "Series 2009B Resolution"), the Series 2009C Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009C, adopted July 29, 2009, including the Bond Series Certificate executed and delivered concurrently with the issuance of the Series 2009C Bonds related thereto (collectively, the "Series 2009C Resolution") and the Series 2009D Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2009D, adopted July 29, 2009, including the Bond Series Certificate executed and delivered concurrently with the issuance of the Series 2009D Bonds related

thereto (collectively, the “Series 2009D Resolution”), as applicable. The Resolution, the Series 2009B Resolution, the Series 2009C Resolution and the Series 2009D Resolution are herein collectively referred to as the “Resolutions.” Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

The Authority has entered into a Loan Agreement with Long Island Jewish Medical Center (the “Institution”) dated as of July 29, 2009 (the “Loan Agreement”), providing, among other things, for a loan to the Institution for the purposes permitted in the Loan Agreement and by the Resolutions. Pursuant to the Loan Agreement, the Institution is required to make payments sufficient to pay the principal, sinking fund installments and redemption price of and interest on the Series 2009 Bonds, as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the owners of such Series 2009 Bonds.

The Series 2009 Bonds are secured by, among other things, funds and accounts held under the Resolutions and a pledge of payments to be made under the Loan Agreement. The obligation of the Institution under the Loan Agreement will be secured by a mortgage on certain health care facilities of the Institution for each Series of the Series 2009 Bonds. In addition, the Series 2009 Bonds are secured by payments to be made by the Obligated Group on its Obligation No. 31, dated as of September 1, 2009 (“Obligation No. 31”), Obligation No. 32, dated as of September 1, 2009 (“Obligation No. 32”) and Obligation No. 33, dated as of September 1, 2009 (“Obligation No. 33”, together with Obligation No. 31 and Obligation No. 32, the “Obligations”), each issued by the Obligated Group under a Master Trust Indenture, dated as of July 1, 1998, as amended and supplemented by the First Supplement, dated as of July 1, 2003, and as further amended and restated as of August 1, 2003 (collectively, the “Master Trust Indenture”), among the Obligated Group and The Bank of New York Mellon, as successor to United States Trust Company of New York, as master trustee (the “Master Trustee”), as such Master Trust Indenture is supplemented by Supplemental Indenture for Obligation No. 31, dated as of September 1, 2009 (“Supplemental No. 31”), Supplemental Indenture for Obligation No. 32, dated as of September 1, 2009 (“Supplemental No. 32”) and Supplemental Indenture for Obligation No. 33, dated as of September 1, 2009 (“Supplemental No. 33” and together with the Master Trust Indenture and all other supplements thereto, the “Master Indenture”), among the Obligated Group and the Master Trustee. The Obligations are joint and several obligations of the Obligated Group secured by among other things, a security interest in Gross Receipts (as defined in the Master Indenture).

Interest on the Series 2009 Bonds is payable on the first Wednesday of each month, commencing on October 7, 2009 in accordance with the terms of the applicable Series 2009B Resolution, Series 2009C Resolution or Series 2009D Resolution.

The Series 2009 Bonds are to mature on the date and in the year and amount set forth in the applicable Bond Series Certificate executed and delivered pursuant to the Resolutions concurrently with the issuance of the Series 2009 Bonds. The Series 2009 Bonds are to be issued in fully registered form in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The Series 2009 Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions.

In such connection, we have reviewed the Resolutions, the Loan Agreement, the Obligations, the Master Trust Indenture, the Mortgages granted by the Institution and each other Member of the Obligated Group to the Authority, the Tax Certificate and Agreement as of the date hereof (the “Tax Certificate”), between the Authority, the Institution and the Representative, opinions of counsel to the Authority, the Trustee, the Institution and the Representative, certificates of the Authority, the Trustee, the Institution, the Representative and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Winston & Strawn LLP, counsel to the Institution, the Obligated Group and the Representative regarding, among other matters, the current qualification of Institution as an

organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Series 2009 Bonds in activities that are not considered unrelated trade or business activities of the Institution within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of any of the Institution to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Institution within the meaning of Section 513 of the Code, may result in interest on the Series 2009 Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2009 Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2009 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2009 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2009 Bonds, the Resolutions, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditor’s rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any real property or personal property described in or subject to the lien of the Resolutions or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated September 10, 2009 (the “Official Statement”) or other offering material relating to the Series 2009 Bonds and express no opinion with respect thereto herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority has been duly created and is validly existing as a body corporate and politic constituting a public benefit corporation of the State of New York.
2. The Series 2009 Bonds have been duly and validly authorized to be issued and constitute the valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, will be payable solely from the sources provided therefor in the Resolutions and will be entitled to the benefit of the Resolutions and the Act.
3. The Resolutions are in full force and effect, have been duly adopted by, and constitute the valid and binding obligations of, the Authority. The Resolutions create a valid pledge, to secure the payment of the principal of and interest on the Series 2009 Bonds, of the Revenues and any other amounts

(including the proceeds of the sale of the Series 2009 Bonds) held by the Trustee in any fund or account established pursuant to the Resolutions, except the Arbitrage Rebate Fund, subject to the provisions of the Resolutions permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolutions.

4. The Loan Agreement has been duly executed and delivered by the Authority and, assuming due execution and delivery thereof by the Institution, constitutes the valid and binding agreement of the Authority in accordance with its terms.

5. Interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Interest on the Series 2009 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds.

Very truly yours,