NEW ISSUE

Ratings: Moody's: Baa1
S&P: BBB+
Fitch: BBB+
See "RATINGS" herein.

$17,315,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
CATHOLIC HEALTH SYSTEM OBLIGATED GROUP REVENUE BONDS,

$14,235,000 Series 2012A

$3,080,000 Series 2012B

Dated: Date of Issuance

Due: July 1, as shown on the inside cover

Payment and Security: The Catholic Health System Obligated Group Revenue Bonds, Series 2012A (the "Series 2012A Bonds") and Series 2012B (the "Series 2012B Bonds" and, together with the Series 2012A Bonds, the "Series 2012 Bonds") are to be issued as described herein and are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable from and secured by a pledge of (i) with respect to the Series 2012A Bonds, the payments to be made under the Loan Agreement (the "2012A Loan Agreement") dated as of May 23, 2012 between the Authority and Kenmore Mercy Hospital ("Kenmore"), (ii) with respect to the Series 2012B Bonds, the payments to be made under the Loan Agreement dated as of May 23, 2012 (the "2012B Loan Agreement" and, together with the Series 2012A Loan Agreement, the "Loan Agreements") between the Authority and Mercy Hospital of Buffalo ("Mercy" and together with Kenmore, the "Institutions"), (iii) with respect to the Series 2012A Bonds, the hereinafter defined Series 2012A Obligation, (iv) with respect to the Series 2012B Bonds, the hereinafter defined Series 2012B Obligation, (v) with respect to the Series 2012A Bonds, the funds and accounts (except the Arbitrage Rebate Fund) created under the Authority's Catholic Health System Obligated Group Series 2012A Revenue Bond Resolution adopted by the Authority on May 23, 2012 (the "Series 2012A Resolution") and (vi) with respect to the Series 2012B Bonds, the funds and accounts (except the Arbitrage Rebate Fund) created under the Authority's Catholic Health System Obligated Group Series 2012B Revenue Bond Resolution adopted by the Authority on May 23, 2012 (the "Series 2012B Resolution" and, together with the Series 2012A Resolution, the "Series 2012 Resolutions").

The obligations under the Series 2012A Loan Agreement are general obligations of Kenmore and the obligations under the Series 2012B Loan Agreement are general obligations of Mercy. Payment of the Series 2012 Bonds will be secured by payments to be made by the Members of the Obligated Group (as defined herein) pursuant to separate obligations (the "Series 2012A Obligation" and the "Series 2012B Obligation" and collectively, the "Series 2012 Obligations", as more fully described herein) issued pursuant to the Master Trust Indenture dated as of November 29, 2006 (the "Master Indenture") and Supplemental Indentures dated the date of issue that constitute the joint and several general obligation of all the Members of the Obligated Group. The Obligated Group consists of Kenmore, Mercy, Catholic Health System, Inc. ("CHS") and Sisters of Charity Hospital of Buffalo, New York (collectively, the "Obligated Group" or the "Members of the Obligated Group"). No affiliate of the Institutions, other than the Members of the Obligated Group, will be obligated for amounts due under the Series 2012 Obligations. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS." The obligations of the Members under the Series 2012 Obligations are secured by a pledge of Gross Receipts (as defined herein) of each Member and by the Mortgages (as defined herein) granted in favor of the Master Trustee on certain property of the Obligated Group consisting of certain of the core health care facilities of the Members of the Obligated Group who operate health care facilities.

The Series 2012 Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2012 Bonds will be issued as fully registered bonds in denominations of $5,000 and any integral multiples thereof. Interest on the Series 2012 Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2013, and will be payable at the principal corporate trust office of The Bank of New York Mellon, as Trustee, by check or draft mailed to the registered owner thereof. See "PART 3 – THE SERIES 2012 BONDS" herein.

The Series 2012 Bonds will be initially issued under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2012 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2012 Bonds, payments of the principal and Redemption Price of and interest on such Series 2012 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 2012 BONDS - Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2012 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.

Tax Exemption: In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, based on existing statutes, regulations, court decisions and administrative rulings, and assuming compliance with the tax covenants described herein, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, Bond Counsel is of the opinion that interest on the Series 2012 Bonds is not an "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2012 Bonds is, however, included in the computation of "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that, based on existing statutes, interest on the Series 2012 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof. See "TAX MATTERS" herein regarding certain other tax considerations.

The Series 2012 Bonds are offered when, as, and if received by the Underwriter. The offer of the Series 2012 Bonds is subject to the satisfaction of certain conditions and may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Harris Beach PLLC, Albany, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Institutions and the Obligated Group by their counsel, Phillips Lytle LLP, Buffalo, New York. Certain legal matters will be passed upon for the Underwriter by their counsel, Bond, Schoeneck & King, PLLC, Syracuse, New York. The Authority expects the Series 2012 Bonds to be delivered in definitive form in New York, New York on or about July 12, 2012.

Jefferies

Dated: June 21, 2012

$17,315,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
CATHOLIC HEALTH SYSTEM OBLIGATED GROUP REVENUE BONDS

$14,235,000
SERIES 2012A BONDS

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers[1]
2014	$330,000	2.00%	2.02%	649906H64
2015	340,000	3.00	2.22	649906H72
2016	350,000	3.00	2.42	649906H80
2017	360,000	3.00	2.69	649906H98
2018	370,000	4.00	2.95	649906J21

$1,610,000	3.50%	Term Bonds Due July 1, 2022,	Yield 3.76%,	CUSIP[1] 649906J39
$2,385,000	4.00%	Term Bonds Due July 1, 2027,	Yield 4.18%,	CUSIP[1] 649906J47
$2,960,000	5.00%	Term Bonds Due July 1, 2032,	Yield 4.50%[2],	CUSIP[1] 649906J54
$5,530,000	4.75%	Term Bonds Due July 1, 2039,	Yield 4.84%,	CUSIP[1] 649906J62

$3,080,000
SERIES 2012B BONDS

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

$710,000	3.50%	Term Bonds Due July 1, 2022,	Yield 3.76%,	CUSIP[1] 649906J70
$1,160,000	5.00%	Term Bonds Due July 1, 2032,	Yield 4.50%[2],	CUSIP[1] 649906J88
$1,210,000	4.75%	Term Bonds Due July 1, 2039,	Yield 4.84%,	CUSIP[1] 649906J96

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[1] Copyright 2012, 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 indicated have been assigned by an independent company not affiliated with the Authority and are provided solely for the convenience of the holders of the Series 2012 Bonds only at the time of issuance of the Series 2012 Bonds. No representations are made with respect to such numbers nor does any party undertake any responsibility for the accuracy of the CUSIP numbers now or at any time in the future. The Authority is not responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 2012 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity of the Series 2012 Bonds 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 the Series 2012 Bonds.

[2] Priced at the stated yield to the July 1, 2022 optional redemption date at a redemption price of 100% of the principal amount of such Series 2012 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Institutions or the Underwriter to give any information or to make any representations with respect to the Series 2012 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 Institutions or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be an offer, reoffer or sale of the Series 2012 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, reoffer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Institutions and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority.

The Institutions and the Obligated Group have reviewed the parts of this Official Statement describing the Institutions, the Obligated Group, and the Master Indenture, including but not limited to "PART 1 - INTRODUCTION", "PART 4 - THE SERIES 2012 PROJECTS", "PART 5 – PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS", "PART 6 – ESTIMATED SOURCES AND USES OF FUNDS," "PART 7 – THE OBLIGATED GROUP", and "PART 8 - RISK FACTORS AND REGULATORY CONSIDERATIONS THAT MAY AFFECT THE OBLIGATED GROUP", "PART 18 – CONTINUING DISCLOSURE" (only insofar as such Continuing Disclosure relates to obligations of the Institutions) and "APPENDIX B." The Institutions and the Obligated Group shall certify as of the dates of offering and delivery of the Series 2012 Bonds that such parts of this Official Statement relating to the Institutions and the Obligated Group do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institutions and the Obligated Group make no representation as to the accuracy or completeness of any other information included in this Official Statement.

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

References in this Official Statement to the Act (as defined herein), the Resolution, the Series 2012 Resolutions, the Loan Agreements, the Master Indenture, the 2012 Supplemental Indentures, the Mortgages and the Series 2012 Obligations do not purport to be complete. Refer to the Act, the Resolution, the Series 2012 Resolutions, the Loan Agreements, the Master Indenture, the 2012 Supplemental Indentures, the Mortgages and the Series 2012 Obligations for full and complete details of their provisions. Copies of the Act, the Resolution, the Series 2012 Resolutions, the Loan Agreements, the Master Indenture, the 2012 Supplemental Indentures, the Mortgages and the Series 2012 Obligations 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 or the Institutions have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2012 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2012 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

OFFICIAL STATEMENT RELATING TO

$17,315,000
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
CATHOLIC HEALTH SYSTEM OBLIGATED GROUP REVENUE BONDS,

$14,235,000	**$3,080,000**
Series 2012A	**Series 2012B**

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement is to provide information in connection with the offering by the Dormitory Authority of the State of New York (the "Authority") of its $14,235,000 aggregate principal amount of Catholic Health System Obligated Group Revenue Bonds, Series 2012A (the "Series 2012A Bonds") and its $3,080,000 aggregate principal amount of Catholic Health System Obligated Group Revenue Bonds, Series 2012B (the "Series 2012B Bonds" and, together with the Series 2012A Bonds, the "Series 2012 Bonds"). The proceeds of the Series 2012 Bonds are to be applied as described below under the caption "Purpose of the Issue." The following is a brief description of certain information concerning the Series 2012 Bonds, the Authority, Mercy Hospital of Buffalo ("Mercy"), Kenmore Mercy Hospital ("Kenmore" and, together with Mercy, each an "Institution" and collectively, the "Institutions"), Catholic Health System, Inc. ("CHS" or the "Representative"), and Sisters of Charity Hospital of Buffalo, New York ("Sisters of Charity"). The Institutions, CHS and Sisters of Charity are referred to herein collectively as the "Members of Obligated Group" or the "Obligated Group." A more complete description of such additional information that may affect a decision to invest in the Series 2012 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement and not otherwise defined herein are defined in Appendix A or Appendix E hereto.

Purpose of the Issue

The proceeds of the Series 2012A Bonds will be loaned by the Authority to Kenmore and, together with other available funds, are expected to be used to (i) provide funds to finance or refinance the Series 2012A Project (as defined herein); (ii) provide capitalized interest; (iii) make a deposit into the Debt Service Reserve Fund for the Series 2012A Bonds; and (iv) pay certain Costs of Issuance of the Series 2012A Bonds. See "PART 4 – THE SERIES 2012 PROJECTS – Series 2012A Project" and "PART 6 – ESTIMATED SOURCES AND USES OF FUNDS."

The proceeds of the Series 2012B Bonds will be loaned by the Authority to Mercy and, together with other available funds, are expected to be used to (i) provide funds to finance or refinance the Series 2012B Project (as defined herein); (ii) provide capitalized interest; (iii) make a deposit into the Debt Service Reserve Fund for the Series 2012B Bonds; and (iv) pay certain Costs of Issuance of the Series 2012B Bonds. See

"PART 4 – THE SERIES 2012 PROJECTS – Series 2012B Project" and "PART 6 – ESTIMATED SOURCES AND USES OF FUNDS."

Authorization of Issuance

The Series 2012 Bonds will be issued pursuant to the Act, the Authority's Catholic Health System Obligated Group Revenue Bond Resolution, adopted by the Authority on October 25, 2006 (the "General Resolution" or the "Resolution"), the Series Resolution authorizing the Series 2012A Bonds (the "Series 2012A Resolution") and the Series Resolution authorizing the Series 2012B Bonds (the "Series 2012B Resolution" and, together with the Series 2012A Resolution, the "Series 2012 Resolutions") (the Series 2012 Resolutions, and together with the General Resolution, are hereinafter referred to collectively as the "Resolutions"), each as adopted by the Authority on May 23, 2012. The Series 2012 Bonds and any Additional Series of Bonds that may be issued pursuant to the Resolution will be separately secured by (i) the funds and accounts (other than the Arbitrage Rebate Fund) established pursuant to the applicable Resolution, (ii) the Loan Agreement to be executed by and between the Authority and Kenmore with respect to the Series 2012A Bonds (the "Series 2012A Loan Agreement"), (iii) the Loan Agreement to be executed by and between the Authority and Mercy with respect to the Series 2012B Bonds (the "Series 2012B Loan Agreement" and, together with the Series 2012A Loan Agreement, the "Loan Agreements"), (iv) Obligation No. 9 to be issued by the Obligated Group under the Master Indenture (as defined herein) with respect to the Series 2012A Bonds (the "Series 2012A Obligation") and (v) Obligation No. 10 to be issued by the Obligated Group under the Master Indenture with respect to the Series 2012B Bonds (the "Series 2012B Obligation" and, together with the Series 2012A Obligation, the "Series 2012 Obligations"). The Series 2012 Bonds and all other Series of Bonds issued pursuant to the Resolution are referred to as the "Bonds." The Authority has previously issued (i) $68,820,000 of its Catholic Health System Obligated Group Revenue Bonds, Series 2006 in four series, 2006A through 2006D, (collectively, the "Series 2006 Bonds") under the General Resolution and (ii) $24,700,000 of its Catholic Health System Obligated Group Revenue Bonds, Series 2008 in one series (the "Series 2008 Bonds" and, together with the Series 2006 Bonds, the "Prior Bonds") under the General Resolution. The Series 2012 Bonds are issued on a parity with the Prior Bonds under the General Resolution. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS."

The Series 2012 Bonds

The Series 2012 Bonds will be dated their date of issuance, and will accrue interest from their date at the rates, and will mature at the times, as set forth on the inside cover page hereof. Interest on the Series 2012 Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2013. See "PART 3 – THE SERIES 2012 BONDS – Description of the Series 2012 Bonds."

The Authority

The Authority is a public benefit corporation of the State of New York (the "State"), created for the purpose of financing and constructing a variety of public-purpose facilities for certain governmental, educational and not-for-profit institutions. See "PART 9 – THE AUTHORITY."

The Institutions

Proceeds of the Series 2012 Bonds will be loaned to the Institutions as described above under the caption "Purpose of the Issue." Each of the Institutions is a Member of the Obligated Group.

The Catholic Health System and the Obligated Group

The current Members of the Obligated Group are: CHS, Kenmore, Mercy and Sisters of Charity. Each Member of the Obligated Group is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

The Members of the Obligated Group are each part of an integrated health care delivery system comprised of CHS and its subsidiaries consisting of hospitals, nursing homes, ambulatory care facilities, a home health care agency, and senior housing (the "System"). CHS provides administrative and management services for the System. No affiliates of the System other than the Members of the Obligated Group are obligated in any way with respect to the Series 2012 Bonds.

CHS is, directly or indirectly, the sole corporate member of each entity within the System, including the Institutions and serves as the Representative of the Obligated Group under the Master Indenture dated as of November 29, 2006 (the "Master Indenture") among the Members of the Obligated Group and The Bank of New York Mellon, as master trustee (the "Master Trustee").

Payment of the Series 2012 Bonds

The Series 2012 Bonds will be special obligations of the Authority payable solely from the Revenues, which include certain payments to be made by the Institutions under the Loan Agreements and from payments to be made by the Members of the Obligated Group under the Series 2012 Obligations issued under the Master Indenture, which payments are pledged and assigned to the Trustee (as defined herein). The payment obligations under the 2012A Loan Agreement with respect to the Series 2012A Bonds are general obligations of Kenmore secured by the Series 2012A Obligation and the payment obligations under the 2012B Loan Agreement with respect to the Series 2012B Bonds are general obligations of Mercy secured by the Series 2012B Obligation. The Series 2012A Obligation is issued pursuant to the Master Indenture, as supplemented by the Supplemental Indenture dated July 1, 2012 authorizing the issuance of the Series 2012A Obligation (the "2012A Supplemental Indenture"). The Series 2012B Obligation is issued pursuant to the Master Indenture, as supplemented by the Supplemental Indenture dated as of July 1, 2012 authorizing the issuance of the Series 2012B Obligation (the "Series 2012B Supplemental Indenture" and, together with the Series 2012A Supplemental Indenture, the "2012 Supplemental Indentures"), each by and among the Members of the Obligated Group and the Master Trustee. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS – Payment of and Security For the Series 2012 Bonds" and "Obligations under the Master Indenture."

Security for the Series 2012 Bonds

The Series 2012 Bonds will be secured by the funds and accounts authorized by the Resolutions and established under the Series 2012 Resolutions (with the exception of the Arbitrage Rebate Fund), and by the pledge and assignment made by the Authority, pursuant to the Resolutions, to the Trustee of the Revenues consisting of (i) payments to be made by the Institutions under the Loan Agreements and (ii) payments to be made by the Members of the Obligated Group under the Series 2012 Obligations.

The payment obligations under the 2012A Loan Agreement are general obligations of Kenmore and the payment obligations under the 2012B Loan Agreement are general obligations of Mercy. The Series 2012 Obligations are general, joint and several obligations of the Members of the Obligated Group, secured by a security interest in the Gross Receipts of each Member of the Obligated Group (see Appendix C hereto), by mortgages on certain property which includes the core hospital facilities of the Institutions (collectively, the "2012 Mortgages") and by mortgages previously granted by the Institutions and Sisters of Charity in connection with the Prior Bonds (collectively, the "Existing Mortgages", and together with the 2012 Mortgages, the "Mortgages") on certain property of the Institutions and Sisters of Charity (the "Existing Mortgaged Property") on a parity basis with all other Obligations issued under the Master Indenture, including the Obligations relating to the Series 2006 Bonds and the Series 2008 Bonds, respectively (collectively, the "Prior Obligations").

The Series 2012 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 2012 Bonds, see "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS."

The Master Indenture

Each Member of the Obligated Group 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 (including the Series 2012 Obligations) is subject to the satisfaction of certain financial covenants set forth in the Master Indenture that bind all Members of the Obligated Group. Additional financial covenants are set forth in the Supplemental Indentures which are subject to amendment, modification and waiver without the consent of or notice to holders of the Series 2012 Bonds.

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 general, joint and several obligation of each Member of the Obligated Group secured on a parity basis with the Series 2012 Obligations and all other Obligations hereafter issued under the Master Indenture. All Obligations under the Master Indenture are secured by the security interest granted to the Master Trustee in the Gross Receipts of the Members of the Obligated Group and the Mortgages granted to the Master Trustee.

In addition, under certain conditions, the Members 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 a Lien on Property to the extent such Lien is permitted under the Master Indenture, including a Lien on Excluded Property. See "Appendix E - Summary of Certain Provisions of the Master Indenture and the 2012 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 Members of the Obligated Group. The Holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series. Each Series of Additional Bonds shall be secured by an Obligation issued under the Master Indenture secured on a parity basis with all other Obligations.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2012 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 2012 Resolutions, the Loan Agreements, the Master Indenture, the 2012 Supplemental Indentures and the Series 2012 Obligations. Copies of the Act, the Resolution, the Series 2012 Resolutions, the Loan Agreements, the Master Indenture, the 2012 Supplemental Indentures and the Series 2012 Obligations are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreements," "Appendix D - Summary of Certain Provisions of the Resolutions" and "Appendix E - Summary of Certain Provisions of the Master Indenture and the 2012 Supplemental Indentures" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of and Security for the Series 2012 Bonds

The Series 2012 Bonds issued under the General Resolution are special obligations of the Authority. The principal, Sinking Fund Installments, purchase price and Redemption Price, if any, of and interest on the Series 2012 Bonds are payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established by the Series 2012 Resolutions. The Revenues consist of the payments required to be made by the Institutions under the Loan Agreements or to be made by the Obligated Group under the Series 2012 Obligations to be issued with respect to the Series 2012 Bonds and to maintain the Debt Service Reserve

Fund at its requirement. The Revenues have been assigned by the Authority to the Trustee for the benefit of the holders of the Series 2012 Bonds.

The payment obligations under the 2012A Loan Agreement are general obligations of Kenmore and the payment obligations under the 2012B Loan Agreement are general obligations of Mercy. The Authority has directed the Institutions, and the Institutions have agreed, to make the payments under the Loan Agreements directly to The Bank of New York Mellon, as trustee for the Series 2012 Bonds (the "Trustee"). Any payments made on the Series 2012 Obligations issued with respect to the Series 2012 Bonds shall also be made directly to the Trustee. The Loan Agreements obligate the Institutions to make monthly payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the Series 2012 Bonds as they become due. Each payment is to be equal to one-sixth of the interest coming due on the next succeeding interest payment date and one-twelfth of the principal and Sinking Fund Installments coming due on or prior to the next succeeding principal or sinking fund payment date. See "PART 3 – THE SERIES 2012 BONDS – Redemption and Purchase in Lieu of Redemption Provisions."

The Series 2012 Obligations are joint and several general obligations of each Member of the Obligated Group. Payments to be made by the Obligated Group pursuant to the Series 2012 Obligations to the Trustee for the benefit of the Series 2012 Bondholders constitute Revenues pledged to the Trustee. See "PART 2- SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS – Obligations under the Master Indenture."

Security for the Series 2012 Bonds

The Series 2012A Bonds will be secured by the payments described above to be made under the 2012A Loan Agreement and the Series 2012B Bonds will be secured by the payments described above to be made under the 2012B Loan Agreement, all funds and accounts authorized under the Resolution and established by the Series 2012 Series Resolutions (with the exception of the Arbitrage Rebate Fund), and payments to be made by the Obligated Group under the Series 2012 Obligations. Pursuant to the terms of the Resolution, the funds and accounts established and pledged by each Series 2012 Resolution secure only the applicable Series 2012 Bonds, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. See "Appendix D – Summary of Certain Provisions of the Resolution."

Debt Service Reserve Funds

The Series 2012 Resolutions each establish a separate Debt Service Reserve Fund for the Series 2012A Bonds and the Series 2012B Bonds, respectively, to be funded at the time of the delivery of each series of Series 2012 Bonds. Each Debt Service Reserve Fund is to be funded in an amount equal to the Debt Service Reserve Fund Requirement for the applicable series of Series 2012 Bonds. See Appendix A for the definition of the Debt Service Reserve Fund Requirement. Each Debt Service Reserve Fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest for that applicable series of the Series 2012 Bonds. Any payments to be made by an Institution to restore a Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement are to be made directly to the Trustee for deposit to such Debt Service Reserve Fund. See "Appendix D – Summary of Certain Provisions of the Resolution."

Moneys in the Debt Service Reserve Fund for a particular series of the Series 2012 Bonds are to be withdrawn and deposited in the Debt Service Fund for that series of Series 2012 Bonds whenever the amount in the Debt Service Fund, on the fourth (4^{th}) Business Day prior to an interest or principal payment date for the applicable series of the Series 2012 Bonds, is less than the amount that is necessary to pay the principal and Sinking Fund Installments of and interest on the Series 2012 Bonds payable on such interest or principal payment date and Redemption Price or purchase price of such Series 2012 Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption. The Resolution requires that the Institutions restore the Debt Service Reserve Funds to their requirements by paying the amount of any deficiency to the Trustee within five (5) days after receiving notice of a deficiency. Moneys in each Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement may be

withdrawn and applied in accordance with the Resolution. See "Appendix D – Summary of Certain Provisions of the Resolution – Debt Service Reserve Fund."

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

The Series 2012 Obligations

Payment of the principal of, redemption price of or purchase price in lieu of redemption and interest on the Series 2012 Bonds when due, and payment when due of the obligations of the Institutions to the Authority under the Loan Agreements, will be secured by payments made by the Members of the Obligated Group pursuant to the Series 2012 Obligations. The Series 2012 Obligations will be issued to the Authority, which will assign all payments under the Series 2012 Obligations to the Trustee for the benefit of the Bondholders. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 BONDS – Obligations under the Master Indenture" herein.

Events of Default and Acceleration under the Resolution

The following constitute events of default under the Resolution with respect to an applicable series of the Series 2012 Bonds: (i) a default by the Authority in the payment when due of the principal, Sinking Fund Installments or Redemption Price, if any, of or interest on such series of Series 2012 Bonds; (ii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in such series of the Series 2012 Bonds or in the Resolution or in the Series 2012 Resolutions which continues for thirty (30) days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee's discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof); (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 such series of the Series 2012 Bonds from gross income under the Code; or (iv) an "Event of Default," as defined in the Loan Agreements, shall have occurred and is continuing and all sums payable by an Institution under the respective Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of an Institution to make payment under a Loan Agreement shall not constitute an Event of Default under such Loan Agreement if timely payment of the respective Series 2012 Obligation is made by the Obligated Group in place of the payment due under such Loan Agreement. If an Event of Default occurs under the Master Indenture or under any Obligation issued thereunder, such default shall constitute an Event of Default under each Loan Agreement. Unless all sums payable by an Institution under a Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an Event of Default under such Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default occurs and continues (except with respect to a default described in clause (iii) above), the Trustee shall, upon the written request of the holders of not less than 25% in principal amount of an applicable series of the Series 2012 Bonds, by written notice to the Authority, declare the principal of and interest on such series of the Series 2012 Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of such notice, such principal, Sinking Fund Installments 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 the Series 2012 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the holders within thirty (30) days, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, Sinking Fund Installment or

Redemption Price of, or interest on, any of the Series 2012 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 2012 Bonds.

Additional Bonds

In addition to the Series 2012 Bonds and the Prior Bonds, the Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other specified purposes including refunding Outstanding Bonds or other notes or bonds issued on behalf of any Member of the Obligated Group.

Obligations under the Master Indenture

General

In addition to other sources of payment described herein, principal of, redemption price of, purchase price in lieu of redemption, and interest and any redemption premium on the Series 2012 Bonds will be payable from moneys paid by the Institutions and the other Members of the Obligated Group pursuant to the Series 2012 Obligations. The Series 2012 Obligations will be issued to the Authority, which will assign all payments under the Series 2012 Obligations to the Trustee as security for the payment of the principal of, redemption price of, purchase price in lieu of redemption, and interest on the Series 2012 Bonds. Concurrently with the issuance of the Series 2012 Bonds, the Obligated Group will issue its Series 2012 Obligations pursuant to the Master Indenture.

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

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 2012 OBLIGATIONS (I.E., THE MORTGAGES AND THE GROSS RECEIPTS PLEDGE) ON A PARITY WITH SUCH OBLIGATIONS, AND IN CERTAIN CIRCUMSTANCES THE LIEN ON GROSS RECEIPTS MAY BE RELEASED IN PART TO SECURE SHORT-TERM INDEBTEDNESS OR TO IMPLEMENT A SALE OF SUCH GROSS RECEIPTS, AND THE LIEN OF THE MORTGAGES MAY BE RELEASED IN WHOLE OR IN PART UNDER CERTAIN CONDITIONS AS SET FORTH HEREIN. 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 2012 BONDS.

Security for the Series 2012 Obligations

Pursuant to the Master Indenture, each Obligation issued thereunder will be a joint and several general obligation of the Obligated Group and any future Member of the Obligated Group. Under the Master Indenture, the Members of the Obligated Group may not create or suffer to be created any Lien on Property other than Permitted Liens. Among other Permitted Liens, the Liens created by the Mortgages and by the pledge of Gross Receipts are Permitted Liens. The liens created by the Mortgages include security interests in the Mortgaged Property (as defined herein). Other Permitted Liens include liens on equipment purchased with permitted Indebtedness and any lien on Excluded Property, as further described in "Appendix E - Summary of Certain Provisions of the Master Indenture and the 2012 Supplemental Indentures - Limitations on Creation of Liens". The enforcement of the Obligations may be limited by (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and (v) federal bankruptcy

laws, State of New York receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture. See "PART 8 – RISK FACTORS AND REGULATORY CONSIDERATIONS THAT MAY AFFECT THE OBLIGATED GROUP – Enforceability of the Master Indenture."

Security Interest in Gross Receipts

As security for its obligations under the Master Indenture, each Member of the Obligated Group must pledge and grant to the Master Trustee a security interest in such Member's Gross Receipts. Gross Receipts are defined to include all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, including, without limitation, contributions, donations, and pledges whether in the form of cash, securities or other personal property, and the rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, health-care-insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (A) paying debt service on an Obligation or (B) meeting any commitment of a Member of the Obligated Group under a Loan Agreement; (ii) all receipts, revenues, income and other moneys received by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property; and (iii) insurance proceeds relating to assets subject to a capital lease permitted under the Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee. Excluded Property means any real property that is not now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services.

2012 Mortgages

To secure payments required to be made by the Members of the Obligated Group under the Series 2012 Obligations issued under the Master Indenture, and to secure all other Obligations, the Institutions have each executed and delivered the 2012 Mortgages on certain of their property (the "Kenmore Mortgaged Property" and the "Mercy Mortgaged Property" and, together with the Existing Mortgaged Property, the "Mortgaged Property") to the Master Trustee, which 2012 Mortgages include a security interest in certain fixtures, furnishings and equipment located thereon. The Kenmore Mortgaged Property consists of Kenmore's main campus, including the primary site for each inpatient facility of Kenmore. The Mercy Mortgaged Property consists of Mercy's main campus, including the primary site for each inpatient facility of Mercy. See "PART 7 – THE OBLIGATED GROUP" herein for further information regarding such core hospital facilities. The 2012 Mortgages will secure on an equal and ratable basis all Obligations issued under the Master Indenture, including but not limited to the Series 2012 Obligations and the Prior Obligations. In addition, the Master Trustee is permitted to release or subordinate certain portions of real property and improvements constituting Health Care Facilities (as defined in the Master Indenture) from the lien of the 2012 Mortgages under certain conditions set forth in the Master Indenture, which include but are not limited to releases for fair market value of property that does not materially detract from the utility of the Health Care Facilities and the proceeds of which are applied to the operation, maintenance or improvement to the Health Care Facilities or to the pro rata prepayment of the Obligations then outstanding. See "Appendix E – Summary of Certain Provisions of the Master Indenture and the 2012 Supplemental Indentures."

In addition, under the Master Indenture each Member of the Obligated Group is required to grant to the Master Trustee a mortgage on all Health Care Facilities owned by such Member that are either: (i) financed or refinanced with the proceeds of debt secured by an Obligation issued pursuant to the Master Indenture; or (ii) owned by a new Member of the Obligated Group at the time that such Member is admitted to

the Obligated Group (subject to any liens or security interests permitted to remain outstanding under the Master Indenture).

Other Indebtedness

The Members of the Obligated Group may issue additional Obligations under the Master Indenture that are secured on a parity with the Series 2012 Obligations and the Prior Obligations by the pledge of Gross Receipts and by the Mortgages. See "Appendix E – Summary of the Certain Provisions of the Master Indenture and the 2012 Supplemental Indentures – Limitations on Indebtedness" for a description of the conditions under which the Members of the Obligated Group may issue additional Obligations under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the Members of the Obligated Group may incur debt in the form of Indebtedness incurred by the Members of the Obligated Group individually that is not evidenced or secured by an Obligation issued under the Master Indenture. Such borrowing may be secured by liens on Property permitted under the Master Indenture, including without limitation liens on Excluded Property, without limit, or accounts receivable. See "Appendix E – Summary of Certain Provisions of the Master Indenture and the 2012 Supplemental Indentures" for a description of various financial covenants applicable to the Institutions and any other Members of the Obligated Group.

The Institutions have certain Indebtedness outstanding. See "Appendix B – Consolidated Financial Statements of Catholic Health System, Inc. and Subsidiaries as of December 31, 2011 and 2010" at Note #10 therein.

THE SERIES 2012 BONDS ARE NOT A DEBT OF THE STATE NOR WILL THE STATE BE LIABLE THEREON. THE AUTHORITY HAS NO TAXING POWER. THE AUTHORITY HAS NEVER DEFAULTED IN THE TIMELY PAYMENT OF PRINCIPAL OF OR INTEREST ON ITS BONDS OR NOTES. SEE "PART 9 – THE AUTHORITY."

PART 3 - THE SERIES 2012 BONDS

General

The Series 2012 Bonds will be issued and outstanding pursuant to the Resolution and the Series 2012 Resolutions. The Series 2012 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2012 Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2012 Bonds, payments of the principal, Purchase Price and Redemption Price of and interest on the Series 2012 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Series 2012 Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2012 Bonds, the Series 2012 Bonds will be exchangeable for fully registered Series 2012 Bonds in any authorized denominations without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See "Book-Entry Only System" below and "Appendix D – Summary of Certain Provisions of the Resolution."

Description of the Series 2012 Bonds

The Series 2012 Bonds will be dated their date of issuance. The Series 2012 Bonds will mature and will accrue interest from their date at the rates and at the times set forth on the inside cover page of this Official Statement, payable semiannually on each January 1 and July 1, commencing January 1, 2013. The Series 2012 Bonds will be offered as fully registered Bonds in denominations of $5,000 or any integral multiples thereof. Interest on the Series 2012 Bonds will be computed on the basis of a year of twelve 30-day months. The Series 2012 Bonds may be exchanged for other Series 2012 Bonds in any other authorized

denominations upon payment of a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange and for the cost of preparing the new bond, and otherwise as provided in the Resolution. The Record Dates for the Series 2012 Bonds are December 15 and June 15. The Authority will not be obligated to make any exchange or transfer of Series 2012 Bonds (i) during the period beginning on the Record Date next preceding an Interest Payment Date for the Series 2012 Bonds and ending on such Interest Payment Date or (ii) after the date next preceding the date on which the Trustee commences selection of Series 2012 Bonds for redemption.

Redemption and Purchase in Lieu of Redemption Provisions

The Series 2012 Bonds are subject to redemption and purchase in lieu of redemption as described below.

Optional Redemption

The Series 2012 Bonds maturing on or after July 1, 2023 are subject to optional redemption prior to maturity, at the election or direction of the Authority, on or after July 1, 2022 in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Redemption

The Series 2012 Bonds are also subject to redemption prior to maturity, in whole or in part, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, at the option of the Authority, on any interest payment date, from (i) the proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Mortgaged Property, and which proceeds are not otherwise applied as permitted under the Master Indenture; and (ii) from moneys on deposit with the Trustee upon abandonment of all or a portion of the Series 2012 Projects due to a legal or regulatory impediment.

Mandatory Redemption

In addition, the Series 2012 Bonds are subject to redemption, in part, on each July 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of Series 2012 Bonds specified for each of the years shown below:

Series 2012A Bonds
Maturing on July 1, 2022

Year	Amount	Year	Amount
2019	$375,000	2021	$410,000
2020	400,000	2022*	425,000

Series 2012A Bonds
Maturing on July 1, 2027

Year	Amount	Year	Amount
2023	$440,000	2026	$495,000
2024	460,000	2027*	515,000
2025	475,000		

* Final maturity

Series 2012A Bonds
Maturing on July 1, 2032

Year	Amount	Year	Amount
2028	$535,000	2031	$620,000
2029	565,000	2032*	650,000
2030	590,000		

Series 2012A Bonds
Maturing on July 1, 2039

Year	Amount	Year	Amount
2033	$685,000	2037	$825,000
2034	715,000	2038	865,000
2035	750,000	2039*	905,000
2036	785,000		

Series 2012B Bonds
Maturing on July 1, 2022

Year	Amount	Year	Amount
2014	$70,000	2019	$80,000
2015	70,000	2020	85,000
2016	75,000	2021	85,000
2017	75,000	2022*	90,000
2018	80,000		

Series 2012B Bonds
Maturing on July 1, 2032

Year	Amount	Year	Amount
2023	$90,000	2028	$120,000
2024	95,000	2029	125,000
2025	100,000	2030	130,000
2026	105,000	2031	135,000
2027	110,000	2032*	150,000

Series 2012B Bonds
Maturing on July 1, 2039

Year	Amount	Year	Amount
2033	$150,000	2037	$180,000
2034	155,000	2038	190,000
2035	165,000	2039*	195,000
2036	175,000		

* Final maturity

Purchase in Lieu of Optional Redemption

The Series 2012 Bonds are subject to purchase at the election of the Institutions with the written consent of the Authority, prior to maturity, on the same terms that would apply to the Series 2012 Bonds if the Series 2012 Bonds were then being optionally redeemed.

General

The Authority may from time to time direct the Trustee to purchase Series 2012 Bonds with moneys in the Debt Service Fund for each respective series of Series 2012 Bonds, at or below par plus accrued interest to the date of such purchase, and apply any Series 2012 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on such Series 2012 Bonds. The Institutions also may purchase Series 2012 Bonds and apply any Series 2012 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2012 Bonds. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's Series 2012 Bonds will be reduced for such year.

Selection of Bonds to be Redeemed

In the case of redemptions of the Series 2012 Bonds, other than mandatory redemptions, the Authority will select the principal amounts and maturities (including any Sinking Fund Installments) of the Series 2012 Bonds to be redeemed. If less than all of the Series 2012 Bonds of a maturity are to be redeemed, the Series 2012 Bonds to be redeemed will be selected by the Trustee, by lot as provided in the Resolution.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2012 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any Series 2012 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten (10) business days prior to the date such notice is given. The failure of any such registered owner of a Series 2012 Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2012 Bond.

If on the redemption date moneys for the redemption of the Series 2012 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, and if notice of redemption has been mailed, then interest on such Series 2012 Bonds or portions thereof will cease to accrue from and after the redemption date and such Series 2012 Bonds will no longer be considered to be Outstanding.

In addition, any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal of, premium, if any, and interest on the Series 2012 Bonds to be redeemed and that if such moneys are not so received, such notice shall be of no force and effect and such Series 2012 Bonds shall not be required to be redeemed.

Notice of Purchase in Lieu of Optional Redemption

Notice of the purchase of the Series 2012 Bonds as described under "Purchase in Lieu of Optional Redemption" above will be given in the name of an Institution to the registered owners of the respective series of Series 2012 Bonds to be purchased by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the purchase date specified in such notice. The Series 2012 Bonds to be purchased are required to be tendered to the Trustee on the date specified in such notice. Series 2012 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event Series 2012 Bonds are called for purchase in lieu of an optional redemption, such purchase shall not operate to

extinguish the indebtedness of the Authority evidenced thereby and such Series 2012 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest and shall continue to be subject to optional redemption as described herein.

The obligation of an Institution to purchase a Series 2012 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the purchase price for all of the Series 2012 Bonds of that series to be purchased on the purchase date. If sufficient money is available on the purchase date to pay the purchase price of the Series 2012 Bonds to be purchased, the former registered owners of such Series 2012 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the purchase price. If sufficient money is not available on the purchase date for payment of the purchase price, the Series 2012 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the purchase date, who will be entitled to the payment of the principal of and interest on such Series 2012 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2012 Bonds are to be purchased, the Series 2012 Bonds to be purchased will be selected by lot in the same manner as Series 2012 Bonds to be redeemed in part are to be selected.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each Series 2012A Bond and for each Series 2012B Bond, respectively, 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"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 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 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in

the Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 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 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 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 2012 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2012 Bond maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2012 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2012 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2012 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. None of the Authority, the Trustee or the Obligated Group will have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Series 2012 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2012 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and

disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2012 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Series 2012 Bond certificates will be printed and delivered to DTC.

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

Each person for whom a Participant acquires an interest in the Series 2012 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 of DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NONE OF THE AUTHORITY, THE TRUSTEE OR THE OBLIGATED GROUP WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2012 BONDS.

So long as Cede & Co. is the registered owner of the Series 2012 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2012 Bonds (other than under the caption "PART 12 - TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2012 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the Trustee to DTC only.

For every transfer and exchange of Series 2012 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2012 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2012 Bonds or (ii) a continuation of the requirement that all of the Outstanding Series 2012 Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Series 2012 Bond certificates will be delivered as described in the Resolutions and the Bond Series Certificate.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. Neither the Authority, the Obligated Group, the Trustee nor the Underwriter make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITER CANNOT AND DO NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE

GIVEN TO THE OWNERS OF THE SERIES 2012 BONDS UNDER THE RESOLUTIONS; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2012 BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2012 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2012 BONDS; OR (VI) ANY OTHER MATTER.

PART 4 - THE SERIES 2012 PROJECTS

Series 2012A Project

The Series 2012A Bonds are being issued to (a) finance the cost of constructing, reconstructing and equipping certain improvements to Kenmore's existing approximately 347,661 square foot hospital facility located at 2950 Elmwood Avenue, Kenmore, New York, consisting of (i) a new two-story addition, which includes (A) approximately 19,000 sq. ft. on the first floor to house Kenmore's Emergency Department including (1) 25 new treatment rooms, (2) 2 resuscitation rooms, (3) 2 triage rooms, (4) a private registration area, (5) a discharge room, (6) a new ambulance entrance and (7) a new ambulatory patient entrance, (B) an approximately 14,794 sq. ft. shell space on the second floor and (C) approximately 16,000 sq. ft. basement; (ii) renovation of approximately 8,500 square feet of existing space on the first floor and basement plus approximately 390 sq. ft on the second floor including installation of plumbing, medical gas, fire protection, heating, ventilating, air conditioning and electrical lighting power systems and services; (iii) demolition of a house on Kenmore's campus and expansion of the adjacent parking lot not to exceed 100 new parking spaces; (iv) sitework including utility relocation, lighting, paving and landscaping; (v) miscellaneous related infrastructure and renovation costs; (b) fund a deposit to the debt service reserve fund for the Series 2012A Bonds; (c) pay certain costs of issuance; and (d) fund capitalized interest (collectively, the "Series 2012A Project").

Series 2012B Project

The Series 2012B Bonds are being issued to (a) fund the cost of improvements to Mercy's existing approximately 381,000 square foot parking facility containing approximately 1026 spaces and located adjacent to Mercy's facility located at 565 Abbott Road, Buffalo, New York, consisting of (i) with respect to the Lorraine Avenue bridge site, installation of a new aluminum finish to the facades, north and south of the Lorraine Avenue bridge, extension of the façade above the roof to form a parapet, extension of the upper façade and parapet to the East side of existing elevator shaft, installation of a gas fired furnace and split system A/C unit and installation of a gas pipe on the bridge roof between Mercy and the garage; (ii) demolition of the existing East side elevator, site preparation for and installation of a new replacement elevator (the "East Elevator"), including removal and relocation of the existing first floor ramp office, excavation, foundation, structural, finish and related work necessary to complete a new elevator shaft and such other construction or renovation required by applicable elevator code requirements and installation of elevator queue, environmentally controlled vestibules at all levels; (iii) sitework for and installation of new elevator equipment (the "West Elevator") including a new roof hatch and such other construction or renovation as required by applicable elevator code requirements; (iv) select wind control closures on the south and west exposure openings; (v) garage lighting improvements/replacements; (vi) replacement entry/exit gates and supporting electronic computer system; (vii) miscellaneous related infrastructure and renovation costs; and (viii) wayfinding improvements (signage); (b) fund a deposit to the debt service reserve fund for the 2012B Bonds; and (c) pay certain costs of issuance (collectively, the "Series 2012B Project").

PART 5 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS

The following table sets forth the amount coming due on each principal and interest payment date during each twelve-month period ending June 30 of the fiscal years shown for (i) the payment of the principal and Sinking Fund Installments of the Series 2012 Bonds, payable on July 1 of each such period and the interest

payments coming due during each such period with respect to the Series 2012 Bonds; (ii) the total aggregate debt service payments coming due during such period with respect to all Outstanding Bonds, including the Series 2012 Bonds; (iii) the aggregate debt service payments coming due on other Obligated Group indebtedness; and (iv) the total aggregate debt service which includes the Series 2012 Bonds, the Prior Bonds and other Obligated Group indebtedness.

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	Series 2012A Bonds			Series 2012B Bonds			Other Debt Under MTI[1]			Total Debt[3]
Year Ending June 30	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Interest [2]	Debt Service	Total Debt Service
2012	-	-	-	-	-	-	$3,860,000	$3,895,774	$7,755,774	$7,755,774
2013	-	$596,523	$596,523	-	$136,037	$136,037	4,010,000	3,695,993	7,705,993	8,438,554
2014	$330,000	615,325	945,325	$70,000	140,325	210,325	4,180,000	3,499,524	7,679,524	8,835,174
2015	340,000	608,725	948,725	70,000	137,875	207,875	4,340,000	3,291,913	7,631,913	8,788,513
2016	350,000	598,525	948,525	75,000	135,425	210,425	4,515,000	3,080,345	7,595,345	8,754,295
2017	360,000	588,025	948,025	75,000	132,800	207,800	4,705,000	2,850,134	7,555,134	8,710,959
2018	370,000	577,225	947,225	80,000	130,175	210,175	4,905,000	2,618,541	7,523,541	8,680,941
2019	375,000	562,425	937,425	80,000	127,375	207,375	5,095,000	2,375,052	7,470,052	8,614,852
2020	400,000	549,300	949,300	85,000	124,575	209,575	5,300,000	2,124,654	7,424,654	8,583,529
2021	410,000	535,300	945,300	85,000	121,600	206,600	5,515,000	1,857,923	7,372,923	8,524,823
2022	425,000	520,950	945,950	90,000	118,625	208,625	6,305,000	1,585,334	7,890,334	9,044,909
2023	440,000	506,075	946,075	90,000	115,475	205,475	4,565,000	1,273,622	5,838,622	6,990,172
2024	460,000	488,475	948,475	95,000	110,975	205,975	4,750,000	1,043,372	5,793,372	6,947,822
2025	475,000	470,075	945,075	100,000	106,225	206,225	4,945,000	808,198	5,753,198	6,904,498
2026	495,000	451,075	946,075	105,000	101,225	206,225	1,150,000	564,785	1,714,785	2,867,085
2027	515,000	431,275	946,275	110,000	95,975	205,975	1,200,000	501,463	1,701,463	2,853,713
2028	535,000	410,675	945,675	120,000	90,475	210,475	1,260,000	448,529	1,708,529	2,864,679
2029	565,000	383,925	948,925	125,000	84,475	209,475	1,315,000	392,582	1,707,582	2,865,982
2030	590,000	355,675	945,675	130,000	78,225	208,225	1,375,000	334,382	1,709,382	2,863,282
2031	620,000	326,175	946,175	135,000	71,725	206,725	1,440,000	273,525	1,713,525	2,866,425
2032	650,000	295,175	945,175	150,000	64,975	214,975	1,510,000	209,874	1,719,874	2,880,024
2033	685,000	262,675	947,675	150,000	57,475	207,475	1,580,000	142,958	1,722,958	2,878,108
2034	715,000	230,138	945,138	155,000	50,350	205,350	1,650,000	68,943	1,718,943	2,869,431
2035	750,000	196,175	946,175	165,000	42,988	207,988	-	-	-	1,154,163
2036	785,000	160,550	945,550	175,000	35,150	210,150	-	-	-	1,155,700
2037	825,000	123,263	948,263	180,000	26,838	206,838	-	-	-	1,155,100
2038	865,000	84,075	949,075	190,000	18,288	208,288	-	-	-	1,157,363
2039	905,000	42,988	947,988	195,000	9,263	204,263	-	-	-	1,157,250

(1) Consists of the Series 2006 Bonds and the Series 2008 Bonds.

(2) Interest due is the aggregate of the net payments due under the Series 2006 and Series 2008 Swaps and current annual letter of credit expenses associated with the Series 2006 Bonds and the Series 2008 Bonds. The Series 2006 net swap payments are based upon a swap rate of 3.800%. The Series 2008 net swap payments are based upon a swap rate of 3.785%. Under the current letter of credit commitments, CHS pays annual letter of credit fees of 1.250% (expiring on November 29, 2014) relating to the Series 2006 Bonds and 0.625% (expiring on November 18, 2013) relating to the Series 2008 Bonds.

(3) Consists of the Series 2006 Bonds, the Series 2008 Bonds, the Series 2012A Bonds and the Series 2012B Bonds.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2012 Bonds:

Sources of Funds

	Series 2012A	Series 2012B
Principal Amount of Series 2012 Bonds	$14,235,000	$3,080,000
Net Original Issue Premium	2,453	14,578
Anticipated Equity Contribution	1,477,764	308,000
Total Sources	$15,715,217	$3,402,578
Uses of Funds		
Costs of the Series 2012 Project	$13,092,518	$2,999,042
Deposit to Debt Service Reserve Fund	953,782	206,368
Capitalized Interest	747,989	-
Costs of Issuance and Related Costs [(1)]	920,928	197,168
Total Uses	$15,715,217	$3,402,578

(1) Includes certain New York State Department of Health Fees, as well as fees and expenses of Bond Counsel and counsel to the Obligated Group, rating agency fees, underwriter's discount, bond issuance charges, and Trustee and Master Trustee fees.

PART 7 – THE OBLIGATED GROUP

Introduction

The System is a fully integrated healthcare system led by CHS serving the residents of Erie County, New York and its surrounding counties, providing healthcare to nearly half-a-million Western New Yorkers. Ministries of the System include three hospitals on four campuses with 986 licensed beds, ten primary care centers, six diagnostic and treatment centers, a free-standing surgery center, five long-term care facilities, two adult homes, three home care agencies, an infusion pharmacy, a Program of All-inclusive Care for the Elderly (PACE), counseling services, social services, and behavioral health programs. The System has 35 access points into its care continuum and is one of the largest providers of cardiology services, and a leading provider of maternity services and care to the elderly in Western New York. The System brings together the strengths and talents of more than 8,100 full and part-time associates and nearly 2,100 physicians under one healthcare ministry that stretches across all areas of Western New York and captures over 41% of its primary market share.

Organization

The System is operationally organized as an "active" parent model with much of the management responsibilities performed by the parent, CHS. Each hospital within the System retains its own corporate existence and an independent board of directors. The management of an individual hospital is the responsibility of the hospital's Chief Executive Officer, while System management resides at CHS. For example, there is centralized planning, finance, human resources, legal services, information systems, marketing, public relations, community education, and managed care contracting at CHS.

Provided below is a table of System hospitals, home care programs, skilled nursing facilities and adult homes.

Entity	No. of Beds	Facility Type
Kenmore	184	Hospital
Mercy	389	Hospital
Sisters of Charity[1]	413	Hospital
McAuley Seton Home Care	--	Home Care
Mercy Home Care of WNY	--	Home Care
Sisters Long Term Home Health Care	--	Home Care
Infusion Pharmacy	--	Home Care
Father Baker Manor (Orchard Park)	160	Skilled Nursing Facility
McAuley Residence (Kenmore)	160	Skilled Nursing Facility
Mercy Nursing Facility at OLV (Lackawanna)[2]	84	Skilled Nursing Facility
St. Catherine Laboure (Buffalo)	80	Skilled Nursing Facility
St. Francis of Williamsville (Williamsville)	142	Skilled Nursing Facility
St. Elizabeth's Home (Lancaster)	117	Adult Home
St. Vincent's Home (Dunkirk)	40	Adult Home
PACE (Program for All Inclusive Care for Elderly)	--	Other
OLV Renaissance Corporation	--	Other

[1] Operating license includes Sisters of Charity - Main Street Campus and Sisters of Charity - St. Joseph Campus, formerly St. Joseph Hospital.

[2] Relocated from Mercy to the OLV Senior Neighborhood, Lackawanna, site of the former Our Lady of Victory Hospital.

Obligated Group

In November 2006, CHS executed a restructuring transaction related to certain outstanding debt of Mercy, Sisters of Charity, St. Joseph Hospital and Kenmore. In connection therewith, CHS formed an obligated group consisting of its four primary hospitals (Mercy, Sisters of Charity, St. Joseph Hospital, and Kenmore) and CHS. In November 2006, $68.8 million of Dormitory Authority of the State of New York ("DASNY") Catholic Health System Obligated Group Revenue Bonds, Series 2006 (the "Series 2006 Bonds") were issued. The Series 2006 Bonds refinanced legacy obligations of the Members of the Obligated Group. In November 2008, $24.7 million of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2008 (the "Series 2008 Bonds") were issued to fund a 48,300 square foot addition for a new emergency center at Mercy. No affiliate of CHS, other than the Members of the Obligated Group, is obligated for amounts due under the Series 2006 Bonds and the Series 2008 Bonds. During 2009, St. Joseph Hospital was merged into Sisters of Charity. As part of Sisters of Charity, the assets and liabilities of St. Joseph Hospital remain a part of the Obligated Group.

Sisters of Charity – 413 Beds

The merger of Sisters of Charity with St Joseph Hospital resulted in two campuses of Sisters of Charity: Sisters of Charity - Main Street Campus and Sisters of Charity - St. Joseph Campus.

Sisters of Charity - Main Street Campus – 290 Beds

Sisters of Charity - Main Street Campus, an acute care teaching hospital, was founded in 1848 as the first hospital in Buffalo, New York. The St. Catherine Labourè Health Care Center, an 80-bed residential healthcare facility, is located adjacent to the acute care facility.

Sisters of Charity offers medical and surgical inpatient care, obstetrics and gynecology (OB/GYN) services, an intensive care unit (ICU) and a critical care unit (CCU). Sisters specialty inpatient programs include a neuro unit, a vascular center, a bariatric surgical program, a cancer program (certified since 1997 as a community cancer center by the American College of Surgeons), and a comprehensive imaging services department, including magnetic resonance imaging (MRI) and computed tomography (CT) services. The hospital recently introduced robotic surgery and opened a new $7.6 million Emergency Department in the fall of 2011. Sisters of Charity is designated as a Stroke Center by the New York State Department of Health.

The hospital is a regional leader in women's services. In 2010, the hospital opened the M. Steven Piver, MD Center for Women's Health and Wellness, offering comprehensive care to women of all ages. The Special Birthplace constitutes a 40-bed maternity unit with a 20-bed Level III neonatal intensive care unit (NICU). The highly specialized nursing and medical staff have full capability and expertise in caring for premature and critically ill babies. The hospital also operates a complete inpatient and outpatient Breast Care Center.

As the oldest Graduate Medical Education teaching hospital in the region, Sisters of Charity has maintained successful training programs in Internal Medicine, Gynecology and Obstetrics, Osteopathic Medicine and Podiatric Medicine and Surgery. Medical students from University at Buffalo, New York College of Osteopathic Medicine, Lake Erie College of Osteopathic Medicine, Physician Assistant students from Daemen College, as well as nursing students from area schools receive training year-round in this hospital.

Sisters of Charity provides a full array of outpatient diagnostic and treatment services, both on-site and in the community including ambulatory surgery and primary care. The hospital also offers outpatient drug-free rehabilitation to chemically dependent adults at two satellite outpatient sites and two methadone maintenance program sites, one in Buffalo, New York and another in Rochester, New York.

Sisters of Charity - St. Joseph Campus – 123 Beds

Sisters of Charity - St. Joseph Campus has served the Town of Cheektowaga and its surrounding communities since 1960. The campus offers a complete range of services including a state-of-the-art, paperless Emergency Department providing 24-hour emergency care, cardiac care, inpatient and ambulatory surgery, physical therapy, radiology, and laboratory services. Specialized services include digestive health, sleep disorders, interventional radiology, and primary care. In 2009, the campus opened the System's first Advanced Wound Healing Center, a comprehensive wound care center with hyperbaric treatment.

Mercy – 389 Beds

Mercy consists of two acute care facilities: Mercy and Mercy - Orchard Park Division.

Mercy – 387 Beds

Established in 1904, Mercy is the center for acute care services in South Buffalo and the predominate provider to Buffalo's southern communities. Mercy's reach stretches south to Western New York's Southern Tier and to New York's most western communities. The Mercy Nursing Facility, an 84-bed skilled nursing facility, was relocated from the Mercy campus to a new facility within the OLV Senior Neighborhood, Lackawanna in 2008.

The hospital provides 24-hour emergency care with almost 44,000 visits annually. Comprehensive medical and surgical specialties at Mercy include cardiology, obstetrics, orthopedics, neurosurgery, gynecology, urology, and general surgical services. In 2002, Mercy opened an advanced cardiac program, offering open-heart surgery and interventional cardiac catheterization. The operating theater was expanded in 2004 and includes the addition of a dedicated electrophysiology (EP) suite.

The addition of state-of-the-art technology, including robotic surgery, a $1.5 million MRI, 64-slice CT technologies and bi-plane imagery, coupled with the growth of its heart program and the opening of its new $32 million Emergency Center in 2010, will assure the hospital's status as a leading tertiary center for the foreseeable future. A recently renovated maternity department includes a Level II intensive care nursery. The hospital is designated as a Stroke Center by the New York State Department of Health.

Mercy supplements Sisters of Charity in providing the training and teaching of medical residents and students and has provided a teaching program for Pediatrics and Nuclear Medicine residents. It also receives students from the University at Buffalo year-round. Combined, Mercy and Sisters of Charity train the equivalent of 57 full-time employees (FTEs) and at least 125 students each year.

The Western New York Medical Park, East Aurora Diagnostic and Treatment Center, Brierwood Medical Center, and six primary care centers round out the additional outpatient venues offered through Mercy. In 1999, Mercy ranked fifth in annual discharge volume among Western New York hospitals. Since 2004, Mercy has been first in that category and is the busiest hospital in Buffalo, New York.

Mercy - Orchard Park Division – 2 Beds

As an extension of Mercy, Mercy - Orchard Park Division offers a wide array of diagnostic services, with annual volumes of more than 73,000 referred ambulatory procedures. With more than 24,000 Emergency Room visits annually, the facility has the unique function of being a two-bed hospital and the designation of being the region's only freestanding emergency department. In January 2011, the System opened its second Advanced Wound Healing Center at this location.

Kenmore – 184 Beds

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

Kenmore also offers a variety of specialized services: nationally-recognized orthopedic services, including a dedicated knee and hip center; state-of-the-art imaging services, including interventional radiology; comprehensive rehabilitation services, including inpatient medical rehabilitation and an outpatient pulmonary rehabilitation program; an advanced neurosurgery program; and a modern, well-equipped endoscopy (GI) unit. Kenmore also offers an intensivist program in its ICU and inpatient hospitalist program to enhance care and service. The hospital is designated as a Stroke Center by the New York State Department of Health.

Licensure and Accreditation

The individual acute facilities of the System are accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") for a three-year period as shown in the table below:

Hospital	Year Accredited	Next Year of Accreditation
Kenmore *Kenmore, NY*	March 2012	2015
Mercy *Buffalo, NY*	June 2009	2012
Sisters of Charity *campuses in Buffalo, NY and Cheektowaga, NY*	July 2009	2012

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

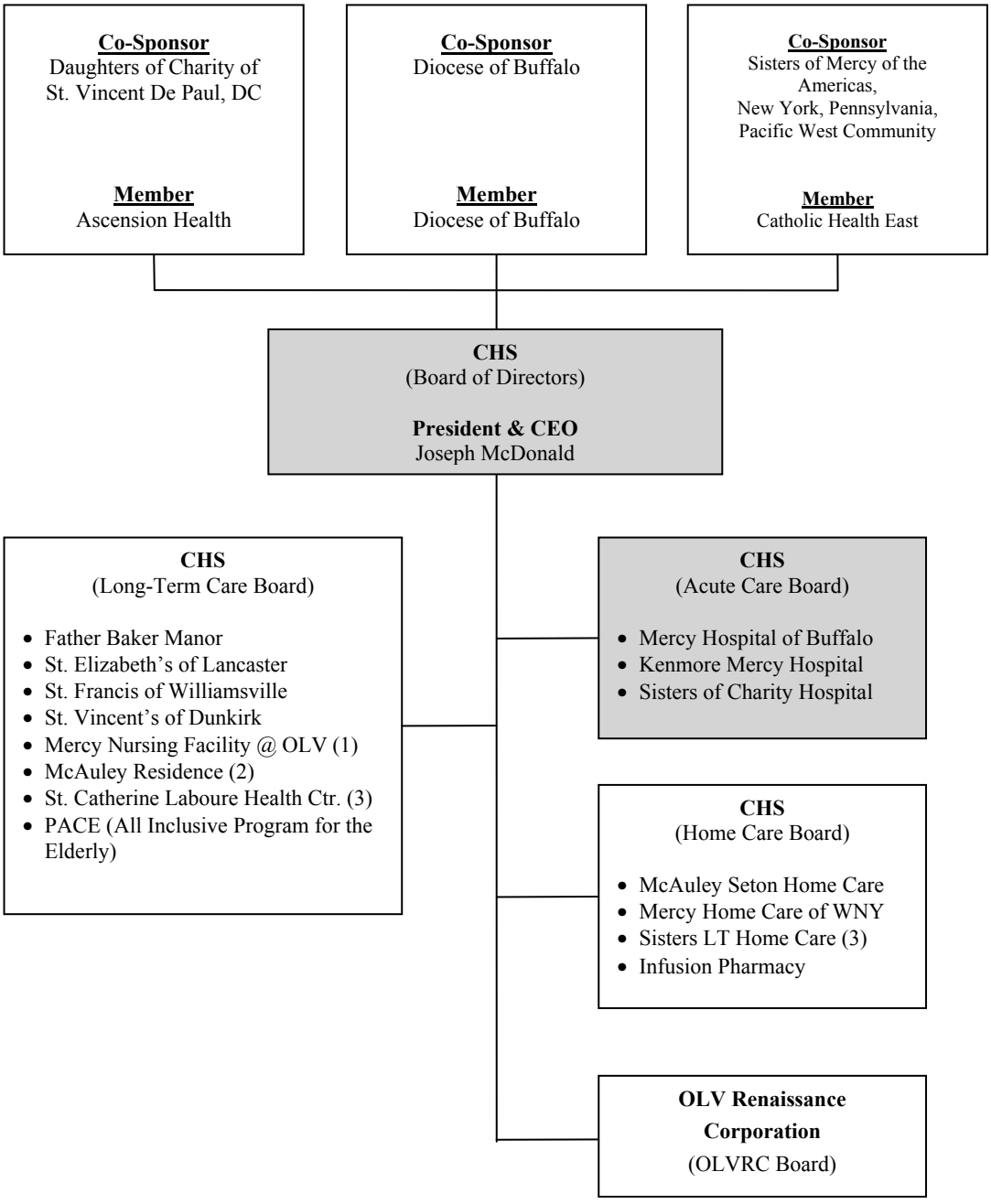
Corporate Members

CHS has three corporate members: Ascension Health, Catholic Health East and the Diocese of Buffalo (the "CHS Members") that have certain reserved powers to approve budgets, major capital expenditures, litigation settlements and the like, as well as the election of members of the Board (as defined herein). The CHS Members do not provide any financial support or guarantees to the Obligated Group and will not be obligated to make any debt service payment with respect to the Series 2012 Bonds. CHS participates in various programs offered by Catholic Health East, including pension plan administration, workers compensation insurance, professional and general liability insurance, and internal and external audit.

Sponsoring Authorities

CHS is currently co-sponsored by (1) the Diocese of Buffalo, (2) the Daughters of Charity of St. Vincent de Paul, and (3) the Sisters of Mercy of the Americas, New York, Pennsylvania, Pacific West Community (each a "Sponsoring Authority" and collectively the "Sponsoring Authorities"). The Sponsoring Authorities approve and interpret the purposes, statement of philosophy and mission of CHS and, by extension, the System as a whole. Each Sponsoring Authority has the same oversight role for each constituent institution regardless of historical roles or identity. The Sponsoring Authorities do not provide any financial support or guarantees to the Obligated Group and will not be obligated to make any debt service payment with respect to the Series 2012 Bonds. The Sponsoring Authorities have reserved powers similar to those of the corporate members.

CHS GOVERNANCE AND CORPORATE STRUCTURE



(1) Operates as a department of Mercy and is included in Mercy's financials.
(2) Operates as a department of Kenmore and is included in Kenmore's financials.
(3) Operates as a department of Sisters of Charity and is included in Sisters of Charity's financials.

Governance

CHS is governed by a Board of Directors (the "Board"), comprised of select business and community leaders. The appointed members of the Board (the "Directors") must at all times include at least one (1) representative of each of the Sponsoring Authorities. Directors may consist of physicians who are active members of the medical staff(s) of one or more of the System's acute care hospitals, individuals who have a history of service to any not-for-profit or tax exempt organization, understand and support the values, philosophy and mission of the System and the Sponsoring Authorities and supports cultural and ethnic diversity. One designee of each of the CHS Members is expected to attend and participate in meetings of the Board as a non-voting observer. The Board is divided into three classes and a new class is elected annually to a three (3) year term expiring in successive years, with officers being elected annually. The Directors serve without compensation. The Board exhibits a strong diversity of backgrounds, including bankers, investment managers, local businessmen, physicians, accountants, and community business leaders, among other interest groups. These extensive ties to the community provide the Board with a particularly keen insight into the needs of the communities the System serves, which is reflected in the System's strong market position.

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

System-wide Committees of the Board include: Finance, Quality Enhancement, Audit, Strategic Planning & Marketing, Mission Integration and Nominating. The Executive Committee is a standing committee of the Board. The Executive Committee is able to transact any regular business of the Board during the period between the meetings of the Board, subject to any prior limitation imposed by the Board, and with the understanding that all actions taken will be reported to the Board.

The current members of the Board are as follows:

Member	Occupation	Initial Appointment	Term Expiration
James R. Boldt [1]	Chairman & CEO, Computer Task Group	May 2008	May 2014
Carlton Brock	VP, St. Jude Medical	May 2009	May 2015
William K. Buscaglia Jr. [2]	Principal and Co-Owner, Dispirit Mosaic & Marble	May 2010	May 2013
Dennis Dombek [3]	Retired, President, JP Morgan Chase	January 2005	May 2014
Sr. Nancy Hoff, RSM*	President, Sisters of Mercy, Regional Community of Buffalo	March 1998	N/A
Li Lin, PhD	Professor, UB Department of Industrial Engineering	January 2008	May 2015
Joseph McDonald	President & CEO, Catholic Health System	By virtue of position	N/A
Kelli Arnold McLeod	VP, Health Care Finance, HSBC	May 2008	May 2014
John Notaro, MD	Physician, Buffalo Medical Group	May 2009	May 2015
Linus Ormsby	Retired, Niagara University, Communications & Public	May 2007	May 2013
Jack Quinn Jr.	President, Erie Community College	May 2008	May 2014

Member	Occupation	Initial Appointment	Term Expiration
Joseph Ralabate, MD	General Surgeon	May 2008	May 2014
Sharon Randaccio	President, Performance Management Partners	May 2009	May 2015
Arthur Russ Jr.	Attorney, Phillips Lytle LLP	May 2010	May 2013
Sr. Margaret Tuley, DC [4*]	Board Chair, Mt. St. Mary's Hospital and Health Center	November 2008	N/A
Cary Vastola, DO	General Practitioner, Primary Care of WNY	May 2007	May 2013
Cynthia Zane, EdD	President, Hilbert College	May 2009	May 2015
Msgr. Robert Zapfel*	Pastor, St. Leo the Great	June 2002	N/A

[1] Vice-Chair
[2] Treasurer
[3] Chair
[4] Secretary
* Representative from Sponsoring Authority

Conflicts of Interest Policy

CHS adheres to a formal conflict of interest policy requiring that any Director or any member of a committee with Board-delegated powers, who may qualify as an interested person (as defined in Article VIII Conflict of Interest in the by-laws of CHS), with respect to any transaction or arrangement involving CHS and its member organizations, exercise the utmost good faith, care and diligence in all transactions involving CHS. The policy also requires that such individuals will not use their positions or knowledge gained therefrom in any transaction or activity, nor shall they engage in any activities which might involve interest in conflict with those of CHS and its member organizations. The policy also requires an affirmative duty to disclose immediately to the Chairman of the Board, the President of CHS, or Corporate Compliance Officer, all knowledge of situations involving potential or actual conflicts of interest.

The Directors are required annually to review the aforementioned Conflict of Interest policy and file a statement indicating their familiarity therewith. Each Director, upon assuming his or her responsibilities at CHS, is advised of the policy.

EXECUTIVE MANAGEMENT

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

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

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

Joseph McDonald, President and Chief Executive Officer. Age 59.

As President and Chief Executive Officer of CHS, Mr. McDonald leads one of the two largest health systems in Western New York. Since coming to Buffalo in 2002, Mr. McDonald has led the System in a new strategic direction. Today, the System's programs, services, and its relationships with the medical community are better aligned to ensure the continued success of the Catholic healthcare ministry. During Mr. McDonald's tenure, the System has experienced a growth in services, the introduction of advanced technology, improved quality and safety, and a return to fiscal stability. As Chief Executive Officer, he has led efforts to turn the System's fiscal situation around, finishing the last eight years with a positive operating margin, while steadily increasing the System's charity care and community services contribution to nearly $47 million in 2010.

Mr. McDonald is a board officer of the Healthcare Association of New York State, and serves on its Executive, Compensation, Audit and Solutions Committees. He also serves on the regional policy board of the American Hospital Association and is a member of the board of directors of WNED and the HSBC Advisory Board.

A native of Knoxville, Tennessee, Mr. McDonald had been a health care executive in the Knoxville area for more than 20 years. He began his administrative career at Nashville Memorial Hospital as Assistant Administrator and later joined St. Mary's Medical Center in Knoxville, where he served as Senior Vice President. He also served as Executive Vice President and Chief Operating Officer of the Covenant Health/Fort Sanders Alliance in Knoxville.

James Dunlop, Executive Vice President for Finance and Chief Financial Officer. Age 42.

Mr. Dunlop has served as Executive Vice President for Finance and Chief Financial Officer of CHS since 2008. He has been in the healthcare field since 1996 and previously served as the VP Finance/Corporate Controller of the System from 2001-2008. Prior to that he served as the Director of Finance for CHS's Northtowns Acute Care facilities (Sisters of Charity, St. Joseph Hospital and Kenmore), Controller for Sisters of Charity and St. Joseph Hospitals, and Director of Reimbursement for Sisters of Charity.

Prior to his tenure with the System, Mr. Dunlop served as a health care consultant/auditor for Ernst and Young, LLP. Mr. Dunlop is a Certified Public Accountant and is a member of the Western New York HFMA. He earned his MBA with a dual concentration in Health Care Systems Management and Accounting from the University at Buffalo and his B.A. with a dual concentration in Economics/Public Policy from the University of Rochester.

Mr. Dunlop currently serves on the boards of Hilbert College and CHS while having previously served on the board of Mid-Erie Counseling and Treatment Services, a leading local provider of behavioral health services. He was one of 12 healthcare executives, age 40 and under, selected for *Modern Healthcar*e's "Up and Comers" honor in 2008 and was also named to *Business First*'s "Forty Under 40" list for his professional success and community involvement in addition to receiving CFO of the Year honors from *Business First* in the Nonprofit category for 2009.

Mark A. Sullivan, Executive Vice President and Chief Operating Officer. Age 44.

Mr. Sullivan has served as Executive Vice President and Chief Operating Officer of CHS since July 2007 and is responsible for the system-wide health care operations. Prior to his current role, he served since 2004 as President and Chief Executive Officer, Catholic Health Home Care Division, at which time he was also responsible for the System's Primary Care Centers. Mr. Sullivan has been in a leadership position with the System since 1994 and had previously served as Interim Chief Executive of Catholic Health Home Care, Chief Operating Officer, Director of Operations, and Director of Restructuring. Mr. Sullivan was Director Business Operations for Mercy Home Care, which was part of the Mercy Health System of Western New York. Mr. Sullivan is a Certified Home and Hospice Care Executive and was a Board Member for Home Care Association of New York State and served on its Policy Council. His professional affiliations include the American College of Health Care Executives, National Association of Home Care, and the Erie County Sheriff's Office Scientific Staff Reserve and serves on many community boards. He holds a Bachelor's Degree in Political Science-Criminal Justice and a Master's Degree in Public Administration - Health Care Management from Canisius College, Buffalo, New York.

Ministry Executives

Charles J. Urlaub, President and Chief Executive Officer, Mercy. Age 55.

Mr. Urlaub has been the President and Chief Executive Officer of Mercy for over three years. Prior to his appointment, he was with the Catholic Healthcare Partners (CHP) System headquartered in Cincinnati, Ohio, where he held a number of positions including Chief Administrative Officer - Mercy Hospital, Scranton, PA, and Interim President - St. Joseph's Hospital, Warren, Ohio. From 1998 through 2003, Mr. Urlaub held positions with Kaleida Health - Buffalo, as the Vice President, Strategic Services, Planning and Quality, and Vice President, Process Improvement. He held positions with Buffalo General Hospital from 1988-1998 as Vice President, Quality, and Assistant Vice President, Operations.

Mr. Urlaub started his career at St. Mary's Hospital in Rochester, New York, where he held a number of administrative positions including Vice President, Clinical & Support Services. Mr. Urlaub earned a Master's Degree in Business Administration and a Bachelor's of Science Degree from Rensselaer Polytechnic Institute.

He currently serves on the CHS Acute Care Board, the Mercy's Foundation Board, the Buffalo & Erie County Botanical Garden's Board as Audit Chair, the Western New York Healthcare Association Board as Secretary, D'Youville College Advisory Board and numerous other corporate boards.

Peter U. Bergmann, President and Chief Executive Officer, Sisters of Charity. Age 41.

Mr. Bergmann has been the President and Chief Executive Officer of Sisters of Charity for over four years and previously worked in Pottsville, Pennsylvania as the President and Chief Executive Officer of Good Samaritan Regional Medical Center, a ministry of Ascension Health. Before joining Good Samaritan, he was Assistant Chief Executive Officer/Chief Operating Officer for Berwick Hospital Center in Pennsylvania and held various leadership roles for Health Management Associates, Inc., at Lancaster Regional Medical Center and Community Hospital of Lancaster in Pennsylvania.

Mr. Bergmann has a Master's Degree in Health Administration degree from Cornell University and a dual Bachelor's Degree in Business Administration and Health Planning and Management from Alfred University. He is a Fellow of the American College of Healthcare Executives. Mr. Bergmann is currently the Treasurer of the Explore and More Children's Museum Board and is a member of the Cheektowaga Chamber of Commerce, the CHS Acute Care Board, the Catholic Health Home Care Board, the Cornell University Sloan Alumni Association, the Sisters Hospital Foundation Board and the Western New York Healthcare Association Board.

He was one of 12 healthcare executives, age 40 and under, selected for *Modern Healthcare's* "Up and Comers" honor in 2009 and was also named to *Business First*'s "Forty Under 40" list for his professional success and community involvement.

James M. Millard, President and Chief Executive Officer, Kenmore. Age 53.

James Millard was appointed to the position of President and Chief Executive Officer of Kenmore in January 2009. Prior to the appointment, he was President and Chief Executive Officer at St. Joseph Hospital since 2003. Mr. Millard previously served as the Vice President, Operations for St. Joseph Hospital from 2000 to 2003, and Vice President, Operations for the Northtown Hospitals (Sisters of Charity, St. Joseph Hospital and Kenmore) from 1999 to 2000.

He began his career in hospital administration in 1992, serving as the Vice President, Operations for Sisters of Charity for seven years (1992 to 1999). Mr. Millard is a registered pharmacist, and served as Director of Pharmacy for Sisters of Charity (1991-1992) and St. Joseph Hospital (1987-1991). Mr. Millard received his Bachelor's Degree in Pharmacy from the University at Buffalo and his Master's Degree in Business Administration from Medaille College in Buffalo, New York.

Christine J. Kluckhohn, PT, DPT, SCS, President and Chief Executive Officer, Continuing Care. Age 55.

Ms. Kluckhohn is President and Chief Executive Officer of CHS's Continuing Care division, which includes Senior Services (Long-Term Care, Adult Homes, OLV Renaissance), as well as, all rehabilitation services including Partners In Rehab & AthletiCare (sports medicine). She has served in the System's

ministries since 1986, beginning with supervisory roles in Rehabilitation Services at Mercy and CHS. She was named outpatient system director of Rehabilitation in 1999 and vice president of Rehabilitation Services, Partners In Rehab and AthletiCare in 2001. In 2005, she assumed her current role as President and Chief Executive Officer, Continuing Care.

Dr. Kluckhohn holds a dual major in Physical Therapy and Biology from Russell Sage-Albany Medical College. She received a Doctorate in Physical Therapy from Daemen College in 2005; and is completing a Masters Degree in Health Services Administration from D'Youville College. She is a Sports Certified Specialist by the American Physical Therapy Association (APTA). She is on the Adjunct Clinical Faculties at Daemen College, D'Youville College and the State University of New York at Buffalo.

As a long-standing member of the APTA, she has held various leadership positions in the Western New York District (secretary, corresponding secretary, and Nominating Committee) and at the New York State level (Peer Review and Practice Committees).

Joyce Markiewicz, President and Chief Executive Officer, Home Care. Age 53.

Ms. Markiewicz was appointed to the position of President and Chief Executive Officer for CHS's Home Care division in 2007. The Home Care Division includes three home care agencies, a home infusion pharmacy, a Program of All-inclusive Care for the Elderly (PACE), and a home response service. Prior to this appointment, she served as vice president of Operations for Catholic Health Home Care from 2005 to 2007. Her home care career began as a director of Clinical Services in 1991 and expanded in scope to include general manager and multi-site manager for Olsten Health Services and American Home Patient. Ms. Markiewicz is a registered nurse with a Bachelors Degree from D'Youville College and a Master's Degree in Business Administration from The University at Buffalo.

Shared Service Executives

Bartholomew Rodrigues, Senior Vice President, Mission Integration. Age 51.

Mr. Rodrigues joined CHS in January 2007 as a Senior Vice President of Mission Integration. Prior to this, Mr. Rodrigues served as a Regional Vice President of Mission and Ethics for Sisters of Charity of Leavenworth Health System, a Catholic-sponsored health system serving the Montana region. He is responsible for integrating the System's Mission, Vision and Values into all aspects of our organization's policies, practices, culture and decision making. He oversees Mission Integration, spirituality, pastoral services, ethics and social accountability. Mr. Rodrigues holds a Master's Degree in Management/Healthcare Administration from Southern Oregon University and Master's Degrees in Healthcare Ethics and Theology from Catholic Theological Union in Chicago.

Additionally he studied theology in Rome, Italy and earned a degree in engineering in Bombay, India. Prior to joining CHS, he also served as Service Area Director for Providence Health System in Southern Oregon, where he led the organization's mission, ethics, diversity, pastoral care, integrity/compliance and minority outreach programs. In this position, he coordinated and published the first national study in the United States on Spiritual Care and Chaplaincy Services, also authoring a book on the same topic. Mr. Rodrigues is active in several professional organizations and serves on numerous committees to promote mission, ethics and spiritual care in healthcare.

Brian J. D'Arcy, MD, Senior Vice President for Medical Affairs. Age 63.

Dr. Brian D'Arcy joined CHS in 1999. He is responsible for Medical Affairs and physician relations throughout the System. Dr. D'Arcy also has oversight responsibility for Quality and Patient Safety programs and activities, Infection Control and Graduate Medical Education. His active professional affiliations include The American College of Physician Executives, The American Society of Nuclear Cardiology and The American College of Cardiology (Fellow), the American College of Physicians (Fellow) and the American College of Healthcare Executives.

He is a founding Board member and currently serves as Vice-Chair of the Board of Directors of the Buffalo Niagara Health Quality Coalition. Dr. D'Arcy is board certified in Internal Medicine, Cardiovascular Disease, Nuclear Cardiology, and Critical Care Medicine. Dr. D'Arcy received his MD from the Georgetown

University School of Medicine and a Master's Degree in Healthcare Management from the Harvard School of Public Health.

Richard Ruh, MD, Senior Vice President, Service Lines. Age 50.

Dr. Richard Ruh joined CHS in January 2010 as Senior Vice President for Service Lines. He is responsible for leading and integrating the Service Line delivery model throughout the System and the continuum of health care in Western New York. Dr. Ruh is a life-long resident of Western New York and had been an active Family Physician in private practice for the past 19 years. Prior to assuming the Senior Vice President role, Dr. Ruh also served on the Board (2007-2009), served as Vice President of Medical Affairs at Mercy from 2003-2006, and served as a Board member of the Catholic IPA from 2001-2003.

His active professional affiliations include: The American Academy of Family Physicians; Clinical Instructor SUNY Buffalo School of Medicine; and the Federal Aviation Administration Aviation Medical Examiners. Dr. Ruh is board certified in Family Medicine. He received his MD from the SUNY at Buffalo School of Medicine and is completing a Master's Degree program in Business Administration at St. Bonaventure University.

Michael J. Moley, Vice President of Human Resources. Age 59.

Mr. Moley joined CHS in June of 2004. The Human Resource role includes personnel, compensation and benefits, organizational development, recruitment and retention, safety, associate health, labor relations and physician recruitment. He serves on the HANYS HR Council, the University at Buffalo WNY Nursing Workforce Collaborative and is one of the founders and a board member of the Health Sciences Charter School. Mr. Moley also serves on the Mission Committee of the Board and supports the Executive Compensation and Human Resources Committees.

Prior experience includes Vice President of Human Resources and Administration for the Dunlop Tire Corporation and Goodyear Dunlop Tires of North America. His career has included roles at the United Mine Workers Health and Retirement Fund and the Travelers Insurance Companies. Mr. Moley received his Bachelor's Degree from the SUNY at Brockport and a Master's Degree in Organizational Leadership from Medaille College, Buffalo, New York.

Maria A. Foti, Senior Vice President of Planning. Age 47.

Ms. Foti has served as Senior Vice President of Planning for CHS since 2007. Prior to that, she was Vice President of Planning and Marketing for CHS since its formation in 1998. Prior to the formation of CHS, she held the same position for Mercy Health System of Western New York. She started with Mercy Health System in 1988 as the Assistant Director of Planning and Marketing and has been promoted through the years to the position she currently holds. Ms. Foti's professional affiliations include the Society for Healthcare Strategy and Market Development and the Forum for Healthcare Strategists. She holds a Master's Degree in Health Administration from Cornell University and a Bachelor's Degree in Psychobiology from Hamilton College.

John Stavros, Senior Vice President of Marketing. Age 65.

Mr. Stavros has served as Senior Vice President of Marketing at CHS since 2007. He brings over 40 years experience specializing in developing a comprehensive marketing function in organizations which had not previously established the function. His positions have been at academic medical centers or multi-hospital systems in California and the Northeast; including Alta Bates/Sutter, UCSD Medical Center, National Medical Enterprises, Lehigh Valley Hospital and Health Network, and Cooper University Hospital, an academic medical center for the Robert Wood Johnson School of Medicine.

He has an extensive record of success in service line development for organizations which became high performing health services providers, developing new and innovative programs which exceed program and budget expectations. He also directs the communication function, including internal and external public relations and foundation initiatives, while serving in business development, repackaging existing services, and developing new service lines and programs to capture new volume. He has led his professional societies as a board member and served on several nationally recognized not-for-profit boards of directors. Mr. Stavros

holds a Bachelor's Degree in Journalism and Psychology from University of Massachusetts, and a Master's Degree in Health Administration from Duke University.

Nancy Sheehan, Vice President, Legal Services & General Counsel. Age 53.

Ms. Sheehan joined CHS in November of 2000 as System Director of Risk Management. She was appointed System Director of Risk Management and Legal Services in January, 2003; Vice President, Legal Services in 2008; and General Counsel in May of 2010. She is responsible for the oversight of the corporate legal affairs of the System. Ms. Sheehan also has direct oversight of Corporate Compliance, Risk Management and clinical research studies. She is also an adjunct associate professor for the University of Maryland University College.

Prior to working for CHS, Ms. Sheehan served as an Appeals Officer for the Center of Dispute Resolution. She earned the degree of Juris Doctor from SUNY at Buffalo Law School. Prior to law school, she worked as a Registered Nurse and was Nurse Administrator of Clearview Treatment Services at Mount St. Mary's Hospital. Ms. Sheehan serves on several community boards and her professional affiliations include the American Health Lawyers Association and the Erie County Bar Association.

Michael Galang, D.O., Chief Information Officer. Age 52.

Dr. Galang was named Chief Information Officer (CIO) of CHS in 2008 after serving as the Chief Medical Information Officer for three years. Prior to these positions, he served as the Medical Director for Clinical Quality of a 120-physician, multi-specialty group, and the Medical Director for a 25-physician, primary care group in Buffalo, New York.

Dr. Galang is board certified in Family Medicine and also practiced for about 20 years before assuming the CIO role full-time. He holds a Master's Degree in Medical Informatics from Northwestern University and a Master's Degree in Health Care Management from Harvard University. His medical degree is from Midwestern University, Chicago College of Osteopathic Medicine. He completed his Family Medicine Residency at the San Jose Medical Center/Stanford University and earned Bachelor of Arts Degrees from the University of California, San Diego in both Biology and Drama.

AWARDS AND HONORS

General

Consistently recognized by government agencies and independent rating firms, the System and its individual ministries have received numerous awards and honors for quality, safety, and innovation.

The System in 2012 again received the most five-star and quality Excellence Awards of any Western New York health provider from HealthGrades©, the nation's leading objective rating source studying patient outcome information.

The 2012 HealthGrades Healthcare Consumerism & Hospital Quality in America Study highlighted the System's excellence in coronary intervention, cardiac care and surgery at its Heart Center at Mercy, ranking it among the top 10 in New York State for Cardiac Surgery. Mercy also received a five-star rating for maternity care and gynecologic surgery, recognizing that the System is the only area health system that can treat both mothers and babies in the same hospital facility in the event of a critical-care or emergency situation.

Kenmore received HealthGrades Joint Replacement Excellence Award for the sixth year in a row, ranking it among the top five percent of hospitals in the nation and third in New York State. Kenmore also received a five-star rating for neurosurgery. Sisters of Charity received HealthGrades Joint Replacement Excellence Award and its first five-star rating in orthopedics, ranking it among the top 10 hospitals in New York State for Orthopedic Services.

For the fifth consecutive year, the System was named to the nation's list of most integrated healthcare networks, the "2012 IMS IHN (Integrated Health Network) 100" (Formerly the SDI IHN 100). The System ranked 42nd in the 2012 survey, and was the third-highest ranked health system in the Northeast. The ranking recognizes the 100 most integrated networks nationwide, graded annually on operations, quality, scope of services and efficiency.

The Heart Center at Mercy, the surgical center of the System's Cardiovascular Services program, was awarded a three-star national quality rating by the Society of Thoracic Surgeons (STS) for the period covering July 1, 2010 to June 30, 2011, which was the second consecutive rating period in which Mercy achieved a three-star rating. Less than 15% of the more than 1,000 participating hospitals across the country achieve a "three-star" rating – the highest award under the STS quality rating system – for heart bypass surgery, also called coronary artery bypass graft surgery or CABG.

Mercy was also recognized with the 2011 Pinnacle Award for Quality and Patient Safety by the Healthcare Association of New York State (HANYS). The award recognizes significant achievements in quality improvement and patient safety. Mercy was one of just three hospitals statewide selected for this honor.

Third Party Accolades

The following outlines many of the System's accolades:

- Best Heart Program in Western New York *(Consumer Reports)*
- Top 100 Integrated Health Networks, ranking #42 nationally on operations, quality, scope of services and efficiency (*IMS, nationally- recognized healthcare rating firm, 2008-2012)*
- Community Value 100 (Sisters of Charity) and Community Value Five-Star Awards (all System hospitals) for quality and value (*Cleverly + Associates, nationally-recognized healthcare financial consulting firm, 2008-2011)*
- New York State Designated Stroke Centers (The System has the area's largest network of Designated Stroke Centers at Mercy, Kenmore and Sisters of Charity) (*New York State Department of Health)*
- Blue Distinction® Centers for Cardiac Care, Spine Surgery, Knee and Hip Replacement, and Bariatric Surgery (*BlueCross Blue Shield)*
- Accredited Community Cancer Center (Sisters of Charity) for providing comprehensive, high quality care close to home *(American College of Surgeons Commission on Cancer)*
- 2011 Pinnacle Award for Quality and Patient Safety (Mercy) (*Healthcare Association of New York State)*
- Medical Rehabilitation Unit ranked in the Top 20% in the U.S. (Kenmore) (*Uniform Data System for Medical Rehabilitation, 2008-2010)*
- Interventional Cardiology Program at Mercy ranked best in region *(New York State Department of Health, 2010)*
- Program of Excellence for Cardiac Interventional Procedures (Mercy) *(Independent Health Association, 2009)*
- Three-star national quality rating for cardiac surgery (the highest category of quality) and among the top 14% of hospitals in the country (Heart Center at Mercy) (*Society of Thoracic Surgeons, national rating of 900 hospitals, 2008-2011)*

HealthGrades® Quality Excellence Awards and Five-Star Awards

In 2011, the System received more awards for quality from HealthGrades® than any other area provider as described below.

<u>Kenmore</u>

- Joint Replacement Excellence Award™

  2007-2012 – Top 5% in the nation, #3 in NY

- Five-Star Rated for Joint Replacement, Total Knee Replacement, Total Hip Replacement, Neurosurgery, GI Procedures and Surgeries

Mercy

- Coronary Intervention Excellence Award™

  2011-2012 – Top 10% in the nation, #10 in NY

- Prostatectomy Excellence Award™

  2012 – Top 10% in the nation, #5 in NY

- Surgery Excellence Award™
- Pediatric Patient Safety Excellence Award™ (2010)
- Five-Star rated for Coronary Bypass Surgery, Coronary Interventional Procedures, Gynecologic Surgery, Maternity Care, Back and Neck Surgery, Hip Fracture Treatment, Prostatectomy, Treatment of Sepsis, and Appendectomy.

Sisters of Charity

- Bariatric Surgery Excellence Award™

  2006-2011 – Top 5% in nation, #2 in NY

- Pediatric Patient Safety Excellence Award™ (2010)
- Joint Replacement Excellence Award™

  2012 – Top 10% in nation, #7 in NY

- Five-Star rated for Bariatric Surgery, Treatment of Heart Attack, Joint Replacement, Total Knee Replacement, Total Hip Replacement, Back and Neck Surgery, Appendectomy.

- *Source: HealthGrades®*

STRATEGIC DIRECTION

A renewed vision to "lead the transformation of healthcare in our communities," set the stage for the System's strategic planning process. With the goal of becoming a high performing health organization, an extensive 18-month planning process that began in 2007 involved a group consisting of more than 500 physicians, nurses, managers, patients, board members and community leaders and produced the System's 2020 Strategic Plan. The resulting 2020 Strategic Plan, developed well before health reform was legislated, includes the following strategic components:

- Organize care along patient centered service lines;
- Align services with Catholic Medical Partners and strengthen physician partnerships through a number of practice options including employed arrangements;
- Implement advancements in clinical information technology;
- Expand the System's current geographic footprint through collaborations;
- Develop partnerships with other providers that share our mission, vision and values.

Patient Centered Service Lines

The development of patient centered service lines, integrated across the entire continuum of care is at the heart of the System's 2020 Strategic Plan. A service line is a homogeneous group of clinical services that align with a well defined clinical discipline or with a specific patient population. Through business and clinical analysis eight potential service lines were identified on the basis that they represent strong opportunity for growth, internal business strength, and the ability to differentiate itself in the market. To date, the System has implemented cardiac, stroke, vascular, and women's service lines.

Service Lines are organized across the continuum of care by placing the patient at the center, supported by their physician, with a complement of disease management, wellness and health education programs. This is surrounded by the System's continuum of care delivery, with patients directed to the most

appropriate level of care. Relying on best practices, established processes and protocols, accepted clinical standards, and state-of-the-art medical and information technology, the System's physicians and providers are able to access critical diagnostic information to better communicate across the continuum and deliver more efficient, high quality patient care. This model represents the characteristics of a high performing health organization.

Cardiac Service Line

The foundation of the System's Cardiac Service Line was the establishment of its Heart Center at Mercy in 2002. Today, the Heart Center is part of a comprehensive, System-wide Cardiac Service Line and the leading heart program in Western New York. The surgical program volume has grown approximately 7% from 2010 to 2011, at a time when many programs across the country have shown declining volumes. With a new service line leader and an emphasis on minimally-invasive surgery, including the area's only robotic cardiac surgery program, expectations are high for continued growth.

Stroke Service Line

The System's Stroke Service Line was established in 2007, bringing together the area's largest network of New York State Department of Health Designated Stroke Centers offering a complete continuum of care from diagnosis and treatment to rehabilitation and recovery. The program's team of dedicated health professionals includes leading stroke specialists and provides the most advanced stroke care available.

Vascular Service Line

With 53% of the market, the System is the regional leader in Vascular Services, outdistancing its nearest competitor by more than 15%. The Vascular Service Line was established in 2009 and includes well-known pioneers in the field of vascular and endovascular surgery, with a practice among the top 3% nationally. As part of this service line, the System opened its first Advanced Wound Healing Center in March 2010, at Sisters of Charity - St. Joseph Campus, offering the only comprehensive wound care and hyperbaric program in Erie County. A second location opened at Mercy – Orchard Park Division in January 2011 to meet the area's growing need for wound care services.

Women's Service Line

With women making most of the primary health decisions for themselves and their families, the System recognizes the importance of a strong Women's Services program. Both Mercy and Sisters of Charity have strong Obstetrics programs with Neonatal Intensive Care Units, making them the only local hospitals that offer intensive care services for both mother and baby. In addition, the System is a leader in gynecological and female-related cancer surgeries. With the further development of the System's Women's Service Line in 2011, along with the opening of the M. Steven Piver, MD, Center for Women's Health and Wellness at Sisters Hospital in 2010, the System has laid a strong foundation for a comprehensive and growing array of services designed to meet the special health needs of area women.

Supporting the Service Line Structure

The System is positioning itself to become a high performing health system, aligning services across its ministries and supporting the service line structure. The System has developed an integrated health network where patients can access care anywhere along the continuum. This ensures patients receive the right care, in the right place, at the right time, and positions the System for future success as the nation moves towards accountable care, where integration and efficiency are critical to controlling health care costs, while enhancing quality.

Primary Care Centers – Intermediate Care

The System operates 10 primary care centers and two VA Outpatient Clinics, recording more than 150,000 patient visits annually and employing 30 primary care physicians and 19 mid-level providers. In March 2011, the System opened a new $3.8 million primary care "supercenter" in Buffalo, New York drawing more than 26,000 visits in 2011, and expecting to draw more than 32,000 visits in 2012. The "supercenter"

concept is part of a system effort to increase access, merge and consolidate smaller primary care clinics into larger facilities and offer ancillary services such as imaging and laboratory services in addition to primary care. It is estimated that each primary care physician is responsible for driving approximately $1 million of downstream revenue to the health system.

Rehabilitation Services

The System offers the largest outpatient rehabilitation network in the area through Partners In Rehab & AthletiCare (sports medicine). Partners In Rehab has five locations across the region offering acute care, medical rehabilitation, subacute care, home care, long-term care and outpatient care. AthletiCare has three outpatient rehabilitation centers, along with off-site athletic training services at 25 area high schools and three colleges.

Medical Rehabilitation Units (MRU)

The System's Medical Rehabilitation Units at Mercy and Kenmore, provide more intensive rehabilitation services (physical, occupational and speech therapy) for patients recovering from strokes, hip fractures, amputations and other neurological conditions. The unit at Kenmore was named to the "Top 10%" of Inpatient Rehabilitation Facilities by Uniform Data System for Medical Rehabilitation.

Nursing Homes

As the area leader in resident-centered care, the System has been developing new delivery models to meet the changing health needs of area seniors including connection to the System's service lines. The System's five skilled nursing facilities provide comprehensive nursing, rehabilitation, and support services in a safe, caring and comfortable environment. The homes also offer social and recreational activities to foster a sense of community and help residents live active, dignified lives. Three of the skilled nursing facilities are hospital-based and consequently included in the Obligated Group.

Subacute Care

Three nursing homes of the System offer short-term subacute care to help patients with complex medical conditions make the transition from hospital to home. The System's commitment to quality and best practices is reflected in its optimal clinical outcomes and clinician-to-patient staffing levels above national standards. Subacute services have been a factor in the System's effectiveness, helping to reduce hospital admissions by diverting patients in the System's emergency departments directly to subacute services, reducing the cost of care.

Our Lady of Victory Senior Neighborhood

Following the closing of Our Lady of Victory Hospital in 1999, the System made a promise to the local community that it would not leave behind an abandoned building. The System set out to create a unique "senior neighborhood," which would redevelop the local landmark and create jobs for the region. Today, the neighborhood includes 74 low and moderate-income senior apartments and an 84-bed "household model" Skilled Nursing Facility (previously located on the Mercy campus). The neighborhood also houses the Program of All-inclusive Care for the Elderly. This unique program allows the frail elderly to remain in their own homes while accessing the necessary support and medical assistance required to maintain their quality of life. The complex also includes a public "Main Street" concourse, which has a community room, history museum, laboratory service center, and chapel.

Home Care

The System's complement of home care services include skilled nursing care, rehabilitation services, private duty nurses, home healthcare aides, spiritual care, medical equipment services, a personal emergency response system, telemedicine services for management of chronic illness, and in-home infusion therapy services. The Home Care Division directly supports the System's service lines, offering maternal and child home services to the Women's Service Line and cardiac home services to patients of the Cardiac Service Line. Working in cooperation with the area's health plans, Home Care's Transitions Program improves the

coordination of care as patients make the transition from hospital to home, ensuring patients get the care they need to continue their recovery and reduce re-admissions to the hospital.

In 2011, Catholic Health Home Care provided 282,995 home care visits, with an average daily census of more than 1,772 patients.

Laboratory and Imaging Services

Because of its centralized laboratory, the System is less reliant on independent laboratories and has an additional source of revenue. Through Urgent Response Labs at each hospital and 24 Laboratory Service Centers located throughout Western New York, the System processes over 4.1 million laboratory tests annually. With a commitment to offer the most advanced diagnostic technology, the System provides MRI, CT and interventional radiology, along with other radiology modalities. The System performed 418,727 imaging procedures in 2011.

Adult Homes

For individuals with memory care issues or those who need assistance with medication management, personal care, and housekeeping tasks, the System has two adult homes offering a safe environment to maximize comfort and independence.

Physician Integration

Physician integration is a key component of high performing health systems and the long-term success of the System. The System enjoys a unique, strategically aligned relationship with an independent practice association (IPA), Catholic Medical Partners. Catholic Medical Partners represents more than 900 physicians throughout the region.

Like the System, Catholic Medical Partners provides the organizational structure to lead key transformational initiatives among the physicians in the community. This includes the use of health information technology. More than 80% of Catholic Medical Partners physicians use an electronic health record (EHR) with a rate of close to 100% expected by December 2012. This exceeds the national averages of 77% for large practices and 37% for small practices.

The IPA also provides the framework for advanced clinical integration and disease management programs. Enabled by technology, physician practices are managing their patients using disease management programs and office-based "care coordinators." Today, 164 care coordinators work with high risk patients to facilitate timely, cost-effective care. Catholic Medical Partners affiliated practices are among the most advanced in embracing the concepts of integrated care.

In April 2012, Catholic Medical Partners was one of just 27 organizations nationally, and the only one in New York State, to be chosen to participate in the federal Shared Savings Accountable Care Organization (ACO) program. Catholic Medical Partners was selected based on rigorous eligibility criteria and program requirements, as well as, its integrated relationship with the System – both organizations' ability to deliver quality outcomes at lower costs factored into the selection process.

Information Technology

In advance of the introduction of the Health Information Technology for Economic and Clinical Health (HITECH) Act and Meaningful Use (MU), components of the 2009 American Recovery and Reinvestment Act (ARRA), CHS embarked on a strategic and ambitious strategy to transform clinical processes and technology to improve quality and patient safety. Technology is foundational to the System's efforts in becoming a High Performing Healthcare System and has been significant factor in achieving Accountable Care Organization and New York State Health Home designations.

Building a complete Electronic Health Record (EHR) began in 2004 when CHS entered into a Strategic Alliance Agreement (SAA) with Siemens Medical Solutions to develop and implement innovative solutions to enhance the System's ability to efficiently and effectively deliver quality patient care. The SAA focused on 4 key areas:

1. Siemens Financial Term Loans for Mercy and St. Joseph Hospital.

2. A preferred provider agreement between CHS and Siemens Medical at Strategic Partner pricing for medical equipment/radiology modality needs.

3. A risk-based IT solution to replace the current disparate clinical and financial platforms with Siemens new Soarian web-based product.

4. An initiative from Siemens Building Technologies to evaluate and implement an Energy Performance Program across the acute enterprise. This will be financed through the Tax-Exempt Leasing Program ("TELP") of the Dormitory Authority of the State of New York ("DASNY"), which is expected to close in the second quarter of 2012.

In 2006, as the System began its implementation of Soarian Clinicals and Financials and an EHR Roadmap was developed, that focused on Siemens products in the acute facilities. In 2009, that Roadmap eventually evolved to the Electronic Medical Record Adoption Model (EMRAM) Roadmap because of its national application and completeness of EHR components.

EMRAM was created by Health Information and Management Systems Society (HIMSS) Analytics to track EMR progress at hospitals and healthcare systems. There are 8 stages (0 to 7) that score hospitals and healthcare systems on their paperless record environment. Stage 0 indicates an entirely paper-based medical record, while Stage 7 indicates a fully electronic medical record.

As of the first quarter 2012, the System has achieved EMRAM Stage 5, which helped qualify the System for $10,451,414 in Medicare and Medicaid Meaningful Use incentives.

Among the key projects and technologies that have enabled the System to reach Stage 5 include:

- **Soarian Computerized Provider Order Entry (CPOE)** = patient orders placed through the use of the computer. CPOE has been implemented in all 3 acute facilities. 100% utilization is not necessary to qualify for this level; however, the System will continue until there is essentially 100% medical staff utilization.

- **Soarian Clinical Team (SCT)** = Nursing orders and documentation are facilitated through use of the computer. SCT has been implemented in all 3 acute facilities.

- **Soarian Clinical Access (SCA)** = Allows multiple clinicians (nurses and physicians) to access clinical results and transcribed reports electronically both on-site and remotely. SCA has been implemented in all 3 acute facilities.

- **Computerized Decision Support System (DSS)** = software programming that alerts or reminds clinicians on required or recommended courses of action (e.g., ordering aspirin when a patient is admitted for a heart attack, drug-to-drug interaction and what to do with it). CDSS is operational in Soarian.

- **Medication Administration Check** = closes the loop on the medication use process by automatically validating and documenting medication administration; a solution that positively identifies drug and patient using point-of-care barcode technology to help reduce the human element in medication errors and preventable adverse drug events at the time of administration.

- **Soarian Medication Reconciliation** = reconciles medication with each care transition throughout the continuum of care – ambulatory to inpatient to skilled nursing to home care.

- **Soarian Clinicals Embedded Analytics** integration with Siemens **Decision Support System (DSS)** = clinical information integrated with current business intelligence application in order to analyze both clinical and financial data to help better manage patient care.

- **Digital Mammography** = a system that uses the computer instead of x-ray films to take images of the breast.

- **eClinicalWorks** = an ambulatory EHR implemented in the System's primary care centers.

- **Tier 3 Data Center** = built to house and protect our most precious patient asset: their data.

- **HEALTHeLINK** = as one of the seven original investors, this Regional Health Information Organization (RHIO) provides community caregivers electronic access of their patients clinical information.

Among the key technology initiatives on the horizon are:

- **Soarian Clinical Team –Physician Documentation** = ability for physicians and mid-level practitioners to electronically document in Soarian.
- **Soarian ePrescribing** = ability to electronically send prescriptions to pharmacies, with bi-directional electronic communication.
- Siemens **DSS** integration with more sophisticated **Business Intelligence/Data Warehouse (BI/DW)** systems = implementation of a robust system that allows full analysis of clinical and financial data to provide information to help better manage patient care.
- **Soarian Advanced Interoperability** = provides the CCD functionality whereby pertinent demographic and clinical information is able to be exchanged with other CCD-enabled systems.
- **Patient Portal** = provides a tool by which patients can access their specific health information in a secure and private manner.

Geographic Expansion

The System is a major health provider in the Erie County, New York market with more than a 40% market share. Recognizing declining population trends and an aging demographic in its primary market, the System is expanding its geographic reach into the neighboring counties, where it has traditionally had little presence. The key strategy for growth in the neighboring communities is collaboration with local hospitals to leverage their capabilities in meeting needs while earning the right to referrals for tertiary care. The System has established well defined and mutually beneficial relationships with rural hospitals and primary care practices in these neighboring areas.

These alliances and partnerships will be a significant factor in the System's continued success. Alliances and collaborations must meet specific objectives (e.g. strengthen the System's prioritized programs) and satisfy specific criteria (e.g. mission/vision/value alignment). Discussions exploring additional facility and physician relationships are underway with hospitals in six of the seven neighboring counties. These preliminary talks have resulted in increased referrals to the System's facilities.

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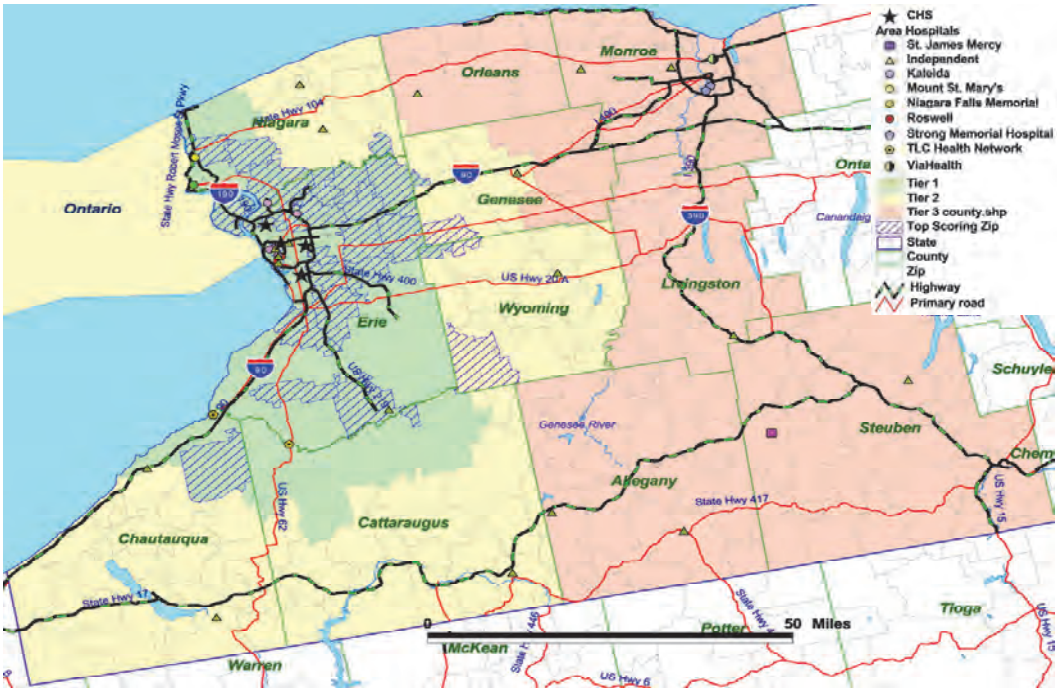
Board Endorsed "Future State" Geographic Footprint



MEDICAL STAFF

As of 2011, the total medical staff of the System consisted of 2,076 physicians. Of that group, 1,630 maintained active admitting privileges at the System's hospital facilities. The active admitting physicians are those physicians with privileges to admit and attend to patients in one of the hospitals of the System. The average age of the active medical staff is 54 years. Currently, just over 81% of active physicians are board certified in their respective specialties. The total number of medical staff includes consulting, courtesy, house and provisional; all of which must go through the credentialing process. These physicians support the System's hospitals, but have limited responsibility for hospital business issues.

The active medical staff distribution as of 2011 is as follows:

	Section	Active	Other	Average Age	Percent Board Certified
Anesthesia	Pain Management	3	1	58	75%
	Anesthesia	50	6	55	66%
Cardiothoracic Surgery	Thoracic Surgery	4	0	52	75%
	Cardiothoracic Surgery	9	0	53	100%
Dentistry	Dentistry	7	2	50	44%
Diagnostic Imaging	Diagnostic Imaging	84	1	48	92%
Emergency Medicine	Emergency Medicine	113	3	46	85%
Family Practice	General Practice	30	17	58	79%
	Hospitalist	1	0	44	100%
	Pediatrics	1	0	59	100%
	No Section Listed	86	14	50	85%
House Physician	House Physician	1	14	42	0%
Laboratory Medicine	Laboratory Medicine	9	1	58	100%
Medicine	Allergy & Immunology	3	7	56	90%

	Section	Active	Other	Average Age	Percent Board Certified
	Cardiology	92	26	52	88%
	Dermatology	6	3	57	100%
	Endocrinology	9	2	53	64%
	Gastroenterology	30	1	53	87%
	Geriatric Medicine	2	0	62	100%
	Hematology	0	1	63	100%
	Hematology/Oncology	9	8	61	88%
	Hospice	2	0	55	100%
	Hospitalist	28	2	43	67%
	Infectious Disease	16	6	56	91%
	Medicine	29	8	58	68%
	Nephrology	23	13	53	94%
	Neurology	46	5	51	90%
	Neuropsychiatry	6	0	55	67%
	Nuclear Medicine	2	0	74	100%
	Oncology	3	6	54	67%
	Psychiatry	13	3	55	88%
	Pulmonary/Critical Care	26	3	54	93%
	Rehabilitation Medicine	22	1	45	96%
	Rheumatology	12	1	56	62%
	No Section Listed	115	30	51	63%
Nuclear Medicine	Radiation Oncology	1	0	70	100%
	No Section Listed	1	1	60	100%
Obstetrics & Gynecology	Obstetrics & Gynecology	115	23	50	70%
Orthopedic Surgery	Orthopedic Surgery	24	2	49	81%
Orthopedics	Orthopedics	29	10	49	90%
Otolaryngology	Otolaryngology	21	9	57	100%
Pathology	Clinical Lab	2	1	60	100%
	Pathology	8	0	48	100%
Pediatrics	Allergy & Immunology	0	3	61	100%
	House Physician	12	0	46	92%
	Neonatology	8	0	50	100%
	No Section Listed	76	118	50	75%
Podiatry	Podiatry	38	4	56	83%
Rehabilitation Medicine	Rehabilitation Medicine	7	2	47	100%
Radiology	Nuclear Medicine	2	1	64	33%
	Radiation Oncology	11	4	53	100%
	No Section Listed	123	0	47	93%
Surgery	Bariatric	2	0	60	100%
	Cardio respiratory Surgery	3	8	56	91%
	Colon & Rectal Surgery	25	4	49	72%
	Dental Oral Surgery	4	2	47	83%
	General Surgery	16	4	53	85%
	Neurosurgery	39	13	50	94%
	Ophthalmology	20	9	56	90%
	Orthopedic Surgery	15	4	50	74%
	Otolaryngology	2	2	59	100%
	Otorhinolaryngology	4	1	53	80%
	Plastic Surgery	12	9	59	81%
	Podiatric Surgery	13	2	53	87%

	Section	Active	Other	Average Age	Percent Board Certified
	Thoracic Surgery	8	3	54	91%
	Urology	42	10	50	83%
	Vascular Surgery	12	2	52	71%
	No Section Listed	43	10	54	75%
Totals		**1,630**	**446**	**54**	**81%**

ACADEMIC AFFILIATIONS

The System's location in Western New York affords it a unique advantage in the form of access to a significant number of colleges and universities with healthcare and life sciences programs. Attracting and retaining physicians and mid-level providers to the region is essential, and the System enjoys several vibrant residency programs including Internal Medicine, Family Practice, Obstetrics and Gynecology, Ears, Nose and Throat and Podiatry. The System has a total of 74 residents within these residency programs and will also soon have a Vascular Surgery Fellowship Program. These programs are enabled through well established relationships with local/regional medical schools including the State University of New York at Buffalo; Lake Erie College of Osteopathy; and The New York College of Osteopathic Medicine.

More than 20 public and private colleges and universities rely on the System to help develop and train students for a variety of healthcare curricula. Of particular strategic interest to the System is the development of qualified nursing staff. In 2009, CHS teamed up with Niagara University to launch the "RN to BSN" degree program for its registered nurses who want to advance their careers. The *Catholic Health Nurse Scholars Program* offers qualified nurses the opportunity to earn a Bachelor of Science Degree in Nursing from Niagara University in 30 months. As part of the program, CHS covers the cost of tuition and books, and provides a laptop computer to help the nurses with their studies. In exchange, the nurses agree to remain employed with the System for three years after earning their bachelors' degrees. The first graduates of the program received their degrees in May 2012.

In addition to a full spectrum of nursing educational programs including RN, LPN, and RN to BSN programs, the System has formal relationships with academic institutions for a variety of clinical disciplines including:

- Pharmacy (PharmD)
- Health Information Management
- Laboratory Services
- Medical Assistants
- Social Work
- Physical Therapy
- Nurse Practitioner
- Occupational Therapy
- Speech Therapy
- Ultrasound Technician
- Surgical Technician
- Radiology Health Information Technology
- Nuclear Medicine
- Dietary
- Phlebotomy

For the disciplines listed above, Members of the Obligated Group (as the case may be) have academic affiliations with the following institutions:

- **Albany College of Pharmacy**
- **Alfred State College**
- **State University of New York College at Brockport**
- **Bryant and Stratton College**
- **State University of New York College at Buffalo**
- **Daemen College**
- **D'Youville College**
- **Erie 1 BOCES**
- **Erie II BOCES**

- **Erie County Community College**
- **State University of New York College at Fredonia**
- **Gannon University**
- **Genesee County Community College**
- **Great Lakes Institute of Technology**
- **Ithaca College**
- **Niagara County Community College**
- **Niagara University**
- **Rochester Institute of Technology**
- **Roberts Wesleyan College**
- **St. John Fisher College**
- **State University of New York at Stony Brook**
- **State University of New York Institute of Technology**
- **Trocaire College**
- **State University of New York at Buffalo**
- **State University of New York at Buffalo (Medical School)**
- **Lake Erie College of Osteopathy**
- **The New York College of Osteopathy**
- **University of Rochester**
- **Utica College**
- **Villa Maria College**

The System continues to work on programs with public and parochial high schools focused on the development of students for healthcare careers. In addition, the System is actively involved in the founding and operation of the Health Sciences Charter School in Kenmore, New York.

LABOR RELATIONS

Presently, System organizations are 60% non-union and 40% union represented. The System has in place eleven labor agreements with five different unions. Of these eleven agreements, seven are four-year agreements, three are three-year agreements and one has a duration yet to be determined pending negotiations. All current agreements have been bargained without work interruptions or stoppages. The effort to bargain longer-term agreements is primarily based upon management's strategy to extend the time period between ratification and expiration to:

1. Stabilize the labor environment
2. Establish and aggressively institute labor/management committees
3. Address areas of operational improvement
4. Establish a relationship founded on mutual respect and cooperation

SERVICE AREA AND DEMOGRAPHICS

The System defines its primary service area to include all of the cities and towns that comprise Erie County, New York including the City of Buffalo, New York. While individual hospitals within the System track volume and market share statistics in their smaller respective primary market areas, the System as a whole focuses on the county-wide definition for comparing its growth in relation to that of its competitors. As such, the analysis that follows utilizes data from Erie County, New York in comparing the System's market

share to that of the System's primary acute care competitors, namely (1) Kaleida Health, (2) Erie County Medical Center, and (3) Roswell Park Cancer Institute. From a patient origin standpoint, Erie County comprises 90% of total System discharges, with the remaining 10% generally originating in the five counties surrounding Erie County.

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

As of the Census of 2010, populations of the cities and five largest towns are as follows:

City of Buffalo	261,310
City of Lackawanna	18,141
City of Tonawanda	15,130
Town of Amherst	122,366
Town of Cheektowaga	88,226
Town of Tonawanda	73,567
Town of Hamburg	56,936
Town of West Seneca	44,711

SOURCE: U.S. Department of Commerce, Bureau of the Census

Erie County, New York had a population of 919,040 in 2010, with a projected 2015 population of 876,803, representing an approximate 4.6% reduction over the next five years. Despite the projected reduction to the population as a whole, the 55-64 year age cohort, as well as the 65+ age cohort, is projected to increase over the next five years by 8.6% and 6.3%, respectively. Given people in these age cohorts generally utilize more healthcare services and given the increase in these age cohorts, the System anticipates utilization to exhibit further growth moving forward.

COMPETITION

The System faces competition from three other acute care systems/hospitals comprising seven individual acute care facilities. The System's primary competition is from the Great Lakes Health System of Western New York ("Great Lakes Health System"), an entity created to meet the demands of the Commission on Health Care Facilities in the 21st Century (commonly referred to as the "Berger Commission"). Great Lakes Health System is a network comprised of the five Kaleida Health hospitals, the Erie County Medical Center, and the University at Buffalo. Kaleida Health, the primary competitor of the System, operates five of the acute care facilities comprising 1,161 licensed beds. In 2010, Kaleida experienced 43,392 inpatient discharges representing a 43.2% share of the Erie County market, up from a share of 41.0% in 2008. The two other competing facilities are Erie County Medical Center, generally viewed as the indigent care facility in the region, which had 8,359 discharges in 2010 for a 8.3% share of the Erie County market, and Roswell Park Cancer Institute, the specialty cancer hospital of Western New York, which maintained a 2.8% share of the market with 2,766 admissions.

From 2008 to 2010, the System's share of the Erie County, New York market (excluding burns, pediatrics, psychiatry, and transplants) remained flat going from 41.8% to 41.7%. The System experienced market share gains in 8 of 18 product lines, losses in nine and no change in one.

The following table presents the licensed beds, location, 2010 discharges, and 2010 market share (excluding burns, pediatrics, psychiatry, and transplants) for the System and each of its principal competitor systems/hospitals.

Primary Service Area – Erie County Market (90% of System Discharges)
Competitor Profile Summary (Excludes Burns, Pediatrics, Psychiatry and Transplants)

	Licensed Beds	City/Town	2010 Discharges	2010 Market Share
Mercy	389	South Buffalo	18,298	18.2%
Sisters of Charity - Main Street Campus	290	Buffalo	12,264	12.2%
Sisters of Charity - St. Joseph Campus	123	Cheektowaga	5,159	5.1%

	Licensed Beds	City/Town	2010 Discharges	2010 Market Share
Kenmore	184	Kenmore	6,073	6.1%
Catholic Health System	**986**		**41,794**	**41.7%**
Buffalo General Hospital	461	Buffalo	11,460	11.4%
DeGraff Memorial Hospital	70	N. Tonawanda	1,150	1.1%
Millard Fillmore Gates Circle Hospital	169	Buffalo	6,660	6.6%
Millard Fillmore Suburban Hospital	261	Williamsville	15,589	15.5%
Women and Children's Hospital	200	Buffalo	8,533	8.5%
Kaleida Health	**1,161**		**43,392**	**43.2%**
Erie County Medical Center	**550**	**Buffalo**	**8,359**	**8.3%**
Roswell Park Cancer Institute	**133**	**Buffalo**	**2,766**	**2.8%**
Others			**4,031**	**4.0%**
Total Erie County Market	**1,844**		**100,342**	**100.0%**

FINANCIAL AND OPERATING INFORMATION

Utilization

The following is a summary of the Obligated Group's inpatient and outpatient utilization for each of the fiscal years ended December 31, 2009, 2010 and 2011, and for the three-month periods ended March 31, 2011 and March 31, 2012.

	Fiscal Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
Discharges					
Acute	42,462	42,098	42,689	10,543	11,145
Newborn	4,767	4,640	4,732	1,071	1,134
NICU	533	609	598	144	128
Rehab	717	669	687	168	181
Total Discharges	**48,479**	**48,016**	**48,706**	**11,926**	**12,588**
Patient Days					
Acute	208,806	200,355	200,173	52,502	52,392
Newborn	11,108	10,763	10,983	2,567	2,596
NICU	10,132	10,503	11,298	2,904	3,175
Rehab	10,542	10,364	10,977	2,866	2,850
SNF	114,732	115,169	113,278	28,277	28,042
Total Patient Days	**355,320**	**347,154**	**346,709**	**89,116**	**89,055**
Average Length of Stay					
Acute	4.92	4.76	4.69	4.98	4.70
Newborn	2.33	2.32	2.32	2.40	2.29
NICU	19.01	17.25	18.89	20.17	24.80
Rehab	14.70	15.49	15.98	17.06	15.75
Outpatient Services					
ED	130,816	127,260	133,279	30,905	34,069
Observation	5,369	5,843	4,695	1,345	1,014
Amb Surg	43,374	44,713	44,606	10,986	11,564
Clinic Visits	156,841	149,753	139,208	36,408	35,247
Referred Amb	580,620	578,465	574,082	139,507	147,187
Total Outpatient Visits	**917,020**	**906,034**	**895,870**	**219,151**	**229,081**

Management's Discussion of Recent Utilization Trends

Utilization trends throughout the System (regardless of patient origin) have been somewhat mixed between inpatient and outpatient utilization over the past three years. The System has been focusing on the overall inpatient surgical volume within targeted service lines. While the System has experienced an overall increase in inpatient surgical discharges, the System has implemented several initiatives to divert patients to other levels of care such as subacute or home care services.

Improvements in observation utilization, ED redirection strategies, and care coordination have lowered medical discharge trends. These initiatives have decreased the cost of care for the patients included in the medical budgets, which are part of the risk contracts of the System with the local payers. In addition to the above mentioned initiatives, CHS has launched a partnership with 3M to improve the documentation included within the medical record of each inpatient. This initiative not only has improved the accuracy of documentation, it has ultimately improved patient safety while ensuring the patient has been placed in the appropriate level of care. This initiative has been directly interfaced with the existing clinical denial review program which will lead to further improvement.

On the outpatient side, the System has experienced even stronger growth particularly in emergency department visits. Specifically, outpatient emergency department visits have increased by 1.9% from 130,816 visits in 2009 to 133,279 visits in 2011. The emergency department visits listed above do not include patients who were moved to either inpatient or observation status. In an effort to improve the quality of admissions and ultimately reduce clinical denials, CHS utilizes Accretive Health Physician Advisory Services to perform an independent review of all patients assigned a level of care as an inpatient or observation patient. The level of care assigned is based on the documentation entered into the patient record. The Members of the Obligated Group have recently made significant investments in Emergency Medicine starting with the $9 million Emergency Center expansion at Sisters of Charity – St. Joseph Campus in 2005, a $32 million Emergency Center expansion at Mercy completed in 2010 and recently completed an $8.6 million Emergency Center expansion at Sisters of Charity – Main Street Campus. The increased capacity met market demand in the 1st quarter of 2012. The System's Emergency Centers treated 34,069 patients in the first three months of 2012 compared to 30,905 in 2011 (10.2% increase).

The System has experienced increased competition from privately-owned freestanding centers offering outpatient surgical, imaging, and rehab services. During the past three years, the System has strategically invested the necessary capital to stabilize outpatient services within its primary service area.

Payer Mix

A table of the Obligated Group's acute care payer mix, based on net patient service revenues, for each of the fiscal years ended December 31, 2009, 2010 and 2011, and for the three-month periods ended March 31, 2011 and March 31, 2012, is provided below.

	Fiscal Year Ended December 31,			Three Months Ended March 31,	
Payer Mix	2009	2010	2011	2011	2012
Medicare	43.6%	41.6%	42.5%	43.2%	42.1%
Medicaid	9.4%	9.9%	10.6%	9.9%	9.4%
BlueCross	7.8%	7.9%	9.2%	9.4%	10.3%
HMO	28.0%	28.1%	27.5%	26.6%	28.4%
Commercial	5.6%	6.6%	5.1%	5.7%	4.9%
Workers Compensation	3.9%	4.9%	3.7%	4.2%	3.4%
Self Pay	1.7%	1.0%	1.4%	1.0%	1.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Reimbursement Methodologies

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 cost 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. Eligibility for the full payment is currently conditioned upon a hospital's submission of quality data to Medicare. Furthermore, payments may be restricted for hospital acquired conditions. Historically, the increases to the DRG rates often have 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 and atypical cases (known as outliers). 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.

Certain hospital inpatient facilities or units providing specialized services, such as rehabilitation or psychiatric units, are reimbursed under distinct reimbursement methodologies. In 2002, Medicare implemented a distinct PPS for inpatient rehabilitation services. Patients receiving rehabilitation services are classified into case mix groups based upon impairment, age, co-morbidities and functional capability. Hospitals receive a base payment rate which is adjusted for geographic area wage levels, low-income patients, hospital teaching status, rural areas and high-cost outliers. Hospitals receive a predetermined per diem payment with adjustments for factors such as patient characteristics, 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 and for certain outliers. There can be no assurance that the hospital OPPS 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, with the exception of 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, or the lower of costs or charges.

Certain hospitals, including some Members of the Obligated Group, receive additional payments from Medicare to reimburse for providing care to a high level of Medicaid and/or 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. DGME costs 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 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, 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) 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.

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 level of payment and 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

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 the hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the NYSDOH on a prospective basis. Every year, 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 CMS, which may routinely request information about such methodologies prior to approval.

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 administered pools for indigent care, healthcare initiatives, and professional education. In 2010, funds from the professional education pool were transferred to the indigent care pool and distributed to hospitals on a methodology utilizing uninsured patient volume. 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 the indigent care pool, 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 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. See *"Managed Care"* herein.

In 2009, 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. Conversely, a "re-basing" of the inpatient rates from 1981 as the base year to 2005 as the base year resulted 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 key modification was reinstatement of the Gross Receipts Assessment for hospitals, a new Gross Receipts Assessment for home care agencies and continuation of the Gross Receipts Assessment for nursing homes.

In 2011, the current New York State Budget includes further cuts to reimbursements to providers in a wide variety of areas. In addition, many modifications occurred as a result of the "Medicaid Redesign Team." One of the key provisions is an overall state spending cap, which if exceeded, will result in further reimbursement cuts. 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 Members of 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 significant reductions could have a material adverse effect on the financial condition of the Members of the Obligated Group.

Managed Care

Managed care programs, which include various payment methodologies and utilization controls through the use of primary care physicians, case managers and other care coordinators 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 discrete case rates. 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.

CHS 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 three managed care companies that represent the largest managed care patient volume within the System are Healthnow (BlueCross), Independent Health, and Univera (Excellus).

The hospitals of the System 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 System to maintain and enhance the quality of care provided to patients. This strategy was implemented in an effort to allow the 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, defined process on payer denials, preferred pricing and volume objectives, and a risk sharing program measured against an annual medical budget.

These efforts, which are administered through Catholic Medical Partners ("CMP") 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. Catholic Medical Partners has begun implementing disease management, care coordination, and ED redirection programs to ensure patients are treated in the appropriate level of care across the continuum. These initiatives will drive the System to become a highly effective and efficient delivery system which is a requirement in an ACO environment.

The majority of managed care reimbursement is paid on either a discounted fee-for-service basis or case rate according to contracted rates. Separate rates are established for each product line (Medicare, Medicaid, Indemnity, HMO, and PPO). Most contracts are based on either a DRG-based per case rate for all inpatient acute services. High cost drugs, supplies and devices are negotiated as add-on items to agreed-upon rates for commercial product lines. Rehabilitation services are generally negotiated on a per diem basis. Outpatient services are reimbursed on a percentage of charges, fixed fee schedule basis, or fixed case rate.

Healthcare Regulatory Environment

The healthcare industry is subject to extensive governmental regulation through numerous and complex laws, some of which are ambiguous and subject to varying interpretation. The federal government and many states, including the State of New York, have aggressively increased enforcement under a number of such laws that are often referred to as Medicare and Medicaid "antifraud and abuse" rules. For many years, CHS has maintained a corporate compliance program to monitor the organization's compliance with applicable rules, including the so-called "antifraud and abuse" rules. Noncompliance with such rules could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from Medicare and Medicaid programs.

Self-Disclosures

Being a large, multi-institutional health care provider, from time to time notices are received that certain reimbursements are being disallowed for inconsistencies with Medicare and/or Medicaid standards, that the CMS/OIG and/or the U.S. Department of Justice are investigating reimbursement received as being improper, that medical records have been handled in a manner which may be inconsistent with law or regulation, that patients have not been provided emergency care in a manner consistent with law or regulation, etc. In every case, the questions and concerns raised are addressed, repayments are made when appropriate, systems or procedures are modified pursuant to plans of correction, and on a few rare occasions, fines have been levied and then waived, settled at reduced amounts, or paid.

An emphasis has been placed on the obligation of Medicare and Medicaid providers to self-disclose violations of the "antifraud and abuse" laws. As a result, CHS has conducted a comprehensive review of physician arrangements and clinical trials as set forth below.

Physician Arrangements

In the course of its review, conducted under the CHS Corporate Compliance Program, CHS initiated a self-report of technical violations of the Stark law. Instances were discovered that contracts/leases had not been fully executed and/or contract gaps existed. Also, there were instances of historical contracts not on file. Based on these technical non-compliant findings, CHS elected to self-disclose the matter to the United States Attorney, Department of Justice, Western District of New York. The disclosure was initiated on September 14, 2010.

Clinical Trials

Routine reviews by System personnel of Centers for Medicare & Medicaid Service Alerts and Transmittals, followed by further research and discussion with System departments, resulted in the determination that all Medicare required elements for clinical studies' claims submissions may not have been met. Although services were performed and reimbursed appropriately, the code(s) indicating the Medicare beneficiary was participating in a study were not applied as required. CHS elected to self-disclose the matter to the United States Attorney, Department of Justice, Western District of New York. The disclosure was initiated on August 10, 2010.

Although CHS is still waiting for settlement discussions on its self-disclosures, the outcomes are not expected to have a material impact on the consolidated financial statements of the System, nor is there expected to be an impact on the ongoing operations of the System.

Historical Financial Information

The following financial information reflects a summary of the operating results and financial condition of the Obligated Group for each of the fiscal years ended December 31, 2009, 2010 and 2011, and for the three-month periods ended March 31, 2011 and March 31, 2012. The results for the fiscal years ended December 31, 2009, 2010 and 2011 have been derived from the System's audited consolidated financial statements. In addition to the following summarized financial information, the complete audited consolidated financial statements for CHS and Subsidiaries for the years ended December 31, 2011 and 2010, including the notes thereto, appear in Appendix B and should be read in order to evaluate the System's operating results and financial condition. These audited consolidated financial statements of CHS and Subsidiaries for the years ended December 31, 2011 and 2010 were audited by PricewaterhouseCoopers LLP as independent accountants. The information concerning the Obligated Group appears in the accompanying notes to the consolidated financial statements for the years ended December 31, 2011 and 2010.

Balance Sheets

The following is a summary balance sheet for each of the years ended December 31, 2009, 2010 and 2011, and for the three-month periods ended March 31, 2011 and March 31, 2012.

(Dollars in Thousands)	December 31, 2009	December 31, 2010	December 31, 2011	March 31, 2011	March 31, 2012
Assets					
Current Assets					
Cash and cash equivalents	$ 138,421	$ 147,573	$ 84,197	$ 138,486	$ 179,746
Patient/resident accounts receivable, net	86,107	96,720	100,592	105,289	110,525
Other current assets	16,410	25,882	30,195	25,401	30,023
Total Current Assets	240,938	270,175	314,984	269,176	320,294
Assets limited as to use, net	21,830	14,135	11,210	14,072	11,220
Investments	8,914	8,367	6,980	8,367	6,980
Property and equipment, net	177,615	201,747	219,449	205,635	221,510
Other assets	13,103	11,598	59,217	11,638	59,329
Total Assets	$ 462,400	$ 506,022	$ 611,840	$ 508,888	$ 619,333
Liabilities and Net Assets					
Current liabilities					
Current portion of long-term obligations	$ 9,016	$ 10,738	$ 10,342	$ 9,715	$ 10,263
Line of credit payable	8,380	8,380	8,380	8,380	8,380
Accounts payable	34,574	41,946	38,000	37,167	40,749
Accrued expenses	44,553	46,691	51,621	45,716	49,569
Due to third-party payors	29,165	28,362	33,540	31,966	36,601
Other current liabilities	374	346	405	363	532
Total current liabilities	126,062	136,463	142,288	133,307	146,094
Long-term obligations, net	94,937	98,073	96,353	98,258	94,082
Other long-term liabilities	183,801	217,855	351,047	220,347	353,829
Total liabilities	404,800	452,391	589,688	451,912	594,005
Net assets					
Unrestricted	52,838	49,186	17,128	52,530	20,304
Temporarily restricted	4,510	4,199	4,778	4,200	4,778
Permanently restricted	252	246	246	246	246
Total net assets	57,600	53,631	22,152	56,976	25,328
Total Liabilities and Net Assets	$ 462,400	$ 506,022	$ 611,840	$ 508,888	$ 619,333

Statements of Operations

The following is a summary statement of operations each of the years ended December 31, 2009, 2010 and 2011, and for the three-month periods ended March 31, 2011 and March 31, 2012.

(Dollars in Thousands)	Fiscal Year Ended December 31, 2009	Fiscal Year Ended December 31, 2010	Fiscal Year Ended December 31, 2011	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012
Unrestricted revenues, gains and other support					
Net patient/resident service revenue	$ 693,157	$ 724,939	$ 754,841	$ 180,366	$ 198,018
Provision for bad debts [1]	(15,906)	(19,122)	(17,888)	(2,664)	(4,803)
Net patient/resident revenue less bad debts	677,251	705,817	736,953	177,702	193,215
Other revenue	20,249	14,372	22,756	3,129	3,511
Net assets released from restrictions	138	154	149	--	--

(Dollars in Thousands)	Fiscal Year Ended December 31, 2009	2010	2011	Three Months Ended March 31, 2011	2012
Total revenues, gains and other support	697,638	720,343	759,858	180,831	196,726
Expenses					
Salaries, wages and benefits	378,369	398,194	427,318	102,876	112,323
Supplies and other expenses	259,813	274,019	272,939	66,764	72,826
Depreciation and amortization	25,597	27,035	29,983	7,037	7,817
Interest	4,734	5,412	5,785	1,416	1,502
Total expenses	668,513	704,660	736,025	178,093	194,468
Income from operations	29,125	15,683	23,833	2,738	2,258
Nonoperating revenues and losses	2,744	2,474	1,532	390	198
Excess of revenues over expenses	$ 31,869	$ 18,157	$ 25,365	$ 3,128	$ 2,456

[1] The Provision for Bad Debts is shown as a deduction from Net Patient/Resident Service Revenue in accordance with ASU 2011-07, Health Care Entities (Topic 954). The Provision was originally reported as a component of Total Operating Expenses for 2009, 2010 and 2011.

Management's Discussion of Operations

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

Year ended December 31, 2010, compared to Year ended December 31, 2009

Total net patient services revenue increased 4.6% ($31.8 million) for the year ended December 31, 2010 as compared to 2009. Overall discharges decreased by 0.2% (463) when compared to 2009. As a result of improved technology (robotics & imaging), the Obligated Group experienced a growth in surgical procedures performed at an outpatient level of care. This 3.0% (1,339) increase represents a shift from inpatient to outpatient procedures within the following surgical specialties: 1) bariatric surgical banding, 2) select GYN procedures, and 3) interventional cardiac procedures. In addition to an increase in outpatient volume, revenue increased as a result of 3rd party rate increases.

During 2009, CHS engaged 3M to review the quality of physician documentation and the resulting coding for accuracy and completeness. As part of this engagement, 3M recommended additional resources to concurrently review documentation while the patients are still in-house. The recommended process improvements and resources were integrated into the 2010 operating plan.

Total expenses were $704.6 million in 2010, as compared to $668.5 million in 2009, an increase of $36.1 million or 5.4%.

Labor costs (salaries, wages, and benefits) are the most significant component of total operating expenses representing 56.5% and 56.6% of total operating expenses in 2010 and 2009, respectively. This increase in labor costs is a combination of wage rate increases and higher benefit costs. Full time equivalent employees ("FTEs") of the Obligated Group increased 0.5% year over year (27.2 FTEs). This increase represents strategic positions within select service lines in addition to dedicated resources tied to the clinical documentation initiative. During 2009, CHS also launched a comprehensive labor productivity program utilizing Premier benchmarking and Kronos Labor Analytic services. As part of the 2010 budget, all clinical departments were assigned a labor metric target which represented significant improvement over 2009.

Year-over-year benefit costs increased by $7.0 million or 8.5%. This change was driven by pension and associate health care costs. As part of the System's Strategic initiatives to capture market share, the organization has developed a hospital-based Preferred Provider Organization called "First Choice." Significant incentives were offered to the System's associates to select First Choice as their health benefit during the 2010 open enrollment process.

Supplies and other expenses, which included insurance, increased by $14.2 million or 5.5%. The Obligated Group's supply cost increased by $6.4 million or 4.3%. During 2009, the System developed a

comprehensive supply initiative which was integrated into the 2010 operating plan. The initiative included increased focus on product standardization, utilization management, pricing controls, procurement process control improvements, and contract compliance. To assist with plan development and implementation of this initiative, CHS engaged Nexera Consulting to develop a multi-stage plan spanning over several years.

Year ended December 31, 2011, compared to Year ended December 31, 2010

Total net patient services revenue increased 4.1% ($29.9 million) for the year ended December 31, 2011 as compared to 2010. Overall discharges increased by 1.4% (690) when compared to 2010. In addition to an increase in volume, revenue increased as a result of 3rd party rate increases. Overall acuity or case mix decreased significantly as a result of fewer high-end spine surgical cases where workers compensation was the primary payer. The workers compensation reimbursement included a direct cost based reimbursement for surgical implants. This change in acuity resulted in a positive impact to the overall supply expense for the Obligated Group.

Improvements in observation utilization, ED redirection strategies, and preventative care have lowered medical discharge trends. These initiatives have decreased the cost of care for the patients included in the medical budgets, which are part of the System risk contracts with the local payers. In addition to the above mentioned initiatives, CHS has launched a partnership with 3M to improve the documentation included within the medical record of each inpatient. This initiative not only has improved the accuracy of documentation, it has ultimately improved patient safety while ensuring the patient has been placed in the appropriate level of care. This initiative has been directly interfaced with the existing clinical denial review program which will lead to further improvements.

During 2011, the System attested for stage 1 Meaningful Use. The Federal payment of $8.7 million was received during the fiscal year and recorded as Other Revenue within the statement of operations. The System also attested for the New York State stage 1 and the anticipated payment of $2 million will be received and recorded during 2012.

Total expenses were $736.0 million in 2011, as compared to $704.6 million in 2010, an increase of $31.4 million or 4.5%.

Labor costs (salaries, wages, and benefits) are the most significant component of total operating expenses representing 58.1% and 56.5% of total operating expenses in 2011 and 2010, respectively. Increases in labor costs come from a combination of wage rate increases and higher benefit costs. Full time equivalent employees ("FTEs") of the Obligated Group increased 1.1% year over year (65.4 FTEs). This increase was directly tied to the increased volume experienced in 2011. CHS manages all labor (clinical and non-clinical) using metrics driven by a productivity program developed by Premier.

Year-over-year benefit costs increased by $11.2 million or 12.4%. This change was driven by pension and associate health care costs. As part of the System's Strategic initiatives to capture market share, the organization has developed a hospital-based Preferred Provider Organization called "First Choice." First Choice capitalizes on the System's solid regional footprint and comprehensive continuum of care to market its services to System associates and beginning in 2011, to the community. Due to the favorable reimbursement structure of the System, compared to its Western New York competitors, First Choice has delivered a Comprehensive Benefit Plan to employees and employers at a rate of up to 20% less than comparable benefit programs offered through third-party payers. Cost trend rates for the Plan reflect 4.5, 6.5, and 5.0 percent annually compared to community increases of 18, 12, and 12 percent respectively for the periods of 2009, 2010, and 2011. Services offered through First Choice include hospital-based care through its three acute hospitals, as well as, imaging, laboratory, home care, primary care, long-term care and adult homes, freestanding surgical, rehabilitation, sleep, wound care, substance abuse and a wide range of other services.

Supplies and other expenses, which include insurance, decreased by $1.1 million or 0.4%. The core driver impacting this decrease is related to supply costs. The Obligated Group's supply cost decreased by $6.2 million or 4.1%. During 2010, CHS engaged Nexera Consulting to develop a multi-stage plan to reduce supply costs through standardization, improved pricing, recycling, and increased controls within the supply procurement process. The System has also leveraged a new agreement with the Greater New York Hospital Association (GYNHA) which has allowed the System to utilize its Group Purchasing Organization (GPO). As a result of this new agreement, the System anticipates yielding additional savings through increased standardization and improved pricing through GNYHA. As a percentage of total operating revenue, the

Obligated Group significantly reduced its costs from the prior year (19.3% of total operating revenue in 2011 from 21.1% in 2010).

Three-month period ended March 31, 2012, compared to Three-month period ended March 31, 2011

Based on unaudited financial information for the three-month periods ended March 31, 2012 and March 31, 2011, the Obligated Group reported an increase in net patient services revenue of 8.7% ($15.5 million) primarily as a result of an increase in volume in addition to managed care rate increases. Discharges increased approximately 6.9% (817) as compared to the same period in the prior year, with an average length of stay decrease of 0.28 days from the prior year period. March 2012 year-to-date average Medicare case mix decreased by 2.4% in 2012 (1.61 for 2012; 1.65 for 2011). However, the Non-Medicare case mix increased by 8.0% in 2012 (1.38 for 2012; 1.28 for 2011). Inpatient surgical procedures increased by 4.5% (76) and emergency department visits increased 8.8% (3,388) during the 2012 period over 2011. The Obligated Group has continued to increase its cardiac related procedures performed at inpatient and outpatient levels of care. Outpatient ambulatory surgical procedures increased 427, or 3.8% for the March 31, 2012 period. This increase was driven by improvements in clinical care by utilizing robotic technology within the operating room. Even though a significant number of surgical procedures have been transitioned to an outpatient level of care, the Obligated Group has continued to increase its inpatient surgical volume consistent with the 2020 Strategic Plan.

Total operating expenses before depreciation, amortization, and interest increased by 9.1% ($15.5 million) in the three months ended March 2012 over the same period 2011. Labor costs (salaries, wages, and benefits) totaled $112.3 million or 57.1% of total operating revenue in 2012 compared to $102.9 million or 56.9% of total operating revenue in 2011. Additional FTEs were required (133) to support the relative increased volume. The System also invested resources within its Care Management model to improve its post-acute care capture rate for home care and long-term care ministries. The System also has strategically invested in additional resources to improve physician documentation which may have a positive impact on revenue via improved coding and DRG assignment.

CHS continues to actively manage its labor costs using metrics driven by peer reporting through Premier. The 2012 labor plan will be focused on establishing best practice process to continue to drive operational improvements and reduce agency and overtime utilization. The System will continue to leverage its First Choice product to control health insurance benefit costs, continue increasing domestic utilization of System services, and grow its overall plan participation.

Supplies and other expenses accounted for $72.8 million for the three months ended March 2012 compared to $66.8 million for the three months ended March 2011. As a percentage of total operating revenue, the 2012 supplies expense remained unchanged at 20.4%. Supply chain continues to drive pricing improvements through standardization and utilization management. The 2012 supply chain initiatives will focus on cardiac, orthopedic, interventional, and spine implant standardization and improved pricing. Additional technology will be operational in 2012 which will improve supply utilization tracking within the surgical departments.

Historical Capitalization

The following table sets forth the capitalization of the Members of the Obligated Group as of December 31, 2009, 2010 and 2011, and 2011 as adjusted assuming the Series 2012 Bonds and TELP transaction were issued and outstanding on December 31, 2011.

		December 31,			Pro forma[1]
(Dollars in Thousands)	**Issuer**	**2009**	**2010**	**2011**	**2011**
Series 2012A Bonds	Kenmore	$ --	$ --	$ --	$ 14,055
Series 2006C Bonds	Kenmore	14,183	13,319	12,420	12,420
Capital Leases	Kenmore	4,593	4,369	3,733	3,733
Mortgages	Kenmore	7,468	7,087	6,686	6,686
Note Payable	Kenmore	70	64	58	58
Series 2012B Bonds	Mercy	--	--	--	3,080
Series 2008 Bonds	Mercy	24,378	24,097	23,515	23,515

(Dollars in Thousands)	Issuer	December 31, 2009	2010	2011	Pro forma[1] 2011
Series 2006A Bonds	Mercy	11,713	11,152	10,569	10,569
Capital Leases	Mercy	3,862	7,762	10,550	17,639
Mortgages and Other	Mercy	38	27	1,034	1,034
Series 2006B Bonds	Sisters of Charity	26,190	24,969	23,631	23,631
Capital Leases	Sisters of Charity	1,925	6,650	5,158	6,381
Series 2006D Bonds	St. Joseph Campus	7,379	6,993	6,657	6,657
Capital Leases	St. Joseph Campus	1,627	2,045	2,651	4,317
Revolving Line of Credit	CHS	8,380	8,380	8,380	8,380
Capital Leases	CHS	527	277	33	33
Total Long-Term Debt		$ 112,333	$ 117,191	$ 115,075	$ 142,188
Unrestricted Net Assets		52,838	49,186	17,128	17,128
Total Capitalization		$ 165,171	$ 166,377	$ 132,203	$ 159,316
Long-Term Debt as a percentage of Total Capitalization		**68.0%**	**70.4%**	**87.0%**	**89.2%**
Excess of Revenues and Expenses		$ 31,869	$ 18,157	$ 25,365	$ 25,365
Plus: Depreciation and Amortization		25,597	27,035	29,983	29,983
Plus: Interest Expense		4,734	5,412	5,785	5,785
EBIDA		$ 62,200	$ 50,604	$ 61,133	$ 61,133
Debt-to-EBIDA		**1.8x**	**2.3x**	**1.9x**	**2.3x**

[1] Adjusted to reflect the issuance of the Series 2012 Bonds (expected to be issued in the approximate amount of $17 million) and TELP transaction (expected to be issued in the amount of $10 million).

Debt Service Coverage

The following table sets forth coverage of Maximum Annual Debt Service Requirements of the Obligated Group on long-term indebtedness for each of the fiscal years ended December 31, 2009, 2010 and 2011, and for the three-month periods ended March 31, 2011 and March 31, 2012.

(Dollars in Thousands)	Fiscal Year Ended December 31, 2009	2010	2011	Three Months Ended March 31, 2011	2012
Excess of Revenues over Expenses	$ 31,869	$ 18,157	$ 25,365	$ 3,128	$ 2,456
Plus: Depreciation and Amortization	25,597	27,035	29,983	7,037	7,817
Plus: Interest Expense	4,734	5,412	5,785	1,416	1,502
Income available for debt service	$ 62,200	$ 50,604	$ 61,133	$ 11,581	$ 11,775
Current Maximum Annual Debt Service Requirements on All Long-term Debt[1]	$ 15,329	$ 15,329	$ 15,329	$ 15,329	$ 15,329
Historical Coverage of Current Maximum Annual Debt Service Requirement[2]	4.1x	3.3x	4.0x	3.0x	3.1x
Pro Forma Coverage of Current Maximum Annual Debt Service Requirement[1, 2, 3]	$ 16,760	$ 16,760	$ 16,760	$ 16,760	$ 16,760
Historical Coverage of Pro Forma Maximum Annual Debt Service Requirement[2]	3.7x	3.0x	3.6x	2.8x	2.8x

[1] Includes estimated debt service on the variable rate debt at 5.05% for the Series 2006 Bonds and at 4.41% for the Series 2008 Bonds.

[2] For the three-month periods ended March 31, 2011 and 2012, the Maximum Annual Debt Service Requirement on all long-term debt equals 3/12 of the annual number.

[3] Includes estimated debt service requirements on Series 2012 bonds and TELP transaction.

Liquidity

The following table sets forth the Obligated Group's days cash on hand for each of the fiscal years ended December 31, 2009, 2010 and 2011, and for the years ended March 31, 2011 and March 31, 2012.

	December 31,			March 31,[1]	
(Dollars in Thousands)	2009	2010	2011	2011	2012
Unrestricted Cash and Investments	$ 138,421	$ 147,573	$ 184,197	$ 138,486	$ 179,746
Total Operating Expenses[2]	668,513	704,660	736,025	710,824	752,399
Less: Depreciation and Amortization	25,597	27,035	29,983	27,626	30,761
Total Operating Expenses less Depreciation and Amortization	$ 642,916	$ 677,625	$ 706,042	$ 683,198	$ 721,638
Days Cash on Hand[3]	78.6	79.5	95.2	74.0	91.2

[1] Calculated using the twelve months ended March 31, 2011 and 2012.

[2] Total Operating Expenses does not include Provision for Bad Debts, as the Provision is shown as a deduction from Net Patient/Resident Service Revenue in accordance with ASU 2011-07, Health Care Entities (Topic 954). The Provision was originally reported as a component of Total Operating Expenses for 2010 and 2011.

[3] Equals unrestricted cash and investments divided by total operating expenses less depreciation and amortization and multiplied by 365 for the December 31, 2009, 2010 and 2011 and March 31, 2011 periods, and multiplied by 366 days for the March 31, 2012 period.

The following table sets forth the Obligated Group's cash-to-debt ratios at December 31, 2009, 2010 and 2011, and at March 31, 2011 and March 31, 2012.

	December 31,			March 31,	
(Dollars in Thousands)	2009	2010	2011	2011	2012
Unrestricted Cash and Investments	$ 138,421	$ 147,573	$ 184,197	$ 138,486	$ 179,746
Total Long-Term Debt	112,333	117,191	115,075	116,353	112,725
Cash-to-Debt	1.2x	1.3x	1.6x	1.2x	1.6x

Insurance Arrangements

The System participates in the Catholic Health East ("CHE") insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits for healthcare professional and general liability are $3 million per occurrence and are insured by Stella Maris Insurance Company, Ltd. ("SMICL"), a Cayman-domiciled insurer wholly-owned by CHE. SMICL also provides excess coverage to the System, and this excess coverage is fully reinsured with non-affiliated commercial insurance companies. SMICL retains the full risk in the primary layer and no risk in the excess layers.

The coverage provided by SMICL is on a claims-made basis. The System therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 4.0% in 2011 and 2010.

The System's insurance program for workers' compensation has a deductible of $325 per occurrence. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting program were accrued on a discounted basis, based upon actuarial estimates of the settlement of such claims.

The System's insurance for employee health costs is self-insured up to $350 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience.

Pension

Effective January 1, 2001, CHS established the Retirement Plan of the Catholic Health System (the "CHS Plan") which is a qualified defined benefit pension plan covering substantially all of its employees at its constituent hospitals. The System's combined retirement plan expense is equal to the required annual contributions to the CHS Plan, which are calculated based on actuarially determined methods. The CHS Plan bases benefits on years of service, age and earnings. Participants in the CHS Plan earn benefits under several different formulae including a final average formula, career average formula or cash balance formula. Based on the actuarial valuation, the CHS Plan was under-funded as of December 31, 2011 and 2010. With the exception of the St. Joseph Hospital Retirement Income Plan, all CHS plans are classified as church-sponsored retirement plans and therefore are not subject to ERISA funding requirements. The St. Joseph Hospital Retirement Income Plan is currently over 100% funded.

Litigation Matters

The System is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as, regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims are known at this time, which could have a material adverse affect on the System's future financial position, results from operations or cash flows.

Future Capital Spending

The System has made continuous strategic investments in its facilities and equipment in the past and plans to make future investments over the next four years. The major projects include a new comprehensive care facility at the St. Vincent - Lovejoy site (expected to commence in 2015), a campus modernization project at the Mercy Ambulatory Care Center (MACC) (expected to commence in 2014), as well as strategic master facility planning projects throughout the System. The St. Vincent – Lovejoy primary care center currently serves an underserved community within Buffalo, New York. The site current feeds considerable referrals into the Sisters of Charity – Main Street Campus. The Mercy Ambulatory Care Center which is classified as a two-bed hospital strategically located in the southern tier has a revenue base over $10 million per year. The MACC is part of Mercy and serves as a referral hub connecting the southern tier of the county to Mercy. Capital spending will be funded through philanthropy, cash flow and additional borrowing, although such borrowing will require Board and New York State Department of Health approval. Management will consider its plans in light of its financial performance over the next few years and to its long-term financial projections.

PART 8 - RISK FACTORS AND REGULATORY CONSIDERATIONS THAT MAY AFFECT THE OBLIGATED GROUP

The following discussion of risks to holders of the Series 2012 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2012 Bonds, in addition to other risks described throughout this Official Statement.

The revenue and expenses 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 Obligated Group to an extent that cannot be determined at this time.

General

The Series 2012 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 the Institutions pursuant to the Loan Agreements, payments by the Obligated Group pursuant to the Series 2012 Obligations, the funds and accounts held by the Trustee pursuant to the Series 2012 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 2012 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 payors; 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 the Obligated Group; the receipt of grants and contributions; referring physicians' and self-referred patients' confidence in the Obligated Group; and increased use of contracted discounted payment schedules with health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other payors. Other factors which may affect revenues and expenses include the ability of the Obligated Group to provide services required by patients; the relationship of any Member 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 Members 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 Institution's ability to make payments pursuant to the Loan Agreements and the ability of the Members of the Obligated Group to make payments under the Series 2012 Obligations. See "Appendix B – Consolidated Financial Statements of Catholic Health System, Inc. and Subsidiaries as of December 31, 2011 and 2010" at Note #10 for financial information with respect to the Members of the Obligated Group.

National Health Reform

In March 2010, the President signed into law comprehensive health reform through the Patient Protection and Affordable Care Act (Pub. L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152), together known as the Affordable Care Act (the "ACA"). The final legislation and implementing regulations could have a material adverse effect on healthcare providers such as the Institutions and, in turn, the Institutions' ability to make payments under the Loan Agreements. Given the many interconnected components of reform and its impact on both private and public insurance programs, it is difficult to predict whether the net impact will be positive or negative.

Expansions in private insurance through new state-based health insurance exchanges, public program expansions through Medicaid, and individual and employer requirements related to insurance coverage, will likely decrease the number of uninsured patients. However, the ultimate provider rates under exchange plans, the comprehensiveness of those plans, and the numbers of residual uninsured could all be of financial impact to the Institutions. In addition, the Medicaid expansion could both increase the number of insured individuals, but also impose significant new Medicaid-related financial burdens on the State. So-called "expansion states" like New York will have fewer newly eligible beneficiaries and receive less initial federal financial assistance than some other States, although the federal government will phase-in increased assistance for already covered

non-pregnant childless adults. The State's fiscal status could in turn impact the rates paid to providers under Medicaid.

The delivery system changes in the ACA, among other things, will increasingly link the Institutions' payments under public programs to quality and coordination of care. Hospitals will be subject to Medicare payment withholds or bonuses based on performance scores under a new value-based purchasing program, and hospitals with excess readmissions will face payment reductions. Under both Medicare and Medicaid, hospitals will not receive payments for certain hospital-acquired conditions, and hospitals with the highest rates of hospital-acquired conditions will be subject to Medicare payment penalties on all discharges. In addition, there will be opportunities to participate in pilot programs and demonstrations in Medicare and Medicaid that could impact reimbursement.

The ACA implements significant changes to health care fraud and abuse laws that will intensify the risks and consequences of enforcement actions. These include: expansion of the False Claims Act; lessening of the intent requirements under the anti-kickback statute; and new funding and expanded powers to investigate fraud, including through expansion of the Medicare Recovery Audit Contractor program to Medicaid, and to more of the Medicare program. The ACA creates enhanced penalties for noncompliance, including increased criminal penalties and expansion of administrative penalties under Medicare and Medicaid. Also of potential cost to the Institutions, all hospitals must establish and maintain compliance programs that satisfy certain federal requirements as a condition of enrollment in Medicare, Medicaid and the Children's Health Insurance Program. New York's Office of the Medicaid Inspector General ("OMIG") has issued a Work Plan that, among other things, emphasizes enforcement of new requirements included in the ACA, specifically, requirements regarding identification and refunding of overpayments.

Finally, several provisions included in the ACA to fund the cost of health reform could have an adverse impact on provider payment rates. These include reductions in Medicare market basket updates and cuts in Medicare and Medicaid disproportionate share hospital payments for providing care to low income and uninsured patients. In addition, there will be a new Independent Payment Advisory Board providing annual recommendations on curtailing Medicare cost growth and non-binding recommendations on constraining costs and improving quality in the private sector. Starting in 2020, the Medicare proposals related to hospital payments will be automatically implemented unless Congress passes an alternative package that meets the same savings targets. There are also significant changes to federal payments to Medicare Advantage plans that could in turn affect, either positively or negatively depending on the plan's performance, the scope of coverage of these plans and their payments to the Institutions.

Initiatives to repeal the ACA in whole or in part, to delay elements of its implementation or funding, and to offer amendments or supplements to modify its provisions have been proposed. Several legal challenges to the constitutionality of the ACA have been filed, and conflicting rulings have been issued by various federal Courts of Appeals. The United States Supreme Court has determined that it will review the ACA's constitutionality in its current term, with the Court expected to render a decision in June or July of 2012. At this time, it is unclear what further action, if any, Congress, the Obama administration, future administrations or federal courts may take with respect to the ACA. No projections can be made as to the future implementation or content of the ACA, and management of the Members of the Obligated Group is not able to predict the effect of the ACA.

Economic Turmoil

The current economic turmoil has had and will continue to have negative repercussions upon the United States and global economies. In the last year or so, this turmoil has particularly affected the financial sector, prompting a number of banks and other financial institutions to seek additional capital, to merge, and, in some cases, to cease operating. These events collectively have led to a scarcity of credit, lack of confidence in the financial sector, volatility in the financial markets, fluctuations in interest rates, reduced economic activity, increased business failures and increased consumer and business bankruptcies.

Hospitals are required to provide emergency care without regard to a patient's ability to pay. Poor economic conditions and increased unemployment can enlarge the population that does not have health care coverage and thus cannot pay for care out-of-pocket, which in turn can increase the uncompensated care that the Institutions provide. Tax-exempt hospitals, in particular, often treat large numbers of indigent patients who

are unable to pay in full for their medical care. In addition, poor economic conditions and increased unemployment can lead patients to postpone or forego elective procedures, thereby reducing volume and revenue.

If the current economic turmoil continues and the economy further weakens, health care providers could be materially and adversely impacted in a number of ways, including reduced investment income, reduced philanthropic donations, reduced access to the credit markets, difficulties in obtaining new liquidity facilities or extensions of existing liquidity facilities, significant draws on internal liquidity due to difficulties with remarketing existing variable rate bonds and commercial paper, increased risk of acceleration on variable rate bonds, increase in bad debt expense and charity care write-offs, and increased borrowing costs, any of which may negatively affect the operations or financial condition of a provider.

President Obama recently signed into law economic recovery legislation that provides a temporary increase in federal Medicaid payments to the states, including New York, to enable states to maintain Medicaid benefits, as well as an increase in state DSH allotments allowing states to assist providers in continuing to care for the uninsured. The legislation also provides temporary federal subsidies to individuals who have lost their jobs to maintain their employer-based benefits through the Consolidated Omnibus Budget Reconciliation Act ("COBRA") program, which may help stem health insurance losses as a result of the economic turmoil.

Legislative, Regulatory and Contractual Matters Affecting Revenue

The Institutions are subject to a wide variety of federal and state regulatory actions, and a substantial portion of the Institutions' revenue is derived from governmental sources. Governmental revenue sources are subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors, and governmental payors and actions by, among others, the Joint Commission, the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services, and other federal, state and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Institutions. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. No assurances can be given that further substantial changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or that they will be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Institutions cannot be predicted.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("MMA") established many changes to the Medicare program, including revisions to Indirect Medical Education funding and expanded coverage for other costs and services. These and future Medicare funding changes could have an adverse effect on hospitals.

Legislation is periodically introduced in Congress and in the New York State 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 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.

Managed Care and Other Private Initiatives

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

Typical payment methodologies that have been established include severity-adjusted case neutral rates; per diem rates for stays in a rehabilitation unit or a psychiatric 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 been and likely will not become in the near future an important factor in the Obligated Group's reimbursement. Management of the Obligated Group believes that that each Member of the Obligated Group, on a yearly contracting basis, has developed equitable pricing arrangements with most of the payors with which such Member of the Obligated Group contracts. As part of these negotiated contracts, each Member of the Obligated Group has developed payment terms limiting the extent to which a payor 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 the Obligated Group. However, these contracts have finite terms and are subject to renegotiation, and managed care payors are expected to continue to seek ways to reduce the utilization of healthcare services.

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. 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 HIVIO 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 change to Medicaid managed care may also result in a decrease in Medicaid patient revenue over time, although currently the contracts in place are at, or just slightly below, traditional Medicaid reimbursement. The teaching component of Medicaid reimbursement is expected to continue to be paid by the State directly to the hospitals.

Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on reimbursement for hospital services. Management of the Institutions cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

Outlier Payments

In 2002, 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. There can be no assurance that a Member of the Obligated Group will not become the subject of an audit in the future with respect to its outlier payments.

Litigation and Claims

Certain Members of the Obligated Group are involved in litigation and claims which are not considered unusual to its 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. Such changes may further increase competitive pressures on acute care hospitals, including Members of the Obligated Group. The Obligated Group faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar healthcare services.

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

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

Workforce Shortages

Workforce shortages are affecting healthcare organizations at the local, regional and national level. 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, including the Obligated Group, have collective bargaining agreements with one or more labor organizations. See "PART 7 – THE OBLIGATED GROUP – LABOR RELATIONS." 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 Obligated Group. 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 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 and violation of this law also renders the violator civilly liable under the False Claims Act. 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 that closely tracks the civil FCA (the "New York State 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 FCA and New York State FCA also permit individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA 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 or failing to refund known overpayments. Civil FCA 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 FCA and New York State FCA. Other civil FCA 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 or self-referral violations are subject to prosecutions as false claims. If a provider is faced with a civil FCA or 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 FCA and New York State FCA can result in penalties up to triple the actual damages incurred by the government.

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

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

The New York Health Care Practitioner Referral Law (the "State Provisions") is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare provider for clinical laboratory services, x-ray imaging services, radiation therapy services, physical therapy, or pharmacy services if the referring practitioner (or an immediate family member) has a financial interest in the healthcare provider.

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as "Stark") is defined as either an ownership or investment interest in the entity or a compensation arrangement between the 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 specific 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 Members of 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 Members of 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 Members of the Obligated Group.

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

Increased Enforcement Affecting Academic Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health ("NIH") 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.

The American Recovery and Reinvestment Act of 2009 (the "Stimulus Act")

The Stimulus Act includes several provisions that are intended to provide financial relief to the health care sector, including $86.6 billion in federal payments to states to fund the Medicaid program and $24.7 billion to provide a 65% subsidy to the recently unemployed for health insurance premium costs. The Stimulus Act also includes: $19 billion to establish a framework for the implementation of a nationally-based health information technology ("HIT") program, including incentive payments to hospitals commencing fiscal year 2011; $10 billion for health research and construction of NIH facilities; and $1 billion for prevention and wellness programs. As a component of the federal objective of implementing EHRs for all Americans by 2014, the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") included in the Stimulus Act requires the development of regulations to establish HIT standards to which the Institutions' physicians and acute care hospitals will be subject. Compliant physicians and acute care hospitals that are also "meaningful users" of EHRs will be eligible for Medicare and Medicaid incentive payments generally beginning in fiscal year 2011. However, physicians must choose between receiving payments through the Medicare or Medicaid programs, and hospital-based physicians are not eligible for the incentives. Hospitals and eligible physicians that do not comply will face Medicare penalties beginning in fiscal year 2015. The Members of the Obligated Group are eligible for and are receiving incentive payments under the Stimulus Act, subject to certain conditions; however, the effect of the Stimulus Act in the future as well as any future regulatory actions on the Obligated Group cannot be determined at this time.

Department of Health Regulations

The Obligated Group is 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 Obligated Group is 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 Members of the Obligated Group maintain 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 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 non-profit tax-exempt organizations, the Members of the Obligated Group are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operations 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 complex health care organizations.

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 Service Examination of Compensation Practices and Community Benefit

In 2004, the IRS began a new compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt hospitals' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations; and (2) in certain circumstances, may conduct further investigations or impose fines on such organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The most recent IRS report on this initiative determined that a lack of uniformity in definitions of community benefit used by reporting hospitals, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. The revised Form 990 includes a new schedule, Schedule H, which hospitals must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congressional committee to codify the requirements for hospitals' tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care.

The national health reform legislation imposes four new requirements on non-profit hospitals in order to maintain their tax-exempt status. First, each hospital must conduct a community health needs assessment at least once every three taxable years and adopt an implementation strategy to meet the needs identified, or be subject to an excise tax penalty of $50,000. Hospitals must complete the first community health needs assessment by the end of the taxable year beginning after March 23, 2012, and disclose a summary of the assessment and implementation strategy and audited financial statements on the IRS Form 990. The Secretary of the Treasury must review the community benefit activities of each tax-exempt hospital at least once every three years. Second, each hospital must adopt, implement and publicize a financial assistance policy. Third, hospitals must limit the charges for emergency or other medically necessary care provided to individuals eligible for assistance under the financial assistance policy to not more than the amounts generally billed to individuals who have insurance that covers such care. Finally, a hospital may not engage in extraordinary collection actions before making reasonable efforts to determine whether an individual is eligible for assistance under the organization's financial assistance policy.

Internal Revenue Code Limitations

The Internal Revenue Code of 1986, as amended (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 a tax-exempt organization, each Member of the Obligated Group is 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 each Member 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 any Member 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 2012 Bonds.

Revocation of the tax-exempt status of an Institution 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 2012 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 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.

In June 2006, the IRS sent compliance check questionnaires to hundreds of randomly selected tax-exempt hospitals to review compliance with the community benefit standard under Revenue Ruling 69-545, which sets forth the current standards under which tax-exempt health care providers qualify for federal tax-exemption under Section 501(c)(3) of the Code.

The Institutions believe that the sanction of revocation of tax-exempt status is likely to be imposed only in cases of pervasive excess benefit. Either revocation of tax-exempt status or the imposition of penalty excise tax in lieu of revocation, based upon a finding that a Member of the Obligated Group engaged in an excess benefit transaction would be likely to result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of such Member 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. No Member of the Obligated Group is currently under audit.

Antitrust

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

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

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including federal privacy standards for the protection of health information kept by health care providers, among others, that conduct certain financial and administrative transactions electronically (the "Privacy Rule") and standards relating to the security of such health information (the "Security Rule"). Compliance with the requirements of the Privacy Rule, the Security Rule and other HIPAA requirements has required the Institutions to develop and use policies and procedures designed to inform patients about their privacy rights and how their protected health information may be used, to keep protected information secure, to train employees so that they understand the privacy procedures and practices of the Institutions and to designate a privacy officer responsible for seeing that privacy procedures are adopted and followed. HIPAA imposes civil monetary penalties and criminal penalties for knowingly obtaining or using individually identifiable health information.

On February 17, 2009, President Obama signed into law the HITECH Act, which is part of the Stimulus Act. The HITECH Act expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals' rights with respect to protected health information, (v) increasing penalties for violations, and (vi) providing for enforcement of violations by State attorneys general. While the effects of the HITECH Act cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of the Institutions.

Security Breaches and Unauthorized Releases of Personal Information

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

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 an owner and operator of properties and facilities, each Member of the Obligated Group may be subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated off its property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable

environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that any Member of 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 such Member of the Obligated Group.

Affiliation, Merger, Acquisition and Divestiture

As part of its ongoing planning and property management functions, each Member of the Obligated Group reviews the use, compatibility and financial viability of many of its operations, and from time to time, may pursue changes in the use, or disposition, of its facilities. The New York State Department of Health awarded CHS and affiliated healthcare entities a Health Care Efficiency and Affordability Act Grant (the "HEAL Grant"). The Heal Grant provides funding for costs associated with potential mergers of the Members of the Obligated Group and affiliated healthcare entities which are also tax-exempt not-for-profit entities. Consequently, Members of the Obligated Group are currently reviewing consolidation options. Any potential merger would be undertaken for the purposes of achieving certain administrative and operational efficiencies and economies of scale. As a result, it is possible that the assets currently owned by any Member of the Obligated Group may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

Professional Liability Claims and General Liability Insurance

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

The Members of the Obligated Group currently carry malpractice, directors' and officers' liability and general liability insurance, which management of the Institutions considers adequate, but no assurance can be given that the Institutions will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Members of 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 Members of the Obligated Group, see "PART 7 – THE OBLIGATED GROUP" 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 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.

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 payors. 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 Obligated Group has been affected by the impact of such rising costs, and there can be no assurance that the Obligated Group 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 2012 Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Obligated Group's capabilities and the financial conditions and results of operations of the Obligated Group.

Enforceability of Lien on Gross Receipts

The Loan Agreements provide that each Institution shall make payments to the Trustee sufficient to pay its respective series of the Series 2012 Bonds and the interest thereon as the same become due. The obligations of the Institutions to make such payments are secured by the Series 2012 Obligations, which, in turn, are secured by, among other things, security interests granted to the Master Trustee in the Gross Receipts of the Members of the Obligated Group. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012 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 Obligated Group to other parties in the ordinary course might no longer be subject to the lien of 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 Members of the Obligated Group providing service from collecting Medicare and Medicaid payments directly from the federal or state government. In addition, Medicare and Medicaid receivables may be subject to provisions of the Assignment of Claims Act of 1940, which restricts the ability of a secured party to collect accounts directly from government agencies. With respect to receivables and Gross Receipts not subject to the Lien, 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 any Member of the Obligated Group, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts of such Member of the Obligated Group to meet expenses of such Member of the Obligated Group before paying debt service on the Series 2012 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 the Obligated Group under certain circumstances. If any required payment is not made when due, the Obligated Group must transfer or pay over immediately to the 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 each Member of the Obligated Group be transferred to the Master Trustee without such Gross Receipts being commingled with other funds, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment.

The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Series 2012 Bonds as to the security interest in the Gross Receipts. See "PART 1 – INTRODUCTION – Security for the 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 of the Obligated Group to make payments due under an Obligation, including the Series 2012

Obligations, 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 thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be a "transfer" which makes such Member "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members may be deemed to have received less than "fair consideration" for such Obligation because none or only a portion of the proceeds of the indebtedness are to be used to finance projects occupied or used by such Member of the Obligated Group. While the Members of the Obligated Group 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 of the Obligated Group 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 of the Obligated Group were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the Member of the Obligated Group 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 of the Obligated Group 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 2012 Obligations) and may include nonpayment related defaults under documents such as the Loan Agreements, the Resolution or the Mortgages. The Master Indenture provides that upon an "Event of Default" thereunder, the Master Trustee may in its discretion, by notice in writing to Members of the Obligated Group, declare the principal of all (but not less than all) Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately 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 an applicable series of the Series 2012 Bonds and an acceleration of the maturity of such series of Series 2012 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 such series of Series 2012 Bonds Outstanding with respect to which the Event of Default has occurred 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.

Bankruptcy

The Series 2012 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 2012 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreements, the Mortgages and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Loan Agreements, the Mortgages and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2012 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 2012 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If an Institution 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 such Institution and its property, including the commencement of foreclosure proceedings under the respective Mortgages. Such Institution would not be permitted or required to make payments of principal or interest under the respective Loan Agreement or Obligation, 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 respective Debt Service Reserve Fund to the respective Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the respective series of Series 2012 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 Institution which filed a petition for relief under the Bankruptcy Code, 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 Gross Receipts of the Members of the Obligated Group 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 such Members of the Obligated Group under the Obligations, the Master Indenture, the Mortgages, and the Loan Agreements, and may adversely affect the Master Trustee's or the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

An Institution 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 such Institution provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Resolution, the Loan Agreements and the Master Indenture permit the Institutions and any other Member 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 2012 Bonds.

Hedging Transactions

The Members of the Obligated Group may from time to time enter into hedging arrangements to hedge the interest payable or manage interest cost on certain of its indebtedness, assets, or other derivative arrangements. Changes in the market value of such agreements could have a negative impact on the Obligated Group's operating results and financial condition, and such impact could be material. Any such hedging agreement may be subject to early termination upon the occurrence of certain events. If neither the Obligated Group nor the counterparties terminate any hedge agreement entered into in the future when such agreement has a negative value to the Obligated Group, the Obligated Group could be obligated to make a substantial termination payment, which could materially adversely affect the financial condition of the Obligated Group.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Members of the Obligated Group, or the market value of the Series 2012 Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.

- Increased unemployment or other economic conditions in the service areas 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 payors to control or restrict the operations of certain health care facilities.

- Reduced demand for the services of the Members of the Obligated Group that might result from decreases in population or innovations in technology.

- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Obligated Group, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Obligated Group's facilities.

- Adoption of a so-called "flat 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 2012 Bonds and the level of charitable donations to the Obligated Group.

- Adoption of legislation or regulations that would require the Members of the Obligated Group to perform health care services viewed as inconsistent with Catholic teaching.

PART 9 - THE AUTHORITY

Background, Purposes and Powers

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

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

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

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

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

At March 31, 2012, the Authority had approximately $44.3 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 March 31, 2012 were as follows:

Public Programs	**Bonds Issued**	**Bonds Outstanding**	**Notes Outstanding**	**Bonds and Notes Outstanding**
State University of New York Dormitory Facilities	$ 2,738,656,000	$ 1,364,250,000	$ 0	$ 1,364,250,000
State University of New York Educational and Athletic Facilities	16,185,382,999	6,868,294,624	0	6,868,294,624
Upstate Community Colleges of the State University of New York	1,644,630,000	664,175,000	0	664,175,000
Senior Colleges of the City University of New York	11,126,291,762	3,693,833,213	0	3,693,833,213
Community Colleges of the City University of New York	2,590,993,350	547,566,787	0	547,566,787
BOCES and School Districts	3,279,181,208	2,439,090,000	0	2,439,090,000
Judicial Facilities	2,161,277,717	668,012,717	0	668,012,717
New York State Departments of Health and Education and Other	7,400,435,000	4,822,440,000	0	4,822,440,000
Mental Health Services Facilities	8,662,585,000	4,070,455,000	0	4,070,455,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	1,146,845,000	719,200,000	0	719,200,000
Totals Public Programs	$57,709,753,036	$25,857,317,341	$ 0	$25,857,317,341

Non-Public Programs	**Bonds Issued**	**Bonds Outstanding**	**Notes Outstanding**	**Bonds and Notes Outstanding**
Independent Colleges, Universities and Other Institutions	$20,658,539,952	$10,708,659,444	$78,095,000	$10,786,754,444
Voluntary Non-Profit Hospitals	15,421,259,309	7,052,570,000	0	7,052,570,000
Facilities for the Aged	2,030,560,000	613,645,000	0	613,645,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$38,205,359,261	$18,374,874,444	$78,095,000	$18,452,969,444
Grand Totals Bonds and Notes	$95,915,112,297	$44,232,191,785	$78,095,000	$44,310,286,785

Outstanding Indebtedness of the Agency Assumed by the Authority

At March 31, 2012, the Agency had approximately $183.6 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 March 31, 2012 were as follows:

Public Programs	**Bonds Issued**	**Bonds Outstanding**
Mental Health Services Improvement Facilities.....	$ 3,817,230,725	$ 0
Non-Public Programs	**Bonds Issued**	**Bonds Outstanding**
Hospital and Nursing Home Project Bond Program	$ 226,230,000	$ 2,035,000
Insured Mortgage Programs.....	6,625,079,927	178,175,000
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	3,440,000
Total Non-Public Programs	$ 9,265,549,927	$ 183,650,000
Total MCFFA Outstanding Debt	$13,082,780,652	$ 183,650,000

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., *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, 2013.

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, 2013.

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 the Executive Vice President/Chief Operating Officer & Chief Financial Officer of Earl G. Graves, Ltd/Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund and a member of the Board of Directors at Ronald McDonald House of New York. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed the assets of the NY Common Retirement Fund, valued at $120 billion, and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. 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. Earlier, Mr. Jiha 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 expired on March 31, 2011 and by law he continues to serve until a successor shall be chosen and qualified.

TIM C. LOFTIS, Esq., Buffalo.

Tim Loftis was appointed as a Member of the Authority by the Governor on June 20, 2012. Mr. Loftis is a partner in the Business and Corporate practice group of the law firm Jaeckle Fleischmann & Mugel, LLP. He has experience in business and corporate matters with an emphasis on transactional matters, including domestic and international mergers and acquisitions as well as complex commercial financing transactions. Mr. Loftis is Chair of the Board of Directors of the Buffalo Niagara Partnership. He is admitted to practice law in the State of New York and the U.S. District Court for the Western District of New York. Mr. Loftis holds a Bachelors of Arts degree from the State University of New York at Buffalo and a Juris Doctor degree from Georgetown University Law Center. His term expires on March 31, 2015.

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

Ms. Snyder was appointed as a member of the Authority by the Governor on June 15, 2011. She is currently a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments

and early stage companies. Previously, she was Vice President, General Counsel and a Director of Biocraft Laboratories, Inc. and a Director of Teva Pharmaceuticals. Ms. Snyder serves as a Board member of the Beatrice Snyder Foundation, the Roundabout Theater, the Advisory Committee of the Hospital of Joint Diseases and the Optometric Center of New York, where she also serves on the Investment Committee. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expires on August 31, 2013.

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. Romski 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. Romski 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. Romski 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. Romski 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.

JOHN B. KING, JR., J.D., Ed.D., *Commissioner of Education of the State of New York,* Slingerlands; *ex-officio.*

Dr. John B. King, Jr., was appointed by the Board of Regents to serve as President of the University of the State of New York and Commissioner of Education on July 15, 2011. As Commissioner of Education, Dr. King serves as chief executive officer of the State Education Department and as President of the University of the State of New York, which is comprised of public and non-public elementary and secondary schools, public and

independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. Dr. King is also responsible for licensing, practice and oversight of numerous professions. Dr. King previously served as Senior Deputy Commissioner for P-12 Education at the New York State Education Department. Prior thereto, Dr. King served as a Managing Director with Uncommon Schools. Prior to this, Dr. King was Co-Founder and Co-Director for Curriculum & Instruction of Roxbury Preparatory Charter School and prior to that, Dr. King was a teacher in San Juan, Puerto Rico and Boston, Massachusetts. He holds a Bachelor of Arts degree in Government from Harvard University, a Master of Arts degree in Teaching of Social Studies from Teachers College, Columbia University, a Juris Doctor degree from Yale Law School and a Doctor of Education degree in Educational Administrative Practice from Teachers College, Columbia University.

NIRAV R. SHAH, M.D., M.P.H., *Commissioner of Health*, Albany; *ex-officio*.

Nirav R. Shah, M.D., M.P.H.., was appointed Commissioner of Health on January 24, 2011. Prior to his appointment he served as Attending Physician at Bellevue Hospital Center, Associate Investigator at the Geisinger Center for Health Research in central Pennsylvania, and Assistant Professor of Medicine at the NYU Langone Medical Center. Dr. Shah is an expert in use of systems-based methods, a leading researcher in use of large scale clinical laboratories and electronic health records and he has served on the editorial boards of various medical journals. He is a graduate of Harvard College, received his medical and master of public health degrees from Yale School of Medicine, was a Robert Wood Johnson Clinical Scholar at UCLA and a National Research Service Award Fellow at NYU.

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 President and chief executive 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 Vice President of the Authority, and assists the President in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in

1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor'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 exchange 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.

PAUL W. KUTEY is the Chief Financial Officer of the Authority. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising the Authority's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company, where his responsibilities included finance, operations and facilities management. Prior to joining AYCO Company, he served as Corporate Controller and Acting Chief Financial Officer for First Albany Companies, Inc. From 1982 until 2001, Mr. Kutey held increasingly responsible positions with PricewaterhouseCoopers, LLP, becoming Partner in 1993. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

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 twenty 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.

The position of General Counsel is currently vacant.

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 2012 Bonds.

Legislation

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

Environmental Quality Review

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

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2011. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 10 - LEGALITY OF THE SERIES 2012 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2012 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 2012 Bonds.

PART 11 - NEGOTIABLE INSTRUMENTS

The Series 2012 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 2012 Bonds.

PART 12 - TAX MATTERS

Federal Income Tax

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, and subject to the limitations set forth below, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. Furthermore, Bond Counsel is of the opinion that interest on the Series 2012 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2012 Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Corporate purchasers of the Series 2012 Bonds should consult with their tax advisors regarding the computation of any alternative minimum tax liability.

The Series 2012A Bonds maturing in the years 2015 through 2018 and 2032 and the Series 2012B Bonds maturing in the year 2032 (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the tax consequences of owning such Premium Bonds.

The difference between (1) the principal amount of the Series 2012A Bonds maturing in the years 2014, 2022, 2027 and 2039 and the Series 2012B Bonds maturing in the years 2022 and 2039 (collectively, the "Discount Bonds"), and (2) the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such an owner's adjusted basis for purposes of determining an owner's gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of such corporation's federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The Code establishes certain requirements which must be met at the time of, and subsequent to, the issuance and delivery of the Series 2012 Bonds in order that interest on the Series 2012 Bonds be and remain excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use of the proceeds of the Series 2012 Bonds, restrictions on the investment of bond proceeds and other moneys or properties, required ownership of the facilities financed by the Series 2012 Bonds by an organization described in Section 501(c)(3) of the Code or a governmental unit, and the rebate to the United States of certain earnings in respect of investments. Noncompliance with such continuing requirements may cause the interest on the Series 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2012 Bonds, irrespective of the date on which such noncompliance occurs. In the Resolutions, the Loan Agreements and accompanying documents, exhibits and certificates, the Authority and the Institutions have

made certain representations and certifications, and have covenanted to comply with certain procedures, designed to assure compliance with the requirements of the Code. The opinion of Bond Counsel described above is made in reliance upon, and assumes continuing compliance with, such covenants and procedures and the continuing accuracy, in all material respects, of such representations and certifications.

Bond Counsel expresses no opinion regarding any other federal tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2012 Bonds. The proposed form of approving opinion of Bond Counsel is attached to this Official Statement as Appendix F.

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the Series 2012 Bonds should be aware that the accrual or receipt of tax-exempt interest on the Series 2012 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of such other federal income tax consequences of acquiring or holding the Series 2012 Bonds include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the Series 2012 Bonds, (ii) interest on the Series 2012 Bonds earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the Series 2012 Bonds, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Series 2012 Bonds. In addition, the Code denies the interest deduction for indebtedness incurred or continued by a taxpayer, including without limitation, banks, thrift institutions, and certain other financial institutions to purchase or carry tax-exempt obligations, such as the Series 2012 Bonds. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2012 Bonds.

Certain requirements and procedures contained or referred to in the Resolutions and other relevant documents may be changed, and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any tax consequences with respect to the Series 2012 Bonds, or the interest thereon, if any such change occurs or actions are taken upon the advice or approval of bond counsel other than Harris Beach PLLC.

State and Local Income Tax

Bond Counsel is also of the opinion that, under existing statutes, including the Act, interest on the Series 2012 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof.

Any noncompliance with the federal income tax requirements set forth above would not affect the exemption of interest on the Series 2012 Bonds from personal income taxes imposed by New York State or any political subdivision thereof.

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2012 Bonds.

Interest on the Series 2012 Bonds may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion as to the tax treatment of the Series 2012 Bonds under other state or local jurisdictions. Each purchaser of Series 2012 Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2012 Bonds in a particular state or local jurisdiction other than the State of New York.

Other Considerations

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) after the date of issuance of the Series 2012 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012 Bonds.

No assurance can be given that any future legislation or governmental actions, including amendments to the Code or State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Series 2012 Bonds to be subject to federal, State or local income taxation, or

otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decision or action of the Internal Revenue Service or any State taxing authority, including, but not limited to, the promulgation of a regulation or ruling, or the selection of the Series 2012 Bonds for audit examination or the course or result of an audit examination of the Series 2012 Bonds or of obligations which present similar tax issues, will not affect the market price or marketability of the Series 2012 Bonds. Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors regarding the foregoing matters.

All quotations from and summaries and explanations of provisions of law do not purport to be complete, and reference is made to such laws for full and complete statements of their provisions.

ALL PROSPECTIVE PURCHASERS OF THE SERIES 2012 BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THESE AND OTHER FEDERAL AND STATE TAX CONSEQUENCES, AS WELL AS ANY LOCAL TAX CONSEQUENCES, OF PURCHASING OR HOLDING THE SERIES 2012 BONDS.

PART 13 - STATE NOT LIABLE ON THE SERIES 2012 BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2012 Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 14 - COVENANT BY THE STATE

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

PART 15 - RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") and Fitch Ratings ("Fitch") have assigned their ratings of "Baa1", "BBB+" and "BBB+", respectively, to the Series 2012 Bonds. Such ratings reflect only the respective views of Moody's, S&P and Fitch and do not constitute a recommendation to buy, sell or hold the Series 2012 Bonds. Generally, rating agencies base their ratings on information and material furnished by the Authority and the Institutions and on investigations, studies and assumptions made by the rating agencies. The ratings reflect only the views of such organizations and an explanation of the significance of such rating may be obtained from the respective rating agencies at: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, telephone: (212) 553-0300; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone: (212) 438-2124; and Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone: (212) 908-0500. There is no assurance that any rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such revision or withdrawal of such rating may have an effect on the market price of the Series 2012 Bonds.

PART 16 - LEGAL MATTERS

Certain legal matters incidental to the offering of the Series 2012 Bonds by the Authority are subject to the approval of Harris Beach PLLC, Albany, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2012 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the Institutions and the Obligated Group by their counsel, Phillips Lytle LLP, Buffalo, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Bond, Schoeneck & King, PLLC, Syracuse, New York.

There is not now pending any litigation restraining or enjoining the issuance, offering or delivery of the Series 2012 Bonds or questioning or affecting the validity of the Series 2012 Bonds or the proceedings and authority under which the Series 2012 Bonds are to be issued and offered.

PART 17 – UNDERWRITING

Jefferies & Company, Inc., as the Underwriter for the Series 2012 Bonds, has agreed, subject to certain conditions, to purchase the Series 2012A Bonds from the Authority at a purchase price of $13,953,014.94 (reflecting an underwriter's discount of $284,438.26 and a net original issue premium of $2,453.20), to purchase the Series 2012B Bonds from the Authority at a purchase price of $3,032,715.96 (reflecting an underwriter's discount of $61,861.74 and a net original issue premium of $14,577.70), and to make a public offering of the Series 2012 Bonds at prices that are not in excess of the public offering prices or yields indicated on the inside cover of this Official Statement. The Underwriter will be obligated to purchase all of such Series 2012 Bonds if any are purchased.

The Series 2012 Bonds may be offered and sold to certain dealers (including the Underwriter) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

PART 18 - CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended ("Rule 15c2-12"), each of the Institutions has undertaken in a written agreement (the "Continuing Disclosure Agreement") for the benefit of the Bondholders to provide to Digital Assurance Certification LLC ("DAC"), on behalf of the Authority as the Authority's disclosure dissemination agent, on or before 150 days after the end of each fiscal year, commencing with the fiscal year of the Institutions ending December 31, 2012, for filing by DAC with the Municipal Securities Rulemaking Board ("MSRB") and its Electronic Municipal Market Access system for municipal securities disclosures, on an annual basis, operating data and financial information of the type hereinafter described which is included in "PART 7 – THE OBLIGATED GROUP" (the "Annual Information"), together with the Institutions' annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to the MSRB. For a discussion of the submission of quarterly unaudited financial information to the MSRB, see "Part 19 – MISCELLANEOUS."

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Institutions, DAC has undertaken in the Continuing Disclosure Agreement, on behalf of and as agent for the Institutions and the Authority, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from the Institutions, with the MSRB.

The Institutions also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, within 10 days of the occurrence of a Notice Event (as hereinafter defined), the

notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, the Authority and the Trustee have undertaken, for the benefit of the Bondholders, to provide such Notices to DAC, should the Authority have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from an Institution, the Trustee or the Authority, DAC will promptly file the Notices with the MSRB. With respect to the Series 2012 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Institutions, the Authority or the Trustee has provided such information to DAC as required by the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, annual financial statements, Notices or any other information, disclosures or notices provided to it by an Institution, the Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Institutions, the Holders of the Series 2012 Bonds or any other party. DAC has no responsibility for the failure of the Authority to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Institutions, the Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Institutions, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement. In the event the obligations of DAC as the Authority's disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information means annual information concerning the Institutions, consisting of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in "PART 7 – THE OBLIGATED GROUP" herein relating to the following: (i) utilization statistics of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION - Utilization"; (ii) revenue and expense data of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION – Historical Financial Information"; (iii) data of the type set forth under the headings "FINANCIAL OPERATING INFORMATION – Liquidity"; (iv) sources of patient service revenue of the type set forth under the heading "FINANCIAL AND OPERATING INFORMATION – Payer Mix"; together with (2) such narrative explanation, as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Institution. To the extent that other entities become Members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The Notices include notices of any of the following events (the "Notice Events") with respect to the Series 2012 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, IRS notices or events affecting the tax status of the Series 2012 Bonds; (7) modifications to the rights of holders of the Series 2012 Bonds, if material; (8) bond calls, if material; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2012 Bonds, if material; (11) rating changes; (12) tender offers; (13) bankruptcy, insolvency, receivership or similar event of the Institutions; (14) merger, consolidation or acquisition of the Institutions, if material; and (15) appointment of a successor or additional trustee, or the change in name of a trustee, if material. In addition, DAC will undertake, for the benefit of the Holders of the Series 2012 Bonds, to provide to the MSRB, in a timely manner, notice of any failure by the Institutions to provide the Annual Information and annual financial statements by the date required in the Institutions' undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement is an action to compel specific performance of the undertaking of DAC, the Institutions, the Trustee and/or the Authority, and no person, including any Holder of the Series 2012 Bonds, may recover monetary damages thereunder under any circumstances. DAC or the Institutions may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of

Outstanding Series 2012 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2012 Bonds, or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of Outstanding Series 2012 Bonds; provided, however, that the Trustee is not required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2012 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution, the respective Series 2012 Resolution, the Master Indenture or the respective Loan Agreement. In addition, if all or any part of Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule") ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of the Rule no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without consent of the Holders of the Series 2012 Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement when executed by the parties thereto upon the delivery of the Series 2012 Bonds will be on file at the principal office of the Authority.

In the past five years, the Institutions have complied, in any material respects, with any previous continuing disclosure undertakings entered into in connection with any tax-exempt offerings.

PART 19 - MISCELLANEOUS

Reference in this Official Statement to the Act, the Resolution, the Series 2012 Resolutions, the Loan Agreements, the 2012 Mortgages, the Master Indenture and the Series 2012 Obligations do not purport to be complete. Refer to the Act, the Resolution, the Series 2012 Resolutions, the Loan Agreements, the 2012 Mortgages, the Master Indenture and the Series 2012 Obligations for full and complete details of their provisions. Copies of the Resolution, the Series 2012 Resolutions, the Loan Agreement, the 2012 Mortgages, the Master Indenture and the Series 2012 Obligation are on file with the Authority and the Trustee.

The agreements of the Authority with the holders of the Series 2012 Bonds are fully set forth in the Resolution and the Series 2012 Resolutions. Neither any advertisement of the Series 2012 Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2012 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 Institutions, the Obligated Group and the Master Indenture was supplied by the Institutions. 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.

The consolidated financial statements of CHS. and Subsidiaries as of December 31, 2011 and 2010 attached as Appendix B have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

"Appendix A – Certain Definitions," "Appendix C - Summary of Certain Provisions of the Loan Agreements," "Appendix D – Summary of Certain Provisions of the Resolution" and "Appendix F – Proposed

Form of Approving Opinion of Bond Counsel" have been prepared by Harris Beach PLLC, Albany, New York, Bond Counsel.

"Appendix E – Summary of Certain Provisions of the Master Indenture and the 2012 Supplemental Indentures" has been prepared by Phillips Lytle LLP, Buffalo, New York, counsel to the Obligated Group and the Representative.

The Institutions have reviewed certain parts of this Official Statement describing the Institutions, the Obligated Group and the Master Indenture, including but not limited to "PART 1 – INTRODUCTION", "PART 4 – THE SERIES 2012 PROJECTS", "PART 5 – PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS", "PART 6 – ESTIMATED SOURCES AND USES OF FUNDS", "PART 7 – THE OBLIGATED GROUP", "PART 8 – RISK FACTORS AND REGULATORY CONSIDERATIONS THAT MAY AFFECT THE OBLIGATED GROUP", "PART 18 – CONTINUING DISCLOSURE" (only insofar as the Continuing Disclosure relates to the obligations of the Institution) and "Appendix B – Consolidated Financial Statements of Catholic Health System, Inc. and Subsidiaries as of December 31, 2011 and 2010." The Institutions and the Obligated Group shall certify as of the date hereof and as of the date of delivery of the Series 2012 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 Institutions have agreed to indemnify the Authority, the Underwriter and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

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

DORMITORY AUTHORITY OF
THE STATE OF NEW YORK

By: /s/Paul T. Williams, Jr.
Authorized Officer

APPENDIX A

CERTAIN DEFINITIONS

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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 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, by including, but not limited to, the Health Care Financing Consolidation Act and, as incorporated thereby, the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of New York 1973, as amended;

Annual Administrative Fee means the annual fee for the general administrative and supervising expenses of the Authority in the amount or percentage stated in the Loan Agreement;

Applicable means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, Debt Service Reserve Fund or any other fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to a particular Project, (ii) with respect to any Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the Applicable Series Resolution or Bond Series Certificate, (iii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for particular Projects, (v) with respect to any Loan Agreement, the Loan Agreement by and between the Authority and any one or more Institutions and the contractual obligations contained therein relating to particular Projects for such Institution, (vi) with respect to any Institution, the Institution identified in the Applicable Series Resolution, (vii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution, (viii) with respect to a Credit Facility, if any, or Credit Facility Issuer, if any, the Credit Facility or Credit Facility Issuer relating to one or more Series of Bonds, and (ix) with respect to a Supplemental Indenture and an Obligation authorized to be issued thereunder, the Supplemental Indenture and Obligation issued under the Master Indenture for the purpose of securing a particular Series of Bonds;

Arbitrage Rebate Fund means each fund so designated and established by the Applicable Series Resolution pursuant to the terms of the Resolution with respect to a Series of Tax-Exempt Bonds;

Authority means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Authority;

Authority Fee means a fee payable to the Authority relating to the issuance of a Series of Bonds in an amount set forth in the Applicable Loan Agreement, unless otherwise provided in the Applicable Series Resolution;

Authorized Newspaper means *The Bond Buyer* or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other

than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority;

Authorized Officer means (i) in the case of the Authority, the Chair, the Vice-Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the Managing Director of Portfolio Management, the General Counsel and any other person authorized by a resolution or the by-laws of the Authority, from time to time, to perform any specific act or execute any specific document; (ii) in the case of an Institution, the person or persons authorized by a resolution or the by-laws of such Institution to perform any act or execute any document; and (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee;

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 2008 Bonds expressly available to pay the principal or Redemption Price of or interest on the Series 2008 Bonds, provided that, as to such proceeds, an opinion of counsel experienced in bankruptcy matters is delivered to the Trustee and each Rating Service, and with respect to Moody's Investors Service, Inc., reasonable satisfaction of such opinion by such Rating Service, to the effect that the payment of such proceeds to the holders of the Series 2008 Bonds would not constitute transfers avoidable under 11 U.S.C. § 547(b) and recoverable from the holders of the Series 2008 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 2008 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 with the Bond Series Certificate; (iv) money held by the Trustee (other than in the Arbitrage Rebate Fund or the Credit Facility 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, and with respect to Moody's Investors Service, Inc., satisfaction of such opinion by such Rating Service, to the effect that the payment of such moneys to the holders of the Series 2008 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 Series 2008 Bonds under 11 U.S.C. § 550(a) if the Authority or an Institution were the debtor in a case under the Bankruptcy Code.

Bankruptcy Code means Title 11 of the United States Code.

Beneficial Owner means a Person owning the right to receive payments and notices with respect to Series 2008 Bonds held by the Depository, as evidenced to the satisfaction of the Trustee.

Bonds or ***Series of Bonds*** means any of the Bonds or Series of 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 a Series in accordance with the delegation of power to do so under the Applicable Series Resolution;

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

Bondholder, ***Holder of Bonds***, ***Holder***, ***owner*** or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Bonds of such Series, except as provided in the Resolution;

Business Day means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed;

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder;

Construction Fund means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution;

Contract Documents means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the Institution relating to the construction of a Project, and any amendments to the foregoing;

Cost or ***Costs of Issuance*** means the items of expense incurred in connection with the authorization, sale and issuance of a Series of Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee and any Credit Facility Issuer and Remarketing Agent, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, commitment fees or similar costs in connection with obtaining the Credit Facility and any Liquidity Facility, Reserve Fund Facility, or interest rate exchange agreement or other hedge instrument, costs and expenses of refunding of other bonds or notes of the Authority with proceeds of such Series including termination fees for any interest rate exchange agreement in connection with such refunding, 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 materialmen, 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 shall 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 Applicable Loan Agreement, or a Reserve Fund Facility relating to such Project;

Credit Facility means (i) any municipal bond insurance policy satisfactory to the Authority which insures payment of principal, interest and, if agreed to by the Credit Facility Issuer and the Institution, redemption premium on the Bonds of any Series when due and issued and delivered to the Trustee, (ii) a letter of credit issued by a Credit Facility Issuer with respect to one or more Series of Bonds on the date of issuance of such Series of Bonds, or (iii) similar insurance or guarantee if so designated, all in accordance with the Applicable Series Resolution;

Credit Facility Default means, with respect to a Credit Facility Issuer, any of the following: (a) there shall occur a default in the payment of principal of or any interest on any Bond or Purchase Price thereof by the Credit Facility Issuer when required to be made under the terms of the Credit Facility, (b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction, or (c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors;

Credit Facility Issuer means, with respect to any Series of Bonds for which a Credit Facility is held by the Trustee, the firm, association or corporation, including public bodies and governmental agencies, acceptable to the Authority, which has issued such Credit Facility in connection with such Series of Bonds, and any successors or assigns of the obligations of such firm, association or corporation under such Credit Facility;

Credit Facility Repayment Fund means each fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution;

Debt Service Fund means each such fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution;

Debt Service Reserve Fund means each such fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution;

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

Defeasance Security means, unless otherwise provided in an Applicable Series Resolution, any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations (other than an obligation subject to variation in principal repayment); Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and an Exempt Obligation, *provided* such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; *provided, however*, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof;

Department of Health means the Department of Health of the State of New York;

Depository means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series;

Excess Earnings means, with respect to the Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code;

Exempt Obligation means any of the following: (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or "–"

and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Facility Provider means the issuer of a Reserve Fund Facility delivered to the Trustee pursuant to the Resolution;

Federal Agency Obligation means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Fitch means Fitch Ratings, and its successors and assigns;

Government Obligation means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to a Project or any Mortgaged Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over a Project or any part thereof, Mortgaged Property or any part of either including, but not limited to, Article 28, Article 28-A or 28-B, as applicable, of the Public Health Law of the State of New York;

Gross Proceeds means, with respect to any Series of Tax-Exempt Bonds, to the extent not inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters' fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, (v) securities or obligations pledged by the Authority or the Institution as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code;

Institution means, with respect to any Series of Bonds or any portion thereof, the not for profit hospital corporation, nursing home corporation or other entity or person that is a Member of the Obligated Group and for whose benefit the Authority has, as authorized under the Public Health Law or any other law or regulation, issued such Series of Bonds or any portion thereof;

Insurance Trustee means the person, if any, designated in the municipal bond insurance policy issued by a Credit Facility Issuer in connection with a Series of Outstanding Bonds with whom funds are to be deposited by such Credit Facility Issuer to make payment pursuant to such policy on account of the principal and Sinking Fund Installments of, and interest on the Bonds of such Series;

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution;

Loan Agreement means the Loan Agreement, executed by the Authority and an Applicable Institution, or other agreement, by and between the Authority and an Applicable Institution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by such Loan Agreement;

Master Indenture means the Master Trust Indenture by and among the Obligated Group and the Master Trustee, as the same may be amended and supplemented from time to time;

Master Trustee means The Bank of New York Mellon and any successor under the Master Indenture;

Maximum Interest Rate means, with respect to any particular Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the maximum rate of interest Bonds of such Series may bear at any time;

Member of the Obligated Group or ***Member*** means the Institution and any other Person becoming a Member of the Obligated Group pursuant to the Master Indenture;

Minimum Interest Rate means, with respect to any particular Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the minimum rate of interest Bonds of such Series may bear at any time;

Moody's means Moody's Investors Service, Inc., and its successors and assigns;

Mortgage means a mortgage granted by any Member of the Obligated Group to the Master Trustee under the Master Indenture to secure all Obligations issued by the Obligated Group thereunder;

Mortgaged Property means the real property, fixtures, personal property and other property interests described in and mortgaged pursuant to any Mortgage;

Obligated Group means the Catholic Health System Obligated Group which is comprised of Catholic Health System, Inc., Mercy Hospital of Buffalo, Sisters of Charity Hospital of Buffalo, New York, Kenmore Mercy Hospital and St. Joseph Hospital of Cheektowaga, New York, the current members; and such other organizations as may from time to time be added as members of such Obligated Group, but excluding such organizations as may from time to time withdraw as members of such Obligated Group, all as provided in the Master Indenture, pursuant to which such Obligated Group was created;

Obligation, (A) as used in the Resolution, means each Obligation issued under the Master Indenture and a Supplemental Indenture to secure a Series of Bonds issued under the Resolution; and (B) as used in the Loan Agreement, means each Obligation issued under the Master Indenture and a Supplemental Indenture to

secure payment of a Series of Bonds issued by the Authority under the Resolution, the proceeds of which are loaned to the Institution pursuant to the Loan Agreement;

Official Statement means an official statement or other offering document relating to and in connection with the sale of the Bonds, as the same may be amended or supplemented;

Option Bond means any Bond which by its terms may be or is required to be tendered by the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate related to such Bonds;

Optional Tender Date means any Business Day during a Weekly Rate Period.

Outstanding, when used in reference to Bonds of any Series means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with the Resolution; (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution; and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds;

Paying Agent means, with respect to any Series of Bonds, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of an Applicable Series Resolution, an Applicable Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of such Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed;

Permitted Collateral means any of the following: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; (iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and (iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least $125,000,000 and is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category;

Permitted Investments means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) Collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than $125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical

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

Project means, any eligible hospital project, nursing home project or other project qualified under the Act or otherwise eligible to be financed by the Authority through the issuance of obligations under the laws of the State of New York, as defined in the Applicable Loan Agreement;

Provider Payments means any payments made by a Facility Provider pursuant to its Reserve Fund Facility on deposit in the Applicable Debt Service Reserve Fund;

Qualified Financial Institution means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000: (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or Applicable Credit Facility Issuer; (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, or an insurance company or association chartered or organized under the laws of any state of the United States of America, (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 or which is a subsidiary of a foreign insurance company, (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority and the Applicable Credit Facility Issuer, if any, or (v) a corporation whose obligations including any investments purchased from such corporation for the account of an Applicable Trustee, are insured by the Applicable Credit Facility Issuer, if any; *provided, that*, in the case of any entity described in clause (i), (ii), (iii) or (iv) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement, insurance policy or surety bond issued by any such organization, have been assigned a credit rating by the Rating Service(s) rating the Bonds which is not lower than "A", without regard to plus or minus, or which bank, trust company, national banking association or securities dealer or affiliate or subsidiary thereof is approved by the Applicable Credit Facility Issuer, if any;

Rating Service(s) means each of Moody's, S&P, and Fitch, or their respective successors and assigns, in each case, which has, at the time of reference, assigned a rating to the Series 2008 Bonds at the request of the Authority.

Record Date means, unless the Applicable Series Resolution authorizing a Series of Bonds or Applicable Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteenth (15th) day (whether or not a Business Day) of the month preceding each interest payment date;

Redemption Price when used with respect to a Bond of any 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 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;

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

Resolution means the "Catholic Health System Obligated Group Revenue Bond Resolution" adopted by the Authority on October 25, 2006, as the same may be amended, supplemented or modified from time to time pursuant to the terms thereof;

Revenues means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement, and payments made under the Master Indenture or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation and all amounts realized upon liquidation of collateral securing the Applicable Obligation, which payments and amounts are pledged and assigned to the Trustee by the Authority pursuant to the Resolution and the Loan Agreement, and the Obligation is to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Applicable Arbitrage Rebate Fund and Applicable Credit Facility Repayment Fund and except as otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate relating to a Series of Bonds);

S&P means Standard & Poor's Ratings Services, and its successors and assigns;

Securities means, except as may be provided in a Series Resolution, (i) cash, (ii) Government Obligations, (iii) Federal Agency Obligations, (iv) Exempt Obligations, (v) interest-bearing time deposits, certificates of deposit or other similar investment arrangements, *provided, that*, all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement shall be continuously and fully insured by the Federal Deposit Insurance Corporation, or (v) Investment Agreements;

Serial Bonds means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate;

Series means all of the Bonds of any Series 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;

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 Bonds, 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;

Supplemental Indenture or ***Series Supplemental Indenture*** means any Supplemental Indenture created under the Master Indenture authorizing the issuance of an Obligation to secure a Series of Bonds;

Supplemental Resolution or ***Series Supplemental Resolution*** means any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution;

Tax Certificate means the certificate of the Authority, including the appendices, schedules and exhibits thereto, executed in connection with the issuance of a Series of Bonds in which the Authority makes representations and agreements as to arbitrage compliance with the provisions of Sections 141 through 150, inclusive, of the Code, or any similar certificate, agreement or other instrument made, executed and delivered in lieu of said certificate, in each case as the same may be amended or supplemented;

Tax-Exempt Bonds means any Bonds authorized to be issued under the Resolution and under an Applicable Series Resolution, the interest on which Bonds is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Code;

Term Bonds means, with respect to 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;

Trustee means The Bank of New York Mellon, appointed as Trustee for a Series of Bonds pursuant to the Resolution and having the duties, responsibilities and rights provided for in the Resolution and in the Applicable Series Resolution and Applicable Bond Series Certificate with respect to each such Series of Bonds, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution.

Variable Interest Rate means the rate or rates of interest to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds which is or may be varied from time to time in accordance with the method of computing such interest rate or rates specified in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds and which shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) which may be in effect from time to time or at a particular time or times; *provided, however*, that such variable interest rate may be subject to a Maximum Interest Rate and a Minimum Interest Rate and that there may be an initial rate specified, in each case, as provided in such Applicable Series Resolution or Applicable Bond Series Certificate or (ii) a stated interest rate that may be changed from time to time as provided in such Applicable Series Resolution or Applicable Bond Series Certificate; *provided, further*, that such Applicable Series Resolution or Applicable Bond Series Certificate shall also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each variable interest rate shall remain in effect or (y) the time or times at which any change in such variable interest rate shall become effective or the manner of determining such time or times;

Variable Interest Rate Bond means any Bond which bears a Variable Interest Rate; provided, however, that a Bond, the interest rate on which shall have been fixed for the remainder of the term thereof, shall no longer be a Variable Interest Rate Bond.

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APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES AS OF DECEMBER 31, 2011 AND 2010

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Catholic Health System, Inc. and Subsidiaries

Consolidated Financial Statements and Accompanying Information
December 31, 2011 and 2010

Catholic Health System, Inc. and Subsidiaries
Index
December 31, 2011 and 2010

Report of Independent Auditors

To the Board of Directors of the
Catholic Health System, Inc.

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Catholic Health System, Inc. and Subsidiaries (the System) at December 31, 2011 and 2010, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the long-term care and home care subsidiaries, The McAuley Residence, and OLV Renaissance Corp, wholly-owned subsidiaries, which statements reflect total assets of $87.5 million and $77.1 million as of December 31, 2011 and 2010, respectively, and total revenues of $84.7 million and $78.0 million for the years ended December 31, 2011 and 2010, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the long-term care and home care subsidiaries, The McAuley Residence, and OLV Renaissance Corp, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

April 23, 2012

PricewaterhouseCoopers LLP, 3600 HSBC Center, Buffalo, NY 14203-2879
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Catholic Health System, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2011 and 2010

(in thousands of dollars)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 207,169	$ 167,861
Patient/resident accounts receivable, net of estimated uncollectible of $20,474 and $19,638 in 2011 and 2010, respectively	109,548	104,324
Other receivables	8,524	8,356
Inventories	11,679	9,856
Prepaid expenses and other current assets	4,182	5,308
Total current assets	341,102	295,705
Interest in net assets of affiliated Foundations	3,269	3,541
Assets limited as to use	24,526	27,214
Investments	6,980	8,367
Property and equipment, net	246,716	225,315
Other assets	60,155	6,022
Total assets	$ 682,748	$ 566,164
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	$ 12,173	$ 11,389
Line of credit payable	8,380	8,380
Accounts payable	40,115	43,671
Accrued expenses	56,145	50,650
Due to third-party payors	36,322	33,681
Total current liabilities	153,135	147,771
Long-term obligations, net	118,992	116,424
Other long-term liabilities, net	367,001	223,488
Total liabilities	639,128	487,683
Net assets		
Unrestricted	38,228	73,616
Temporarily restricted	5,146	4,619
Permanently restricted	246	246
Total net assets	43,620	78,481
Total liabilities and net assets	$ 682,748	$ 566,164

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

Catholic Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

	2011	2010
Unrestricted revenues, gains and other support		
Net patient/resident service revenue	$ 825,182	$ 786,948
Other revenue	17,764	9,081
Net assets released from restrictions	149	212
Total unrestricted revenues, gains and other support	843,095	796,241
Expenses		
Salaries and wages	362,663	342,137
Employee benefits	111,352	99,058
Medical and professional fees	31,315	26,459
Purchased services	67,060	62,904
Supplies	154,493	160,209
Depreciation and amortization	32,917	29,855
Interest	6,704	6,362
Insurance	6,894	6,431
Provision for bad debts	19,362	19,936
Other expenses	25,838	26,029
Total expenses	818,598	779,380
Income from operations	24,497	16,861
Nonoperating revenues and losses		
Investment income	1,348	2,164
Other (net)	422	592
Total nonoperating revenues	1,770	2,756
Excess of revenues over expenses	$ 26,267	$ 19,617

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

Catholic Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

	2011	2010
Unrestricted net assets		
Excess of revenues over expenses	$ 26,267	$ 19,617
Change in unrealized (loss) gain on interest rate swap	(7,232)	(1,260)
Change in pension obligation	(66,764)	(24,895)
Change in unrestricted interest in related Foundations	(889)	480
Net assets released from restrictions	1,401	1,677
Grant revenue for capital expenditures	10,871	-
Other	(61)	364
Decrease in unrestricted net assets before effects of discontinued operations	(36,407)	(4,017)
Gain from discontinued operations	1,019	4,810
(Decrease) increase in unrestricted net assets	(35,388)	793
Temporarily restricted net assets		
Contributions and other	1,306	1,425
Special events revenue, net	154	54
Change in temporarily restricted interest in related Foundations	617	78
Temporarily restricted net assets released from restrictions	(1,550)	(1,883)
Increase (decrease) in temporarily restricted net assets	527	(326)
Permanently restricted net assets		
Permanently restricted net assets released from restrictions	-	(6)
Decrease in permanently restricted net assets	-	(6)
(Decrease) increase in net assets	(34,861)	461
Net assets		
Beginning of year	78,481	78,020
End of year	$ 43,620	$ 78,481

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

Catholic Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

	2011	2010
Cash flows from operating activities		
(Decrease) increase in net assets	$ (34,861)	$ 461
Change in net assets from discontinued operations	(1,019)	(4,810)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	32,917	29,855
Provision for bad debts	19,362	19,936
Change in undistributed net assets of related Foundations	272	(558)
Change in pension obligation	66,764	24,895
Grant revenue for capital additions	(10,871)	-
Change in unrealized loss on interest rate swap	7,426	1,300
Change in unrealized losses (gains) on investments	487	(548)
Undistributed earnings in equity investees	(18)	1,970
Gain on renewal of capital leases	-	(544)
Other	(236)	(147)
(Increase) decrease in assets		
Patient accounts receivable	(24,586)	(30,111)
Other receivables	(168)	(2,963)
Inventories	(1,823)	(5,176)
Prepaid expenses and other current assets	1,126	(950)
Other assets	(56)	156
Increase (decrease) in liabilities		
Account payable	(3,556)	8,092
Accrued expenses	5,334	741
Due to third-party payors	2,641	(761)
Other liabilities	14,552	8,945
Net cash provided before discontinued operations	73,687	49,783
Net cash provided by discontinued operations	1,019	5,390
Total net cash provided by operating activities	74,706	55,173
Cash flows from investing activities		
Purchase of property and equipment	(45,499)	(36,518)
Proceeds from sale of property and equipment	919	39
Purchase of assets limited as to use	(237)	(589)
Proceeds from sale of assets limited as to use	2,940	7,754
Change in investments, net	1,215	1,310
Net cash used in investing activities	(40,662)	(28,004)
Cash flows from financing activities		
Proceeds from issuance of long-term obligations	7,233	-
Proceeds of grant revenue for capital additions	10,871	-
Repayments of current and long-term obligations	(12,840)	(14,176)
Net cash used in financing activities	5,264	(14,176)
Increase in cash and cash equivalents	39,308	12,993
Cash and cash equivalents		
Beginning of year	167,861	154,868
End of year	$ 207,169	$ 167,861

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

(in thousands of dollars)

1. Organization

Catholic Health System, Inc. and Subsidiaries (CHS or the System) is an integrated healthcare delivery system in Western New York jointly sponsored by the Sisters of Mercy, Daughters of Charity and the Diocese of Buffalo. Catholic Health East (CHE), Ascension Health System and the Diocese of Buffalo are the corporate members of CHS, with equal ownership interest. CHS is the sole corporate member of the following subsidiaries:

Acute Care Subsidiaries
The Acute Care Subsidiaries include Mercy Hospital of Buffalo (MHB), Kenmore Mercy Hospital including The McAuley Residence (KMH) and Sisters of Charity Hospital (SCH) (also collectively referred to as the Hospitals).

Long-Term Care Subsidiaries
The Long-term Care Subsidiaries include St. Clare Manor (closed December 2003), St. Francis Geriatric and Healthcare Services, Inc. (closed December 2009), St. Francis Home of Williamsville, Western New York Catholic Long-Term Care, Inc. (Father Baker Manor), St. Joseph's Manor (closed August 2006), St. Luke's Manor of Batavia (closed June 2004), St. Mary's Manor (closed 2003), Nazareth Home of the Franciscan Sisters of the Immaculate Conception (closed 2007), St. Elizabeth's Home and St. Vincent's Home for the Aged.

Home Care Subsidiaries and Other
The Home Care and Other Subsidiaries include Mercy Home Care of Western New York, Inc., McAuley Seton Home Care (MSHC), Our Lady of Victory Renaissance Corporation, Catholic Health Infusion Pharmacy, Continuing Care Foundation and Catholic Health System Program of All Inclusive Care for the Elderly, Inc. (LIFE).

2. Significant Accounting Policies

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

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the System include, but are not limited to, the reserves for conditional asset retirement obligations, reserve for bad debts, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for worker's compensation, health insurance, professional and general liability, and actuarial assumptions used in determining pension expense.

(in thousands of dollars)

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to third-party payment matters will change by a material amount in the near term.

Cash and Cash Equivalents
The System considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short term investments (certificates of deposit), excluding amounts limited as to use, to be cash equivalents. The System maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance limits.

	2011	2010
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 6,655	$ 6,328
Non-cash transactions		
Assets acquired under capital lease obligations	$ 8,911	$ 16,213
Other non-cash transactions	$ 161	$ -

Inventory Valuation
Inventories are generally stated at the lower of cost (first-in, first-out) or market.

Assets Limited as to Use
Assets limited as to use include assets set aside for debt service as required by trustee or indenture agreements, and assets set aside by the Board of Directors for specific future purposes. The Board retains control of these funds and may at its discretion subsequently use for other purposes.

Investments
Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in changes in net assets.

Investment returns (including unrealized gains and losses on trading securities, realized gains and losses on investments, interest income and dividends) is included in excess of revenue over expenses unless such earnings are restricted by donor or law. Investment income restricted by donors or law is reported as an increase in temporarily or permanently restricted net assets. Investment income is reported net of investment related expenses.

(in thousands of dollars)

Prepaid Expenses and Other Assets
Prepaid expense and other assets consist of prepaid general expenses, deferred financing costs, investments in health care related joint ventures and partnerships, and other miscellaneous deferred charges. Amortization of financing costs is provided on the effective interest method over the maturity of the bond issues. The investments in health care related joint ventures and partnerships are accounted for on the equity or cost methods, as appropriate.

The composition of prepaid expenses and other assets is as follows at December 31:

	2011	2010
Prepaid general expenses	$ 3,942	$ 5,060
Other assets	240	248
Prepaid expenses and other current assets	$ 4,182	$ 5,308
Insurance recoveries	$ 54,353	$ -
Deferred financing costs, net	4,029	4,230
Investments in healthcare ventures	226	207
Loans to related parties	300	438
Other	1,247	1,147
Other assets	$ 60,155	$ 6,022

Property and Equipment
Property and equipment are stated at cost if purchased, or if contributed, at the fair market value on the date contributed. Depreciation is computed using the straight-line method over useful lives ranging from three to forty years. Equipment under capital lease is amortized on the straight-line method over the period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets
The System evaluates its long-lived assets for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The System evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. No impairment loss was warranted in 2011 or 2010.

(in thousands of dollars)

Asset Retirement Obligations
The System accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the System will recognize a gain or loss for any difference between the settlement amount and liability recorded. Accretion expense for the years ended December 31, 2011 and 2010 was $416 and $395, respectively.

Other Long-Term Liabilities
Other long-term liabilities consist primarily of long-term pension obligations, asset retirement obligations, insurance reserves and other long-term liabilities. The composition of other long-term liabilities is as follows at December 31:

	2011	2010
Insurance liabilities	$ 85,602	$ 26,736
Long-term pension obligation	256,270	180,026
Asset retirement obligation	8,866	8,510
Interest rate swap	15,185	7,759
Other	1,078	457
	$ 367,001	$ 223,488

Net Patient/Resident Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors. The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Third-party payors retain the right to review and propose adjustments to amounts recorded by the System. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. CHS's Healthcare Assistance Program provides discounts to patients based on need. In addition, the System will also assist patients with the application process for free or low-cost insurance. Those uninsured patients who do not qualify for the Healthcare Assistance Program or low-cost insurance and live in New York State, a state contiguous to New York State, or the state of Ohio, are provided an uninsured discount based on a service specific uninsured rate. This uninsured rate is similar in calculation method and amount to third party payor methods and rates.

Under the New York Health Care Reform Act (NYHCRA), hospitals are authorized to negotiate reimbursement rates with certain non-Medicare payors except for Medicaid, Workers' Compensation and No-fault, which are regulated by New York State. These negotiated rates may take the form of rates per discharge, reimbursed costs, discounted charges or as per diem payments. Reimbursement rates for non-Medicare payors regulated by New York State are determined on a prospective basis. These rates also vary according to a patient classification system defined by HCRA that is based on clinical, diagnostic and other factors.

(in thousands of dollars)

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

- **Medicare.** Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor. Cost reports have been audited and finalized by the Medicare Administrative Contractor through December 31, 2006.

- **Non-Medicare**. The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payors, except Medicaid, Workers' Compensation and No-Fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payors are billed at hospitals established charges. Medicaid, Workers' Compensation and No-Fault payors pay hospital rates promulgated by the New York State Department of Health (DOH) on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate the NYS DRG rates and service intensity weights (SIWs) in order to utilize refined data and more current information in DOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

Amounts recognized in 2011 and 2010 related to prior years, including adjustments to prior year estimates increased the performance indicator approximately $10,000 and $7,640, respectively. These changes in estimates related to estimates for prior years cost report reopening, appeals, and tentative final cost reports, some of which are still subject to audit, additional reopening, and/or appeals.

Approximately 52% and 50% of net patient/resident service revenue was generated from services rendered to patients/residents under Medicare and Medicaid programs in 2011 and 2010, respectively. Approximately 28% of net patient/resident service revenue was generated from services rendered to patients under managed care programs in 2011 and 2010.

There are various proposals at the federal and state level that could, among other things reduce payment rates. The outcome of these proposals, regulatory changes and other market conditions cannot presently be determined.

(in thousands of dollars)

Charity Care
The System provides services to all patients regardless of ability to pay. A patient is classified as a charity patient based on income eligibility criteria as established by the Healthcare Assistance Program (HAP) which is determined by presentation for care without insurance, while using an estimator (PARO) of each guarantor's ability to pay. Free care is determined at 110% of Federal Poverty Guidelines (FPG), whereas discounted care is also provided at 500% FPG.

Of the System's total expenses reported, an estimated $8,106 and $6,108 arose from providing services to charity patients in 2011 and 2010, respectively. Costing is a full step down methodology of cost from non-revenue producing departments to revenue producing departments, with assignment of cost to individual charge items based on volume and charge amount. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the Health Care Reform Act (HCRA). Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

The Hospitals provide care to patients at no charge or at discounted rates who meet eligibility requirements under its Health Care Assistance Policy (charity care). In addition to charity care, the Hospitals provide services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid may be at or below costs in addition to the cost of care for patients without insurance. The Hospitals are also required to pay a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the Health Care Reform Act (HCRA).

Operating and Nonoperating Revenue
The System's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The System is committed to providing a broad range of general and specialized health care services including inpatient, primary care, long-term care, outpatient services, and other health care related services. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Such activities include operation of cafeterias, parking lots, rental real estate and other ancillary activities. Other activities that result in gains or losses unrelated to the System's primary mission are considered to be nonoperating.

(in thousands of dollars)

Electronic Health Record Incentive Payments
The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The System recognized income related to Medicare and Medicaid incentive payments using a gain contingency model that is based upon when the eligible hospitals have demonstrated meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

Medicaid EHR incentive calculations and related payment amounts are based upon prior period cost report information available at the time our eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, and are not subject to revision for cost report data filed for a subsequent period. Thus, incentive income recognition occurs at the point the eligible hospitals adopt, implement or demonstrate meaningful use of certified EHR technology for the applicable period, as the cost report information for the full cost report year that will determine the final calculation of the incentive payment is known at that time. Medicare EHR incentive calculations and related initial payment amounts are based upon the most current filed cost report information available at the time the eligible hospitals demonstrate meaningful use of certified EHR technology for the applicable period. However, unlike Medicaid, this initial payment amount will be adjusted based upon an updated calculation using the annual cost report information for the cost report period that began during the applicable payment year. Thus, incentive income recognition occurs at the point the eligible hospitals demonstrate meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

The System recognized $8.7 million of electronic health record incentive income related to Medicare incentive programs during the year ended December 31, 2011 which is recorded in other operating revenue.

Other Expenses
The composition of other expenses for the years ended December 31, is set forth in the following table:

	2011	2010
Rents and operating leases	$ 8,315	$ 8,261
Dues	4,986	4,668
Cash receipt assessment	3,888	3,245
Taxes, travel and miscellaneous other	8,649	9,855
	$ 25,838	$ 26,029

Contributions
Contributions received are recorded as unrestricted, temporary restricted or permanently restricted net assets depending on the existence and nature of any donor restrictions.

(in thousands of dollars)

Contributions and pledges that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished in the reporting period in which the contribution is recognized. All other donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets released from restrictions.

Excess of Revenues over Expenses
The consolidated statements of operations and changes in net assets includes excess of revenues over expenses, commonly referred to as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, permanent transfers of assets to and from subsidiaries for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), the effective portion of cash flow hedging derivatives, and pension liability adjustments.

Net assets
Unrestricted net assets are available for the general operating purposes of the System and are not subject to any donor limitations.

Temporarily restricted net assets are those whose use is limited by donors to a specific period or purpose and includes the Hospital's interest in the temporarily restricted net assets of the Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., Kenmore Mercy Hospital Foundation, Inc. St. Francis Foundation, Inc. and Continuing Care Foundation, Inc. (collectively "the Foundations"). Temporarily restricted net assets are released to unrestricted net assets as restrictions are met, which can occur in the same period. Gifts whose restrictions are met in the same period in which they are received are recorded as an increase in unrestricted net assets. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift, pledges to be paid in future periods, life income funds. Investment return is included in unrestricted net assets unless the return is restricted by donor or law.

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

In September 2010, New York State enacted its version of the Uniform prudent Management of Institutional funds Act (UPMIFA). The Hospital has interpreted UPMIFA as requiring the preservation of the value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

(in thousands of dollars)

The System considers the following factors in determining if donor-restricted endowment funds are accumulated or appropriated:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment funds
3. General economic conditions
4. Effect of possible inflation or deflation
5. The expected total investment return and appreciation of investments
6. Other resources of the System
7. Investment policies of the System

Income Taxes
The consolidated financial statements do not include a provision for income taxes, as the System is a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. The tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the Internal Revenue Code which are reported as other expenses in these financial statements.

Transactions among Subsidiaries
Common costs incurred by CHS are allocated to the subsidiaries on a pro-rata cost basis formula. The allocation of these costs is recorded as other revenue by CHS and are recorded by the subsidiaries as a component of the natural account classification. The related income and expense is eliminated in the consolidated financial statements. The respective assets and liabilities are eliminated in the consolidated financial statements.

Capitalized Software Costs
The Acute Care subsidiaries capitalize certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with accounting guidance. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. CHS capitalized software, computer equipment, and other external costs of $4,882 during 2011 and $2,598 during 2010. Capitalized project labor costs amounted to $1,383 during 2011 and $820 during 2010.

Reclassifications
Certain prior year amounts were reclassified to conform to the 2011 consolidated financial statement presentation.

Subsequent Events
The System evaluated subsequent events through April 23, 2012 which was the date the financial statements were issued.

3. New Authoritative Pronouncements

In August 2010, the Financial Accounting Standards Board ("FASB") issued guidance that requires health care entities to use cost as the measurement basis for charity care disclosures and defines cost as the direct and indirect costs of providing charity care. The amended disclosure requirements are effective for fiscal years beginning after December 15, 2010 and must be applied retrospectively. Note 2 - Charity Care reflects the amended disclosure requirements, and the costs of caring for charity care patients. Since the new guidance amends disclosure requirements only,

(in thousands of dollars)

its adoption did not impact the Hospital's statement of financial position, statement of operations, or cash flow statement.

In August 2010, the FASB amended the Accounting Standards Codification ("ASC") to extend the guidance on netting receivables and payables in ASC 210-20, "Balance Sheet: Offsetting, to health care entities, prohibiting offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. The amended guidance is effective for fiscal years beginning after December 15, 2010. The System adopted the amended guidance on January 1, 2011. The System did not recognize a cumulative effect adjustment to beginning net assets as of January 1, 2011 because the increase to liabilities as a result of adopting the amended guidance was equal to the increase in insurance recoveries receivable. Because the System elected not to retrospectively adopt the amended guidance, there was no impact on the System's prior period consolidated balance sheet, statements of operations, or cash flow statements.

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. ASU 2011-07 includes amendments to FASB's ASC Topic 954, Health Care Entities. The objective of the update is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amendments requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered, even though they do not immediately assess the patients' ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The standard is effective for December 31, 2012 and is not expected to have a significant impact on the consolidated financial statements.

4. Interest in Net Assets of Affiliated Foundations

The System accounts for its interest in the Kenmore Mercy Hospital Foundation in accordance with the provisions of not-for-profit accounting guidance. This guidance establishes standards for transactions in which a not-for-profit organization (the recipient organization, or the Foundation) accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity (the beneficiary) that is specified by the donor. This guidance further provides that when these organizations are financially interrelated, as defined in this guidance, the beneficiary is required to recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets.

The Foundation is a separate not-for-profit organization with its own board of directors and finances separate from that of the System and is not part of CHS's financial reporting entity. However, the System can influence the financial decisions of the Foundation to such an extent that the System can determine the timing and amount of distributions from the Foundation, and as such, the net asset classifications reported by the System is consistent with the Foundation's financial statements.

(in thousands of dollars)

A summary of the Foundation's aggregated assets, liabilities, net assets, and changes in net assets is as follows:

	2011	2010
Cash, investments and other assets	$ 4,229	$ 3,579
Total assets	$ 4,229	$ 3,579
Liabilities	$ 960	$ 38
Net assets		
Unrestricted	2,500	3,389
Temporarily restricted	769	152
Total net assets	3,269	3,541
Total net assets and liabilities	$ 4,229	$ 3,579
Change in unrestricted net assets	$ (889)	$ 480
Change in temporarily restricted net assets	617	78
	$ (272)	$ 558

Distributions were made in the amount of $59 and $574 during 2011 and 2010, respectively.

5. Assets Limited as to Use

The composition of assets limited as to use is as follows at December 31:

	2011	2010
By Board for capital improvements		
Funded depreciation		
Cash and cash equivalents	$ 2,936	$ 3,459
U.S. government obligations	11,377	11,185
Interest receivable	57	78
	14,370	14,722
Held by Trustee under Indenture Agreement		
Renewal, replacement and depreciation		
Cash and cash equivalents	3,833	3,834
Held by Trustee under Letter of Credit Agreement		
Cash and cash equivalents	5,679	8,023
Other	644	635
Assets limited as to use	$ 24,526	$ 27,214

(in thousands of dollars)

6. Investments

Investments consisted of the following as of December 31:

	2011	2010
Investment in debt and equity securities		
Fair value	$ 6,980	$ 8,367
Cost	6,571	7,471
Unrealized gain (loss)	$ 409	$ 896

Investment income is summarized as follows for the years ended December 31:

	2011	2010
Interest and dividend income	$ 1,535	$ 1,415
Net unrealized and realized gains (losses) on investments	(187)	749
Total investment income	$ 1,348	$ 2,164

7. Property and Equipment

Property and equipment, recorded at cost, consists of the following at December 31:

	2011	2010
Land and land improvements	$ 6,934	$ 6,740
Buildings	196,333	192,345
Equipment	148,588	151,990
Equipment under capital leases	41,795	37,333
Leasehold improvements	47,651	28,690
	441,301	417,098
Accumulated depreciation	(191,420)	(195,823)
Accumulated amortization on equipment under capital leases	(16,697)	(14,054)
	233,184	207,221
Construction in progress	13,532	18,094
	$ 246,716	$ 225,315

Depreciation expense in 2011 and 2010 amounted to approximately $26,176 and $24,501, respectively. Amortization expense on equipment under capital leases amounted to $6,107 and $4,753 in 2011 and 2010, respectively. Fully depreciated assets and capital leases of $30,446 and $24,885 were written-off for the years ended December 31, 2011 and 2010, respectively.

(in thousands of dollars)

8. Long-Term Obligations

Long-term obligations are comprised of the following at December 31:

	2011	2010
Mercy Hospital of Buffalo		
Series 2006 Revenue Bonds (a)	$ 10,569	$ 11,152
Series 2008 Revenue Bonds (b)	23,515	24,097
Mercy Comprehensive Care Center, monthly payments of $9, including interest at 6.25%, matures November 2015	364	-
Cafeteria renovation loan with Aramark Healthcare, in monthly payments of $16, matures February 2015	656	-
Capital lease obligations, at interest rates ranging from 3.38% to 8.10%, collateralized by equipment	10,550	7,762
Other	14	27
	45,668	43,038
Kenmore Mercy Hospital		
Series 2006 Revenue Bonds (a)	12,420	13,319
Mortgage payable, The McAuley Residence (c)	6,686	7,087
Capital lease obligations, at various rates of interest ranging from 3.89% to 8.10%, collateralized by equipment	3,733	4,369
Other	58	64
	22,897	24,839
Sisters of Charity Hospital		
Series 2006 Revenue Bonds (a)	30,288	31,961
Capital lease obligations at various rates of interest ranging from 3.89% to 8.10%, collateralized by equipment	7,808	8,696
	38,096	40,657
Father Baker Manor		
Mortgage payable to Century Health Capital, Inc. in monthly installments of $64 including interest at 5.375% through March 2025 (d)	7,251	7,617
Our Lady Victory Renaissance		
Series 2007A Variable Rate Demand Bonds (e)	9,540	9,780
Series 2007B Variable Rate Demand Bonds (e)	1,560	1,605
Loan payable with HSBC Bank for Data Center construction, in monthly payments ranging from $95 to $110, including interest at 3.05%, matures December 2016	6,120	-
	17,220	11,385
Other	33	277
Total long term obligations	131,165	127,813
Less: Current maturities	12,173	11,389
Long-term obligations, net	$ 118,992	$ 116,424

(in thousands of dollars)

a. In November 2006, the System executed a restructuring transaction related to its outstanding debt. The System formed the Catholic Health System Obligated Group (the Obligated Group), consisting of its three primary hospitals (Mercy Hospital, Sisters of Charity, and Kenmore Mercy) and CHS. No affiliates of CHS other than the Members of the Obligated Group were included in this offering. On November 29, 2006, $68,820 of Dormitory Authority of the State of New York (DASNY) Catholic Health System Obligated Group Revenue Bonds, Series 2006 were issued. The bonds consisted of the following:

- Series 2006 A Bonds for $13,360 was loaned to MHB in order to finance the cost of MHB's operating room expansion, other expansions and improvements at MHB's facility.

- Series 2006 B Bonds for $30,295 was loaned to SCH for the purpose of refunding the Authority's SCH Insured Revenue Bonds, Series 2003, which bonds were issued for the purpose of refunding a series of bonds issued in 1991, the proceeds of which were applied to finance the construction and renovation of the SCH facilities and to refinance outstanding indebtedness. Series 2006D for $8,435 was loaned to SJC to finance the cost of the SJC emergency room expansion project.

- Series 2006 C Bonds for $16,730 was loaned to KMH for the purpose of refunding the NYS Medical Care Facilities Finance Agency FHA - Insured Mortgage Project Revenue Bonds, 1995 Series B which were applied to finance the construction of a three floor patient tower, certain renovations to the KMH facility and to refinance outstanding indebtedness.

In connection with the issuance of the Series 2006 Bonds, the Obligated Group entered into a Loan Agreement (the Loan Agreement) whereby the Obligated Group is required to pay funds sufficient in timing and amount to pay the principal and redemption price of the Series 2006 Bonds and related interest and administrative expenses as they come due. The Series 2006 Bonds pay interest at a variable remarketed rate and are collateralized by a Letter of Credit with HSBC Bank which expires on November 29, 2014. In the event the letter of credit is not renewed at expiration, the outstanding Bonds, at the option of the members of the Obligated Group, will convert to a five year (initial) Term Loan. Repayment of the principal of Initial Term Loan shall be identical to the scheduled principal payments on the Bonds with the remaining amount due at the end of the five year term.

The interest borne by the Series 2006 Bonds will be determined by the Remarketing Agent to be the lowest rate that, in the judgment of the Remarketing Agent, under prevailing financial market conditions, enables such Series 2006 Bonds to be sold at a price of par. The variable interest rate was 0.11% and 0.33% at December 31, 2011 and 2010, respectively.

The Loan Agreement specifies that the Obligated Group shall continuously pledge, as a collateral for the payment of all liabilities and the performance of all obligations of the Obligated Group pursuant to the loan agreement, a security interest in and assignment of the gross receipts of the Obligated Group, together with the Hospitals' right to receive or collect the gross receipts. Further, the Obligated Group delivered a mortgage to secure all obligations and liabilities of the Hospitals' under the loan agreement. As further collateral to the loan agreement, the Obligated Group granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Obligated Group.

(in thousands of dollars)

Certain financial covenants must be maintained by the Obligated Group. Failure to comply with these covenants requires a formal consultants report and quarterly progress reports demonstrating how the facility is progressing towards compliance. The Loan Agreement requires the Obligated Group to comply with certain financial covenants, including maintenance of (i) a minimum number of days cash on hand; (ii) long-term debt service coverage; (iii) a maximum leverage ratio. The Obligated Group was in compliance with these covenants at December 31, 2011 and 2010.

b. On November 19, 2008, $24,700 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008 was issued. Series 2008 was loaned to the Obligated Group for the purpose of financing the cost of an approximately 48,300 square foot addition (Mercy Hospital of Buffalo) for a new emergency department, new imaging facilities, construction of a new main entrance and lobby area, a new ambulance entrance, construction of a rooftop helipad, renovation of library space into conference rooms, other mechanical and electrical improvements and associated demolition and equipping costs. Proceeds of the Series 2008 Bonds were also applied to pay certain costs of issuing the Bonds. The discount on the bonds of $322 will be accreted over the life of the bonds.

The Series 2008 Bonds were issued under the Master Trust Indenture that was created in 2006 during the formation of the Obligated Group. All material components of the Series 2008 mirror the Series 2006. Among these items are the following: 1) a variable remarketed rate (determined by the Security Industry and Financial Markets Association (SIFMA)) collateralized by a letter of credit with HSBC Bank expiring November 18, 2013 (with the option of an initial term loan), 2) a security interest in and assignment of gross receipts of the Hospital, together with the Hospital's right to receive or collect the gross receipts, 3) consistent financial covenants, and 4) execution of an interest rate swap agreement (with HSBC Bank) consistent with the terms utilized in the 2006 swap agreement (see note 9). The variable interest rate was 0.11% and 0.33% at December 31, 2011 and 2010, respectively.

c. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of $65 including interest of 5.51%. The mortgage is collateralized by building and equipment.

d. The debt is collateralized by the underlying property and equipment, and is guaranteed by the U.S. Department of Housing and Urban Development. Father Baker Manor is subject to a prepayment penalty in declining amounts if the debt is satisfied prior to April 2014.

e. On April 1, 2007, the OLV Renaissance entered into agreements with the Erie County Industrial Development Agency's (the Agency) for the purpose of obtaining revenue bonds used to finance construction of its SNF and PACE facilities. The agency took title to the facility through a lease agreement and simultaneously conveyed title back to OLV Renaissance through an installment sale of the lease interests. OLV Renaissance is obligated to make lease rental payments to the bond trustee, as the Agency's assignee, in amounts which correspond to the principal and interest payments on the bonds. At the expiration of the leases' term (April 2032), title fully reverts back to OLV Renaissance. On April 25, 2007, the Agency issued variable rate demand revenue bonds with an aggregate principal amount of $11,860. The bond issue consists of two series of bonds: $10,220 in variable rate demand Revenue Bonds Series 2007A (Series 2007A Bonds) and $1,640 in variable rate demand Revenue Bonds Series 2007B (Series 2007B Bonds).

(in thousands of dollars)

The Variable Interest Rate is determined by the remarketing agent based on (1) market interest rates for comparable securities; (2) other financial market rates and indices (including, but not limited to treasury bills, commercial paper, commercial bank prime rates, HUD project notes, federal fund rates and LIBOR); (3) general financial and credit market conditions; (4) credit rating and financial condition of OLV Renaissance; and (5) applicable tender provisions which may have bearing on the rate. The variable interest rate was 0.11% for the Series 2007A bonds and 0.33% for the Series 2007B bonds at December 31, 2011. See note 9 regarding the interest rate swap agreement OLV Renaissance entered into with respect to the Series 2007A Revenue Bonds.

The bonds are subject to conversion to a fixed interest rate at the written direction of OLV Renaissance. Upon conversion, the remarketing agent shall determine the fixed interest rate as the lowest rate of interest that would be necessary to sell the bonds in the secondary market at par plus accrued interest, based on prevailing market conditions and the yields at which comparable securities are being sold.

The Series 2007A Revenue Bonds are subject to mandatory sinking fund redemptions in years 2012 to 2032 in amounts ranging from $250 to $740 at variable interest rates. The Series 2007B Revenue Bonds are subject to mandatory sinking fund redemptions in years 2012 to 2032 in amounts ranging from $45 to $115.

Under the terms of the financing documents, OLV Renaissance has guaranteed payment of all amounts due under the Bonds. Additionally, the bonds are secured by first mortgage liens on all buildings, improvements and equipment now owned or subsequently acquired by OLV Renaissance, all unrestricted accounts receivable and a right of setoff against OLV Renaissance's funds held by the trustee.

In accordance with the financing documents, at the option of the Issuer and upon notice given by OLV Renaissance, the Series 2007A Revenue Bonds are subject to optional redemption at 100%. In connection with the Bond financing, OLV Renaissance has executed an irrevocable direct pay letter of credit with a financial institution for a maximum amount of $11,206 which expires on April 25, 2012. An extension to the letter of credit has been executed with an expiration date of May 1, 2015. There is no outstanding amount at December 31, 2011 or 2010. OLV Renaissance is required to pay an annual fee of 0.95% to maintain the letter of credit which is calculated on maximum amount available. Under the extension, the fee increases to 1.25%.

The bond agreements require certain covenants including debt service coverage and debt to capitalization to be maintained. The covenants were in effect during the year ended December 31, 2011. OLV Renaissance's primary tenant, Mercy Hospital of Buffalo is also required to comply with a covenant to maintain minimum long-term debt service coverage as of any testing date. OLV Renaissance failed the debt service coverage and debt to capitalization covenants for December 31, 2011. OLV Renaissance obtained a waiver from HSBC Bank USA, NA, for the December 31, 2011 covenants therefore, the debt is appropriately categorized as long-term.

(in thousands of dollars)

Aggregate maturities of long-term debt, including capital lease obligations, subsequent to December 31, 2011 are as follows:

	Long-Term Debt	Capital Leases	Total
2012	$ 6,276	$ 6,750	$ 13,026
2013	6,524	6,139	12,663
2014	6,800	5,797	12,597
2015	7,069	3,586	10,655
2016	7,271	993	8,264
Thereafter	74,445	1,511	75,956
	$ 108,385	24,776	133,161
Less: Interest		(1,996)	(1,996)
		$ 22,780	$ 131,165

At December 31, 2011 and 2010, the System had a revolving line of credit of $20,000 of which $8,380 was outstanding as of December 31, 2011 and 2010. The variable interest rate was 2.30% and 2.26% at December 31, 2011 and 2010, respectively.

Operating Leases
Future minimum lease payments under noncancelable operating leases (net of sublease rentals) are as follows at December 31, 2011:

2012	$ 8,913
2013	8,675
2014	6,482
2015	5,821
2016	4,260
Thereafter	4,746
	38,897
Less: Minimum sublease rental	1,214
	$ 37,683

Total expense for rents and operating type leases was approximately $8,315 and $8,261 for 2011 and 2010, respectively.

9. Derivative Financial Instruments

In connection with the issuance of the Series 2006 and Series 2008 Bonds and execution of the Loan Agreement, the Hospitals entered into interest rate swap agreements (derivative agreements) with HSBC Bank USA, NA and JP Morgan Chase (the Financial Institutions) for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospitals agreed not to take or omit to take any action that could reasonably be expected to result in the termination of the derivative agreement unless otherwise approved by the Financial Institutions, provided, however, that termination of the derivative agreement shall not constitute an event of

(in thousands of dollars)

default for purposes of the Loan Agreement, but upon any such termination of the derivative agreement, the Financial Institutions may require that the Hospitals direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The terms of the Series 2006 swap require the Hospitals to pay a fixed rate of 3.80% on the notional amount ($68,820 at December 31, 2011) and in exchange, the Hospitals will receive a variable rate payment based upon the Securities Industry and Financial Markets Association Index (SIFMA), calculated weekly. The notional amount of the swap is matched to the maturity schedule of the Series 2006 Bonds. The 2006 swap agreement was executed on December 13, 2006 and expires July 1, 2025. The terms of the Series 2008 swap require the Hospitals to pay 3.785% on the notional amount ($24,700 at December 31, 2011) and in exchange, the Hospitals will receive a variable rate payment based upon the SIFMA, calculated weekly. The 2008 swap agreement was executed on November 19, 2008 and expires on July 1, 2034. These dates correlate to the issue date and due date of the Bonds. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

During 2007, OLV Renaissance entered into a hedging agreement with respect to interest rate exposure on the Series 2007A Revenue Bond. OLV Renaissance uses the interest rate swap agreement to reduce its exposure to interest rate changes. The interest rate swap fixes the interest rate paid by OLV Renaissance at 4.143% over the life of the bond, which matures in April 2032. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The effective portion of the hedge has been excluded from excess of revenues over expenses and recorded within changes to net assets.

The fair value of derivative instruments at December 31 is as follows:

	2011		2010	
(in thousands of dollars)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts Floating to fixed	Other liabilities	$ 15,185	Other liabilities	$ 7,759

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2011 and 2010 are as follows:

	Amount of Gain (Loss) Recognized in Statement of Operations		Amount of Gain (Loss) Recognized in Net Assets	
(in thousands of dollars)	**2011**	**2010**	**2011**	**2010**
Change in fair value of interest rate swaps	$ (194)	$ (40)	$ (7,232)	$ (1,260)

The Hospital measures its interest rate swaps at fair market value on a recurring basis. The fair market value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level 2 within the fair value hierarchy defined in Note 15.

(in thousands of dollars)

10. Obligated Group Financial Information

In November 2006, the System formed the Catholic Health System Obligated Group (the Obligated Group), consisting of its four primary hospitals (Mercy Hospital, Sisters of Charity, St. Joseph Hospital, and Kenmore Mercy) and the Parent. In 2006, the System issued $68,820 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2006. In 2008, $24,700 of DASNY - Catholic Health System Obligated Group Revenue Bonds, Series 2008 was issued. These Revenue Bonds are joint and several obligations of the members of the Obligated Group. No affiliate of CHS, other than Members of the Obligated Group, is obligated for amounts due under the Series 2006 and Series 2008 Obligations.

(in thousands of dollars)

The following supplemental consolidating financial information for the Obligated Group presents the balance sheets as of December 31, 2011 and 2010 and statements of operations, changes in net assets, and cash flows for the years then ended.

These statements do not represent the results of the System.

Balance Sheet

	December 31, 2011			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Assets				
Current assets				
Cash and cash equivalents	$ 15,979	$ 168,218	$ -	$ 184,197
Patient/residents accounts receivable, net of estimated uncollectibles of $18,978	-	100,592	-	100,592
Other receivables	240	7,689	-	7,929
Inventories	-	11,276	-	11,276
Prepaid expenses and other assets	2,393	1,361	-	3,754
Due from affiliates	41,462	720	(34,946)	7,236
Total current assets	60,074	289,856	(34,946)	314,984
Interest in net assets of related foundation	-	3,269	-	3,269
Assets limited as to use, net	2,752	8,458	-	11,210
Investments	-	6,980	-	6,980
Property and equipment, net	14,250	205,199	-	219,449
Other assets	833	51,602	-	52,435
Due from affiliates	6,110	11,855	(14,452)	3,513
Total Assets	$ 84,019	$ 577,219	$ (49,398)	$ 611,840
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 33	$ 10,309	$ -	$ 10,342
Line of credit payable	8,380	-	-	8,380
Accounts payable	3,074	34,926	-	38,000
Accrued expenses	20,104	31,517	-	51,621
Due to third-party payors	-	33,540	-	33,540
Due to affiliates	251	26,849	(26,695)	405
Total current liabilities	31,842	137,141	(26,695)	142,288
Long-term obligations, net	-	96,353		96,353
Other long-term liabilities	60,881	301,926	(11,760)	351,047
Total liabilities	92,723	535,420	(38,455)	589,688
Net assets (deficit)				
Unrestricted	(9,102)	37,173	(10,943)	17,128
Temporarily	398	4,380	-	4,778
Permanent	-	246	-	246
Total net assets (deficit)	(8,704)	41,799	(10,943)	22,152
Total Liabilities and Net Assets	$ 84,019	$ 577,219	$ (49,398)	$ 611,840

(in thousands of dollars)

Balance Sheet

	December 31, 2010			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Assets				
Current assets				
Cash and cash equivalents	$ 12,843	$ 134,730	$ -	$ 147,573
Patient/residents accounts receivable, net of estimated uncollectibles of $17,825		96,720	-	96,720
Other receivables	502	7,147	-	7,649
Inventories		9,713	-	9,713
Prepaid expenses and other assets	1,565	2,762	320	4,647
Due from affiliates	23,014	511	(19,652)	3,873
Total current assets	37,924	251,583	(19,332)	270,175
Interest in net assets of related foundation		3,541	-	3,541
Assets limited as to use, net	2,752	11,383	-	14,135
Investments	-	8,367	-	8,367
Property and equipment, net	15,917	185,830	-	201,747
Other assets	185	4,373	-	4,558
Due from affiliates	6,809	11,819	(15,129)	3,499
Total Assets	$ 63,587	$ 476,896	$ (34,461)	$ 506,022
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 233	$ 10,505	$ -	$ 10,738
Line of credit payable	8,380	-	-	8,380
Accounts payable	2,314	39,632	-	41,946
Accrued expenses	16,938	29,753	-	46,691
Due to third-party payors	-	28,362	-	28,362
Due to affiliates	215	10,178	(10,047)	346
Total current liabilities	28,080	118,430	(10,047)	136,463
Long-term obligations, net	44	98,029	-	98,073
Other long-term liabilities	48,190	181,425	(11,760)	217,855
Total liabilities	76,314	397,884	(21,807)	452,391
Net assets (deficit)				
Unrestricted	(12,727)	74,567	(12,654)	49,186
Temporarily	-	4,199	-	4,199
Permanent	-	246	-	246
Total net assets (deficit)	(12,727)	79,012	(12,654)	53,631
Total Liabilities and Net Assets	$ 63,587	$ 476,896	$ (34,461)	$ 506,022

(in thousands of dollars)

Statement of Operations and Changes in Net Assets

	December 31, 2011			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ -	$ 754,841	$ -	$ 754,841
Other revenue	104,014	19,212	(100,470)	22,756
Net assets released from restrictions	-	149	-	149
Total unrestricted revenues, gains and other support	104,014	774,202	(100,470)	777,746
Expenses				
Salaries and wages	54,450	320,935	(49,451)	325,934
Employee benefits	14,405	100,464	(13,485)	101,384
Medical and professional fees	4,938	25,768	(3,417)	27,289
Purchased services	17,962	65,269	(19,047)	64,184
Supplies	584	149,725	(545)	149,764
Depreciation and amortization	2,844	29,983	(2,844)	29,983
Interest	201	5,785	(201)	5,785
Insurance	253	6,392	(245)	6,400
Provision for bad debts	-	17,888	-	17,888
Other expenses	8,453	28,500	(11,651)	25,302
Total expenses	104,090	750,709	(100,886)	753,913
(Loss) income from operations	(76)	23,493	416	23,833
Nonoperating revenues and losses				
Investment income	20	1,102	(20)	1,102
Other	56	770	(396)	430
Total nonoperating revenues and losses	76	1,872	(416)	1,532
Excess of revenues over expenses	-	25,365	-	25,365

(in thousands of dollars)

Statement of Operations and Changes in Net Assets (Continued)

	December 31, 2011			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Excess of revenues over expenses	$ -	$ 25,365	$ -	$ 25,365
Change in pension obligation	(9,792)	(54,410)	-	(64,202)
Change in unrestricted interest in related Foundations	-	(889)	-	(889)
Change in unrealized loss on interest rate swap	-	(6,188)	-	(6,188)
Net assets released from restrictions	-	1,032	-	1,032
Grant revenue for capital expenditures	5,372	5,499	-	10,871
Other	8,045	(7,803)	-	242
Valuation allowance on intercompany receivables	-	-	1,711	1,711
Increase (decrease) increase in unrestricted net assets	3,625	(37,394)	1,711	(32,058)
Temporarily restricted net assets				
Contributions and other	398	591	-	989
Special events revenue, net	-	154	-	154
Change in temporarily restricted interest in net assets of related Foundation	-	617	-	617
Temporarily restricted net assets released from restrictions	-	(1,181)	-	- (1,181)
Increase in temporarily restricted net assets	398	181	-	579
Increase (decrease) in net assets	4,023	(37,213)	1,711	(31,479)
Net assets, beginning of year	(12,727)	79,012	(12,654)	53,631
Total net assets, end of year	$ (8,704)	$ 41,799	$ (10,943)	$ 22,152

(in thousands of dollars)

Statement of Operations and Changes in Net Assets

	December 31, 2010			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ -	$ 724,939	$ -	$ 724,939
Other revenue	92,985	12,711	(91,324)	14,372
Net assets released from restrictions	-	154	-	154
Total unrestricted revenues, gains and other support	92,985	737,804	(91,324)	739,465
Expenses				
Salaries and wages	50,202	303,209	(45,418)	307,993
Employee benefits	12,256	89,407	(11,462)	90,201
Medical and professional fees	3,542	23,672	(2,952)	24,262
Purchased services	15,180	64,397	(17,807)	61,770
Supplies	619	156,044	(578)	156,085
Depreciation and amortization	2,534	27,035	(2,534)	27,035
Interest	219	5,412	(219)	5,412
Insurance	310	5,980	(301)	5,989
Provision for bad debts	-	19,122	-	19,122
Other expenses	8,206	28,176	(10,469)	25,913
Total expenses	93,068	722,454	(91,740)	723,782
(Loss) income from operations	(83)	15,350	416	15,683
Nonoperating revenues and losses				
Investment income	22	1,904	(21)	1,905
Other	61	903	(395)	569
Total nonoperating revenues and losses	83	2,807	(416)	2,474
Excess of revenues over expenses	$ -	$ 18,157	$ -	$ 18,157

(in thousands of dollars)

Statement of Operations and Changes in Net Assets (Continued)

	December 31, 2010			
	Parent	Acute Care Subsidiaries	Eliminations and Reclassifications	Total
Excess of revenues over expenses	$ -	$ 18,157	$ -	$ 18,157
Change in pension obligation	(8,557)	(15,419)	-	(23,976)
Change in unrestricted interest in related Foundations	-	480	-	480
Change in unrealized loss on interest rate swap	-	(1,141)	-	(1,141)
Net assets released from restrictions	-	1,176	-	1,176
Other	2,233	(1,681)	-	552
Valuation allowance on intercompany receivables	-	-	1,100	1,100
(Decrease) increase in unrestricted net assets	(6,324)	1,572	1,100	(3,652)
Temporarily restricted net assets				
Contributions and other	-	931	-	931
Investment Income	-	4	-	4
Change in temporarily restricted interest in net assets of affiliated Foundation	-	78	-	- 78
Temporarily restricted net assets released from restrictions	-	(1,324)	-	- (1,324)
Decrease in temporarily restricted net assets	-	(311)	-	(311)
Permanently restricted				
Permanently restricted net assets released from restrictions	-	(6)	-	-
Decrease in permanently restricted assets	-	(6)	-	(6)
(Decrease) increase in net assets	(6,324)	1,255	1,100	(3,969)
Net assets, beginning of year	(6,403)	77,757	(13,754)	57,600
Total net assets, end of year	$ (12,727)	$ 79,012	$ (12,654)	$ 53,631

(in thousands of dollars)

Statement of Cash Flows

	2011	2010
Cash flows from operating activities		
Decrease in net assets	$ (31,479)	$ (3,969)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation and amortization	29,983	27,035
Provision for bad debts	17,888	19,122
Change in interest in undistributed net assets of related Foundations	272	(558)
Decrease in pension obligation	64,202	23,976
Grant revenue for capital additions	(10,871)	-
Valuation allowance of intercompany receivables	(1,711)	(1,100)
Unrealized and realized loss (gain) on investments	180	(745)
Change in unrealized loss on interest rate swap	6,350	1,176
Gain on renewal of capital leases	-	(544)
Undistributed earning on equity investees	(18)	1,970
Other	(19)	(11)
(Increase) decrease in assets		
Patient accounts receivable	(21,760)	(29,735)
Other receivables	(280)	(2,801)
Inventories	(1,563)	(5,163)
Prepaid expenses and other current assets	893	(904)
Due from affiliates	(1,666)	294
Other assets	(14)	135
Increase (decrease) in liabilities		
Account payable	(3,946)	7,372
Accrued expenses	4,769	2,138
Due to affiliate	59	(28)
Due to third-party payors	5,178	(803)
Other liabilities	14,160	8,507
Net cash provided by operating activities	70,607	45,364
Cash flows from investing activities		
Purchase of property and equipment	(37,971)	(34,998)
Proceeds from sales of property and equipment	44	39
Purchase of assets limited as to use	(7)	(63)
Proceeds from sale of assets limited as to use	2,940	7,754
Change in investments, net	1,215	1,310
Net cash used in investing activities	(33,779)	(25,958)
Cash flows from financing activities		
Proceeds from issuance of long-term obligations	1,113	-
Proceeds of grant revenue for capital additions	10,871	-
Repayments of current and long-term obligations	(12,188)	(10,254)
Net cash used in financing activities	(204)	(10,254)
Increase in cash and cash equivalents	36,624	9,152
Cash and cash equivalents		
Beginning of year	147,573	138,421
End of year	$ 184,197	$ 147,573

(in thousands of dollars)

The Obligated Group provides healthcare services to residents within its geographic region. Expenses related to providing these services for the year ended December 31, are as follows:

	2011	2010
Healthcare services	$ 555,395	$ 532,708
General and administrative	198,518	191,074
	$ 753,913	$ 723,782

11. Employee Benefit Plans

Pension Arrangements
Effective January 1, 2001, the System began maintaining a qualified defined benefit pension plan covering substantially all of its employees at its constituent hospitals. As of that date, active participants in the KMH, MHB, and SCH (the Hospitals) plans who were employed at the Hospitals, are covered under the Retirement Plan of the Catholic Health System (the Plan). Effective January 1, 2002, all other entities in the System, with the exception of the Nazareth Home, began participation in the Plan. Pension assets and liabilities from legacy plans, if any, were transferred to the Plan on September 25, 2002.

Effective January 1, 2001 or 2002, as applicable, all nonunion employees who had met the age and service requirements under their previous plan were given the option of choosing to participate in the cash balance feature of the Plan. Those who choose not to participate in the cash balance feature accrue benefits under the same formula as their previous plan. All nonunion employees who become participants after that date automatically participate under the cash balance formula.

The Plan bases benefits upon both years of service and earnings. Participants under the Hospitals formula earn benefits under a final average formula. The cash balance formula is a hypothetical account balance formula.

(in thousands of dollars)

Funded Status

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of the CHS pension plan as well as the components of net periodic benefit costs, including key assumptions as of December 31.

	2011	2010
Benefit Obligations		
Change in benefit obligation		
Benefit obligation at beginning of year	$ 375,953	$ 319,248
Service cost	15,227	13,532
Interest cost	20,350	18,935
Amendments	-	1,703
Expenses	(293)	(249)
Benefits paid	(10,176)	(9,303)
Actuarial (gain) or loss	61,867	32,087
Benefit obligation at end of year	$ 462,928	$ 375,953
Accumulated benefit obligation at end of year	$ 404,637	$ 328,521
Plan Assets		
Change in plan assets		
Fair value of plan assets at beginning of year	$ 195,927	$ 171,165
Actual return on plan assets	3,398	18,994
System contribution	17,802	15,320
Expenses	(293)	(249)
Benefits paid	(10,176)	(9,303)
Fair value of plan assets at end of year	$ 206,658	$ 195,927
Amounts recognized in the consolidated balance sheets		
Noncurrent liabilities	(256,270)	(180,026)
Net amounts recognized	$ (256,270)	$ (180,026)
Amounts recognized in unrestricted net assets consists of		
Actuarial net loss	$ (196,639)	$ (129,646)
Prior service cost	(1,170)	(1,399)
Total amount recognized	$ (197,809)	$ (131,045)
Other changes recognized in unrestricted net assets		
Net loss arising during the period	$ 75,217	$ 28,948
Prior year services cost / (credit) arising during the period	-	1,703
Amortization of prior service cost	(229)	(229)
Amortization of loss	(8,224)	(5,520)
Total amount recognized	$ 66,764	$ 24,902

(in thousands of dollars)

	2011	2010
Components of net periodic pension cost		
Service cost	$ 15,227	$ 13,532
Interest cost	20,350	18,935
Expected return on plan assets	(16,748)	(15,854)
Amortization of prior service cost	229	229
Recognized actuarial loss	8,224	5,520
Net periodic pension cost	$ 27,282	$ 22,362

The estimated prior service cost and net loss that will be amortized unrestricted net assets into net periodic pension cost over the next fiscal year for the System are $229 and $13,925, respectively.

The Plan's investment policies and strategies were used to develop the expected long-term rate of return on risk-free investment (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return of each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

The Plan's target asset allocation for 2012 and the actual asset allocation percentages for 2011 and 2010 are as follows at the respective measurement dates:

	Target	Actual	
Asset category	**2012**	**2011**	**2010**
Equities	60%	50%	51%
Fixed Income	20%	37%	33%
Other	20%	13%	16%
	100%	100%	100%

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, alternatives (a fund of hedge funds), and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Investment Subcommittee of the Stewardship Committee of the CHE Board oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

(in thousands of dollars)

The following table presents the Plan's financial instruments as of December 31, 2011, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 15.

December 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Cash and cash equivalents	$ 11,544	$ 22	$ -	$ 11,566
Marketable equity securities	92,677	7,857	-	100,534
Marketable debt securities	23,487	44,016	-	67,503
Managed funds	-	-	27,055	27,055
	$ 127,708	$ 51,895	$ 27,055	$ 206,658

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Cash and cash equivalents	$ 10,991	$ 9	$ -	$ 11,000
Marketable equity securities	87,431	8,678	5	96,114
Marketable debt securities	22,183	35,355	-	57,538
Managed funds	-	-	31,275	31,275
	$ 120,605	$ 44,042	$ 31,280	$ 195,927

A roll forward of those marketable securities that have been classified by the defined benefit plan as Level 3 within the fair value hierarchy (defined above) is as follows:

	2011	**2010**
Fair value January 1	$ 31,280	$ 26,696
Realized and unrealized gains (losses)	(935)	1,062
Purchases	-	10,151
Sales	(1,003)	(6,361)
Transfers in/out	(2,287)	(268)
Fair value December 31	$ 27,055	$ 31,280

Contributions

Contributions to the Plan are made to make benefit payments to plan participants. The funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements plus such additional amounts as may be determined to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants.

The System is expected to contribute an aggregate amount of approximately $17,802 to the pension plan trust in 2012 to be allocated amongst participating entities.

(in thousands of dollars)

Benefit Payments
Estimated future benefit payments by the System are as follows as of December 31:

2012	13,564
2013	15,037
2014	16,597
2015	18,376
2016	20,237
2017–2021	133,010

	2011	2010
Weighted-average assumptions used to determine end of year benefit obligations		
Discount rate	4.60%	5.50%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine net periodic pension cost		
Discount rate	5.50%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.25%
Measurement date	12/31/2011	12/31/2010

12. Insurance Arrangements

The System participates in the CHE insurance program which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits for healthcare professional and general liability are $3 million per occurrence and are insured by Stella Maris Insurance Company, Ltd. (SMICL), a Cayman-domiciled insurer wholly-owned by CHE. SMICL also provides excess coverage to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies. SMICL retains the full risk in the primary layer and no risk in the excess layers.

The coverage provided by SMICL is on a claims-made basis. The System therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 4% in 2011 and 2010. The System's liability for unasserted claims at December 31, 2011 and 2010 are $39,343 and $6,980, respectively, which has been included in accrued expenses and other long-term liabilities. The charges to expenses for professional and general liability for 2011 and 2010 approximated $5,799 and $5,242, respectively, which has been included in insurance expense. Amounts recognized as insurance receivables related to the claims approximate $31,925 at December 31, 2011. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance on uncollectible amounts.

(in thousands of dollars)

The System's insurance program for workers' compensation has a deductible of $350 per occurrence. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting program were accrued on a discounted basis based upon actuarial estimates of the settlement of such claims. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2011 and 2010 is $6,163 and $5,595, respectively, and is included in accrued expenses. The System's long term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2011 and 2010 is $46,630 and $20,105, respectively, and is included in other long-term liabilities.

The charges to expenses for workers compensation costs approximated $14,719 and $9,697 in 2011 and 2010, respectively, which has been included in employee benefits expense. Amounts recognized as insurance receivables related to the claims approximate $22,428 at December 31, 2011. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

The System's insurance for employee health costs is self-insured up to $325 per claim. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience. The System's liability for unpaid health insurance claims, which has been included in accrued expenses at December 31, 2011 and 2010, was $7,260 and $6,057, respectively.

13. Legal Matters

The System is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims were known at this time, which could have a material adverse affect on the System's future financial position, results from operations or cash flows.

(in thousands of dollars)

14. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of who are residents of Western New York and are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

	2011	2010
Medicare	34%	34%
Medicaid	10%	10%
Blue Cross	8%	7%
Other third-party payors	35%	37%
Patients/Residents	13%	12%
	100%	100%

The System maintains funds in excess of amounts insured by the Federal Depository Insurance limits. The System has diversified its deposit amounts in a variety of institutions to reduce the level of concentrated credit risk.

15. Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchal levels, as defined by accounting guidance, are directly related to the amount of subjectivity associated with the inputs in the determination of fair value of these assets and liabilities as follows:

- Level I: Valuations based on quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in active market, valuation of these products does not entail a significant degree of judgment. Level I assets include cash and cash equivalents, debt and equity securities that are traded in active exchange markets, as well as certain U.S. Treasury and other U.S. Governments and agencies bonds that are highly liquid and are actively traded in over-the counter markets.

- Level II – Valuations based on quoted prices in active markets for similar assets or liabilities and quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level II assets include equity and fixed income managed funds with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

- Level III– Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs. Level III assets would include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as

(in thousands of dollars)

instruments for which the determination of fair value requires significant investment management judgment or estimation.

Financial instruments measured at fair value are based on one or more of the three valuation techniques noted in fair value guidance. The three valuation techniques are as follows:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

The following tables present information about assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value as of December 31, 2011 and 2010.

December 31, 2011	Level I	Level 2	Level 3	Total	Valuation Technique
Assets Limited As To Use					
Cash and cash equivalents	$ 7,604	$ 5,167	$ -	$ 12,771	Market
Marketable equity securities	164	-	-	164	Market
U.S. Government and agency obligations	11,377	157	-	11,534	Market
Other	-	57	-	57	Market
	$ 19,145	$ 5,381	$ -	$ 24,526	
Investments					
Cash and cash equivalents	$ 288	$ 1	$ -	$ 289	Market
Marketable equity securities	3,757	50	-	3,807	Market
Marketable debt securities	35	1,611	-	1,646	Market
U.S. Government and agency obligations	712	-	-	712	Market
Other	-	430	-	430	Market
	$ 4,792	$ 2,092	$ -	$ 6,884	
Managed funds				96	
				6,980	
Interest Rate Swap (liability)		$ 15,185		$ 15,185	Market

(in thousands of dollars)

December 31, 2010	Level I	Level 2	Level 3	Total	Valuation Technique
Assets Limited As To Use					
Cash and cash equivalents	$ 8,244	$ 7,423	$ -	$ 15,667	Market
Marketable equity securities	158	-	-	158	Market
U.S. Government and agency obligations	11,185	126	-	11,311	Market
Other	-	78	-	78	Market
	$ 19,587	$ 7,627	$ -	$ 27,214	
Investments					
Cash and cash equivalents	$ 478	$ -	$ -	$ 478	Market
Marketable equity securities	5,373	1	-	5,374	Market
Marketable debt securities	107	883	-	990	Market
U.S. Government and agency obligations	1,012	-	-	1,012	Market
Other		415	-	415	Market
	$ 6,970	$ 1,299	$ -	$ 8,269	
Managed funds				98	
				$ 8,367	
Interest Rate Swap (liability)	$ -	$ 7,759	$ -	$ 7,759	Market

The following managed fund investments are recorded under the equity method of accounting, which is similar to using the net asset value per share of the investments as of December 31, 2011:

	Recorded Value	Unfunded Commitments	Commitment Term	Redemption Terms
Fund of Hedge Funds	$ 75		n/a	Quarter-end, semiannually, or anniversary date; with 45-90 days prior written notice
Real Estate	8	3	4 - 9 year; n/a for one mutual fund	Redemption not permitted
Private Equity	13	6	5 - 13 years	Redemption not permitted
	$ 96			

The objective of the hedge funds investments is to achieve equity and fixed income like returns utilizing a conservative strategy with low risk and volatility. All hedge fund investing is done in a fund of funds approach and the use of diversified funds.

(in thousands of dollars)

The objective of the private equity and real estate portfolios is to enhance return while reducing the overall risk through investments in limited partnerships in funds with expertise in these categories. These illiquid, longer term investments seek higher returns but are held at a very low percentage of the investment portfolio.

16. Related Party Transactions

CHE charged the System dues for participation in certain programs and governance matters. Amounts charged to expense related to these dues amounted to approximately $4,282 and $4,090 in 2011 and 2010, respectively, and are included as a component of other expenses.

CIPA WNY IPA "DBA" Catholic Medical Partners was incorporated in 1996 to establish managed care contracts that support clinical integration and provider accountability for cost and quality. All three of the Catholic Health System hospitals as well as our continuing care and home care ministries are members of Catholic Medical Partners. Catholic Health System has four of its executive staff on the Catholic Medical Partner's board of directors.

The System funded certain of Catholic Medical Partners start-up and operating costs since its inception. During 2003, the System and Catholic Medical Partners executed a promissory note whereby Catholic Medical Partners would begin to repay the System in monthly installments commencing July 2003. In March, 2009, a new agreement was executed to replace the revised note in the amount of $574. The obligation is to be paid through 44 equal payments of $14 based upon an interest rate of 4%. The obligation was paid in full in August 2011. Total advances, including the loan balance and current receivables, approximated $237 and $494 as of December 31, 2011 and 2010, respectively, and are included as a component other noncurrent assets in the accompanying consolidated financial statements.

As discussed in Note 12, the System obtains insurance coverage from CHE.

Caritas Medical Arts Building L.L.C. is a joint venture between Sisters of Charity Hospital and Ciminelli Development Company. In 2009, Caritas Medical Arts Building, L.L.C. refinanced its mortgage. As of December 31, 2011, there was $2,132 of debt outstanding, of which the Hospital has guaranteed $711. Per the guaranty agreement, the Hospital's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, Mercy Hospital, Alsace Abbott Corporation (a wholly owned Corporation of Mercy Hospital), and 3 other joint venture partners. In 2009, Marian Professional Center Associates, L.P. refinanced its mortgage. As of December 31, 2011, there was $5,478 of debt outstanding, of which MHB has guaranteed $2,379. Per the guaranty agreement, MHB’s obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

East Aurora Medical Building, L.P. is a joint venture between Regent Development, Inc. and Aurora Mercy Corporation. Aurora Mercy Corporation is wholly owned by Mercy Hospital. In 1998, East Aurora Medical Building, L.P refinanced its mortgage. As of December 31, 2011, there was $2,544 of debt outstanding, of which Aurora Mercy Corporation has guaranteed the full amount.

(in thousands of dollars)

17. Discontinued Operations

The following subsidiaries have been accounted for in discontinued operations: St. Clare Manor, St. Joseph's Manor, St. Francis Geriatric, Healthcare Services, Inc. St. Luke's Manor of Batavia, St. Mary's Manor, and Nazareth Home of the Franciscan of the Immaculate Conception. The aggregated gain of discontinued operations was approximately $1,019 and $4,810 in 2011 and 2010, respectively. In 2010, St. Francis Geriatric received financial assistance from New York State Department of Health in the form of a HEAL Grant of $5,000, to offset certain closure expenses. This was recognized through discontinued operations.

The residual assets (net of inter-company receivables), liabilities and net assets (deficit) of the discontinued operations were $5,302, $1,229 and $4,073, respectively, as of December 31, 2011 and $6,374, $2,676 and $3,698, respectively, as of December 31, 2010 and are included within their natural classifications in the accompanying consolidated balance sheets.

18. Functional Expenses

The System provides general health care services to residents within its geographic region. Expenses related to providing these services for the years ended December 31 are as follows:

	2011	2010
Health care services	$ 611,823	$ 579,125
General and administrative	206,775	200,255
	$ 818,598	$ 779,380

19. Subsequent Events

The System expects to issue tax exempt bonds in 2012 in the amount of approximately $17 million to finance certain construction projects.

pwc

Report of Independent Auditors on Accompanying Consolidating Information

To the Board of Directors of the
Catholic Health System, Inc.:

We have audited the consolidated financial statements, in which we indicated the extent of our reliance on the report of other auditors, of Catholic Health System, Inc. and Subsidiaries (the System) as of December 31, 2011 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability) and consolidating information are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The Schedule of Social Accountability and consolidating information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Social Accountability and consolidating information are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

April 23, 2012

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Catholic Health System, Inc.
Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability)
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

The total costs related to the care of the poor and benefits for the broader community as of December 31 are set forth in the following table:

	2011	2010
Charity care	$ 8,106	$ 6,108
Cost of community benefit programs	13,089	10,435
Unpaid cost of Medicaid programs	25,758	30,144
Social accountability costs	$ 46,953	$ 46,687

Catholic Health System, Inc. and Subsidiaries
Consolidating Balance Sheet
December 31, 2011

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 15,979	$ 168,218	$ 8,746	$ 11,202	$ 3,024	$ -	$ 207,169
Patient/residents accounts receivable, net of estimated uncollectibles of $20,474		100,592	3,892	4,683	381	-	109,548
Other receivables	240	7,689	434	-	161	-	8,524
Inventories	-	11,276	53	350	-	-	11,679
Prepaid expenses and other current assets	2,393	1,361	101	366	6	(45)	4,182
Due from affiliates	41,462	720	823	-	3	(43,008)	-
Total current assets	60,074	289,856	14,049	16,601	3,575	(43,053)	341,102
Interest in net assets of related Foundations	-	3,269	88	-	221	(309)	3,269
Assets limited as to use	2,752	8,458	12,835	-	481	-	24,526
Investments	-	6,980	-	-	-	-	6,980
Property and equipment, net	14,250	205,199	7,475	1,079	18,713	-	246,716
Other assets	833	51,602	5,663	1,366	822	(131)	60,155
Due from affiliates	6,110	11,855	2,250	1,033	883	(22,131)	-
Total Assets	$ 84,019	$ 577,219	$ 42,360	$ 20,079	$ 24,695	$ (65,624)	$ 682,748
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term obligations	$ 33	$ 10,309	$ 386	$ -	$ 1,490	$ (45)	$ 12,173
Line of credit payable	8,380	-	-	-	-	-	8,380
Accounts payable	3,074	34,926	502	729	871	13	40,115
Accrued expenses	20,104	31,517	2,769	1,705	50	-	56,145
Due to third-party payors	-	33,540	1,515	1,231	36	-	36,322
Due to affiliates	251	26,849	5,445	861	2,155	(35,561)	-
Total current liabilities	31,842	137,141	10,617	4,526	4,602	(35,593)	153,135
Long-term obligations, net	-	96,353	6,865	-	15,893	(119)	118,992
Due to affiliates, net	17,541		82	6,109	5,859	(29,591)	-
Other long-term liabilities	43,340	301,926	13,443	5,541	2,751	-	367,001
Total liabilities	92,723	535,420	31,007	16,176	29,105	(65,303)	639,128
Unrestricted	(9,102)	37,173	11,265	3,903	(5,011)	-	38,228
Temporarily restricted	398	4,380	88	-	601	(321)	5,146
Permanently restricted	-	246	-	-	-	-	246
Total net assets (deficit)	(8,704)	41,799	11,353	3,903	(4,410)	(321)	43,620
Total Liabilities and Net Assets	$ 84,019	$ 577,219	$ 42,360	$ 20,079	$ 24,695	$ (65,624)	$ 682,748

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

Catholic Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2011

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Unrestricted revenues, gains and other support							
Net patient/resident service revenue	$ -	$ 754,841	$ 33,377	$ 34,292	$ 5,548	$ (2,876)	$ 825,182
Other revenue	104,014	19,212	492	-	3,164	(109,118)	17,764
Net assets released from restrictions	-	149	-	-	-	-	149
Total unrestricted revenues, gains and other support	104,014	774,202	33,869	34,292	8,712	(111,994)	843,095
Expenses							
Salaries and wages	54,450	320,935	20,189	20,371	2,420	(55,702)	362,663
Employee benefits	14,405	100,464	5,708	4,711	469	(14,405)	111,352
Medical and professional fees	4,938	25,768	343	537	3,291	(3,562)	31,315
Purchased services	17,962	65,269	2,133	969	975	(20,248)	67,060
Supplies	584	149,725	2,467	2,140	153	(576)	154,493
Depreciation and amortization	2,844	29,983	1,105	485	1,344	(2,844)	32,917
Interest	201	5,785	399	-	530	(211)	6,704
Insurance	253	6,392	223	184	95	(253)	6,894
Provision for bad debts	-	17,888	825	641	8	-	19,362
Other expenses	8,453	28,500	586	1,980	967	(14,648)	25,838
Total expenses	104,090	750,709	33,978	32,018	10,252	(112,449)	818,598
(Loss) Income from operations	(76)	23,493	(109)	2,274	(1,540)	455	24,497
Nonoperating revenues and losses							
Investment income	20	1,102	245	-	1	(20)	1,348
Other	56	770	-	63	(32)	(435)	422
Total nonoperating revenues and losses, net	76	1,872	245	63	(31)	(455)	1,770
Excess (deficiency) of revenues over expenses	-	25,365	136	2,337	(1,571)	-	26,267

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

Catholic Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2011

	Parent	Acute Care Subsidiaries	Long-term Care Subsidiaries	Home Care Subsidiaries	Other Subsidiaries	Eliminations	Total
Unrestricted net assets							
Excess (deficiency) of revenues over expenses	$ -	$ 25,365	$ 136	$ 2,337	$ (1,571)	$ -	$ 26,267
Change in unrealized loss on interest rate swap	-	(6,188)	-	-	(1,044)	-	(7,232)
Change in pension obligation	(9,792)	(54,410)	(1,548)	(885)	(129)	-	(66,764)
Change in unrestricted interest in related Foundations	-	(889)	-	-	-	-	(889)
Net assets released from restrictions	-	1,032	-	-	369	-	1,401
Grant revenue	5,372	5,499	-	-	-	-	10,871
Other	8,045	(7,803)	(637)	-	334	-	(61)
Increase (decrease) in unrestricted net assets before effects of discontinued operations	3,625	(37,394)	(2,049)	1,452	(2,041)	-	(36,407)
Gain from discontinued operations	-		1,019	-	-		1,019
Increase (decrease) in unrestricted net assets	3,625	(37,394)	(1,030)	1,452	(2,041)	-	(35,388)
Temporarily restricted net assets							
Contributions and other	398	591	-	-	329	(12)	1,306
Investment income	-	-	-	-	-	-	-
Special events revenue, net	-	154			-	-	154
Change in temporarily restricted interest in related Foundations	-	617	1	-	(31)	30	617
Temporarily restricted net assets released from restrictions	-	(1,181)	-	-	(369)	-	(1,550)
Increase (decrease) in temporarily restricted net assets	398	181	1	-	(71)	18	527
Permanently restricted net assets							
Contributions	-	-	-	-	-	-	-
Change in permanently restricted interest in related Foundations	-	-	-	-	-	-	-
Permanently restricted net assets released from restrictions	-	-	-	-	-	-	-
Increase in permanently restricted net assets	-	-	-	-	-	-	-
Increase (decrease) in net assets	4,023	(37,213)	(1,029)	1,452	(2,112)	18	(34,861)
Net assets, beginning of year	(12,727)	79,012	12,382	2,451	(2,298)	(339)	78,481
Net assets, end of year	$ (8,704)	$ 41,799	$ 11,353	$ 3,903	$ (4,410)	$ (321)	$ 43,620

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

Catholic Health System – Acute Care Subsidiaries
Consolidating Balance Sheet
December 31, 2011

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
Assets				
Current assets				
Cash and cash equivalents	$ 42,532	$ 101,482	$ 24,204	$ 168,218
Patient accounts receivable, net of estimated uncollectibles of $18,978	43,389	42,614	14,589	100,592
Other receivables	3,165	3,716	808	7,689
Inventories	5,612	4,023	1,641	11,276
Prepaid expenses and other current assets	725	503	133	1,361
Due from affiliates	-	720	-	720
Total current assets	95,423	153,058	41,375	289,856
Interest in net assets of related Foundations	-	-	3,269	3,269
Assets limited as to use	3,091	-	5,367	8,458
Investments	1,205	5,775	-	6,980
Property and equipment, net	86,472	75,099	43,628	205,199
Other assets	21,752	19,305	10,545	51,602
Due from affiliates	70	10,303	1,482	11,855
Total Assets	$ 208,013	$ 263,540	$ 105,666	$ 577,219
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ 4,225	$ 4,113	$ 1,971	$ 10,309
Accounts payable	14,323	14,371	6,232	34,926
Accrued expenses	12,642	12,532	6,343	31,517
Due to third-party payors	13,397	14,318	5,825	33,540
Due to affiliates	8,276	13,951	4,622	26,849
Total current liabilities	52,863	59,285	24,993	137,141
Long-term obligations, net	41,443	33,983	20,927	96,353
Other long-term liabilities	158,282	97,518	46,126	301,926
Total liabilities	252,588	190,786	92,046	535,420
Net assets (deficit)				
Unrestricted	(46,347)	70,680	12,840	37,173
Temporarily restricted	1,649	1,951	780	4,380
Permanently Restricted	123	123	-	246
Total net assets (deficit)	(44,575)	72,754	13,620	41,799
Total Liabilities and Net Assets	$ 208,013	$ 263,540	$ 105,666	$ 577,219

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

Catholic Health System – Acute Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2011

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
Unrestricted revenues, gains and other support				
Net patient service revenue	$ 318,165	$ 299,301	$ 137,375	$ 754,841
Other revenue	7,673	7,903	3,636	19,212
Net assets released from restrictions	73	76	-	149
Total unrestricted revenues, gains and other support	325,911	307,280	141,011	774,202
Expenses				
Salaries and wages	129,217	131,606	60,112	320,935
Employee benefits	45,094	37,782	17,588	100,464
Medical and professional fees	10,013	11,112	4,643	25,768
Purchased services	26,345	26,963	11,961	65,269
Supplies	64,278	56,446	29,001	149,725
Depreciation and amortization	12,281	11,825	5,877	29,983
Interest	2,372	2,126	1,287	5,785
Insurance	2,618	2,639	1,135	6,392
Provision for bad debts	8,186	6,108	3,594	17,888
Other expenses	13,662	10,468	4,370	28,500
Total expenses	314,066	297,075	139,568	750,709
Income from operations	11,845	10,205	1,443	23,493
Nonoperating revenues and losses				
Investment income	580	323	199	1,102
Other	(85)	822	33	770
Total nonoperating revenue	495	1,145	232	1,872
Excess of revenues over expenses	12,340	11,350	1,675	25,365

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

Catholic Health System – Acute Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2011

	Mercy Hospital	Sisters Hospital	Kenmore Mercy Hospital	Total
Unrestricted net assets				
Excess of revenues over expenses	$ 12,340	$ 11,350	$ 1,675	$ 25,365
Change in unrealized loss on interest rate swap	(3,592)	(2,002)	(594)	(6,188)
Change in pension obligation	(25,770)	(22,088)	(6,552)	(54,410)
Change in unrestricted interest in related Foundations	-	-	(889)	(889)
Net assets released from restrictions	298	734	-	1,032
Grant revenue	1,633	3,851	15	5,499
Other	(12,410)	4,169	438	(7,803)
Decrease in unrestricted net assets	(27,501)	(3,986)	(5,907)	(37,394)
Temporarily restricted net assets				
Contributions and other	93	486	12	591
Investment income	-	-	-	-
Special events revenue, net	104	50	-	154
Change in temporarily restricted interest in related Foundations	-	-	617	617
Temporarily restricted net assets released from restrictions	(371)	(810)	-	(1,181)
Decrease in temporarily restricted net assets	(174)	(274)	629	181
Permanently restricted net assets				
Contributions	-	-	-	-
Change in permanently restricted interest in related Foundations	-	-	-	-
Permanently restricted net assets released from restrictions	-	-	-	-
Increase in permanently restricted net assets	-	-	-	-
Increase in net assets	(27,675)	(4,260)	(5,278)	(37,213)
Net assets, beginning of year	(16,900)	77,014	18,898	79,012
Net assets (deficit), end of year	$ (44,575)	$ 72,754	$ 13,620	$ 41,799

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

Catholic Health System – Long-Term Care Subsidiaries
Consolidating Balance Sheet
December 31, 2011

	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Assets											
Current assets											
Cash and cash equivalents	$ 2,057	$ 253	$ 1,207	$ 1,490	$ 677	$ 7	$ 1,028	$ 285	$ 336	$ 1,406	$ 8,746
Resident accounts receivable, net of estimated uncollectibles of $776	1,826	-	46	1,850	-	-	-	139	31	-	3,892
Other Receivables	219	-	22	193	-	-	-	-	-	-	434
Inventories	37	-	-	16	-	-	-	-	-	-	53
Prepaid expenses and other current assets	23	-	-	2	45	-	-	16	15	-	101
Due from affiliates	8	-	-	46	-	-	458	-	-	311	823
Total current assets	4,170	253	1,275	3,597	722	7	1,486	440	382	1,717	14,049
Interest in net assets of related Foundations	20	-	-	68	-	-	-	-	-	-	88
Assets limited as to use	11,331	-	-	1,504	-	-	-	-	-	-	12,835
Property and equipment, net	4,121	-	-	1,761	-	-	-	810	133	650	7,475
Other assets	2,439	-	7	1,792	119	-	-	977	329	-	5,663
Due from affiliates, net	-	-	-	-	-	-	-	2,250	-	-	2,250
Total Assets	$ 22,081	$ 253	$ 1,282	$ 8,722	$ 841	$ 7	$ 1,486	$ 4,477	$ 844	$ 2,367	$ 42,360
Liabilities and Net Assets											
Current liabilities											
Current portion of long-term obligations	$ 386	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 386
Accounts payable	201	-	-	236	-	-	-	33	16	16	502
Accrued expenses	1,324	-	7	1,034	-	-	-	255	122	27	2,769
Due to third-party payors	540	-	463	416	-	-	-	-	-	96	1,515
Due to affiliates	188	-	-	3,620	-	-	-	1,114	523	-	5,445
Total current liabilities	2,639	-	470	5,306	-	-	-	1,402	661	139	10,617
Long-term obligations, net	6,865	-	-	-	-	-	-	-	-	-	6,865
Due to affiliates, net	-	-	-	-	-	-	-	-	-	82	82
Other long-term liabilities	4,433	-	-	5,444	-	-	-	2,129	817	620	13,443
Total liabilities	13,937	-	470	10,750	-	-	-	3,531	1,478	841	31,007
Net assets (deficit)											
Unrestricted	8,124	253	812	(2,096)	841	7	1,486	946	(634)	1,526	11,265
Temporarily restricted	20	-	-	68	-	-	-	-	-	-	88
Permanently Restricted	-	-	-	-	-	-	-	-	-	-	-
Total net assets (deficit)	8,144	253	812	(2,028)	841	7	1,486	946	(634)	1,526	11,353
Total Liabilities and Net Assets	$ 22,081	$ 253	$ 1,282	$ 8,722	$ 841	$ 7	$ 1,486	$ 4,477	$ 844	$ 2,367	$ 42,360

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

Catholic Health System – Long-Term Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2011

	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Unrestricted revenues, gains and other support											
Net resident service revenue	$ 16,668	$ -	$ -	$ 13,823	$ -	$ -	$ -	$ 2,177	$ 709	$ -	$ 33,377
Other revenue	48	-	-	37	-	-	-	9	12	386	492
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-
Total unrestricted revenues, gains and other support	16,716	-	-	13,860	-	-	-	2,186	721	386	33,869
Expenses											
Salaries and wages	9,736	-	-	8,444	-	-	-	1,476	448	85	20,189
Employee benefits	2,641	-	-	2,341	-	-	-	492	216	18	5,708
Medical and professional fees	184	-	-	138	-	-	-	18	3	-	343
Purchased services	850	-	-	739	-	-	-	250	122	172	2,133
Supplies	1,198	-	-	1,023	-	-	-	178	64	4	2,467
Depreciation and amortization	642	-	-	213	-	-	-	137	36	77	1,105
Interest	399	-	-	-	-	-	-	-	-	-	399
Insurance	112	-	-	65	-	-	-	33	12	1	223
Provision for bad debts	338	-	-	450	-	-	-	32	5	-	825
Other expenses	237	-	-	254	-	-	-	45	21	29	586
Total expenses	16,337	-	-	13,667	-	-	-	2,661	927	386	33,978
Income (loss) from operations	379	-	-	193	-	-	-	(475)	(206)	-	(109)
Nonoperating revenue											
Investment income	233	-	-	9	-	-	-	1	2		245
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-		-
Other	-	-	-	-	-	-	-	-	-		-
Total nonoperating revenue	233	-	-	9	-	-	-	1	2	-	245
Excess (deficiency) of revenues over expenses	612	-	-	202	-	-	-	(474)	(204)	-	136

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

Catholic Health System – Long-Term Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year Ended December 31, 2011

	Father Baker Manor	St. Clare Manor	St. Francis Geriatric	St. Francis Home	St. Joseph's Manor	St. Luke's Manor	St. Mary's Manor	St. Elizabeth's Home	St. Vincent's Home	Nazareth Home	Total
Unrestricted net assets											
Excess (deficiency) of revenues over expenses	$ 612	$ -	$ -	$ 202	$ -	$ -	$ -	$ (474)	$ (204)	$ -	$ 136
Change in pension obligation	(576)	-	-	(692)	-	-	-	(214)	(66)	-	(1,548)
Change in unrestricted interest in related Foundations	-	-	-	-	-	-	-	-	-	-	-
Other	(4)	-	2,934	(94)	-	340	(3,122)	(13)	(21)	(657)	(637)
Increase (decrease) in unrestricted net assets before effects of discontinued operations	32	-	2,934	(584)	-	340	(3,122)	(701)	(291)	(657)	(2,049)
Gain / (Loss) from discontinued operations		-	863	-	30	-	-	-	-	126	1,019
Increase (decrease) in unrestricted net assets	32	-	3,797	(584)	30	340	(3,122)	(701)	(291)	(531)	(1,030)
Temporarily restricted net assets											
Contributions and other	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-
Change in temporarily restricted interest in related foundations	(1)	-	-	2	-	-	-	-	-	-	1
Temporarily restricted net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-
Increase in temporarily restricted net assets	(1)	-	-	2	-	-	-	-	-	-	1
Increase (decrease) in net assets	31	-	3,797	(582)	30	340	(3,122)	(701)	(291)	(531)	(1,029)
Net assets, beginning of year	8,113	253	(2,985)	(1,446)	811	(333)	4,608	1,647	(343)	2,057	12,382
Net assets, end of year	$ 8,144	$ 253	$ 812	$ (2,028)	$ 841	$ 7	$ 1,486	$ 946	$ (634)	$ 1,526	$ 11,353

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

Catholic Health System – Home Care Subsidiaries
Consolidating Balance Sheet
December 31, 2011

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Assets				
Current assets				
Cash and cash equivalents	$ 872	$ 8,950	$ 1,380	$ 11,202
Patient accounts receivable, net of estimated uncollectibles of $715	424	3,740	519	4,683
Other receivables	-	-	-	-
Inventories	-	17	333	350
Prepaid expenses and other current assets	31	296	39	366
Total current assets	1,327	13,003	2,271	16,601
Property and equipment, net	-	919	160	1,079
Other assets	552	664	150	1,366
Due from affiliates	181	851	1	1,033
Total Assets	$ 2,060	$ 15,437	$ 2,582	$ 20,079
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term obligations	$ -	$ -	$ -	$ -
Accounts payable	480	55	194	729
Accrued expenses	-	1,555	150	1,705
Due to third party payors	174	986	71	1,231
Due to affiliates	101	5	755	861
Total current liabilities	755	2,601	1,170	4,526
Long-term obligations	-	-	-	-
Due to affiliates, net	-	6,109	-	6,109
Other long-term liabilities	1,404	4,015	122	5,541
Total liabilities	2,159	12,725	1,292	16,176
Net assets				
Unrestricted	(99)	2,712	1,290	3,903
Total Liabilities and Net Assets	$ 2,060	$ 15,437	$ 2,582	$ 20,079

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

Catholic Health System – Home Care Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
December 31, 2011

	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Unrestricted revenues, gains and other support				
Net patient/resident service revenue	$ 6,104	$ 24,242	$ 3,946	$ 34,292
Total unrestricted revenues, gains and other support	6,104	24,242	3,946	34,292
Expenses				
Salaries and wages	4,255	15,315	801	20,371
Employee benefits	1,223	3,312	176	4,711
Medical and professional fees	43	436	58	537
Purchased services	366	500	103	969
Supplies	43	566	1,531	2,140
Depreciation and amortization	25	410	50	485
Interest	-	-	-	-
Insurance	68	100	16	184
Provision for bad debts	41	469	131	641
Other expenses	417	1,326	237	1,980
Total expenses	6,481	22,434	3,103	32,018
(Loss) income from operations	(377)	1,808	843	2,274
Nonoperating revenue				
Other	39	23	1	63
Total nonoperating revenue	39	23	1	63
(Deficiency) excess of revenues over expenses	(338)	1,831	844	2,337
Change in pension obligation	(52)	(798)	(35)	(885)
(Decrease) increase in net assets	(390)	1,033	809	1,452
Net assets, beginning of year	291	1,679	481	2,451
Net assets, end of year	$ (99)	$ 2,712	$ 1,290	$ 3,903

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

Catholic Health System - Other Subsidiaries
Consolidating Balance Sheet
December 31, 2011

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Assets					
Current assets					
Cash and cash equivalents	$ 642	$ 267	$ 2,091	$ 24	$ 3,024
Patient accounts receivable, net of estimated uncollectibles of $5	-	-	252	129	381
Other receivables	-	84	-	77	161
Prepaid expenses and other current assets	-	-	-	6	6
Due from affiliates	-	-	3	-	3
Total current assets	642	351	2,346	236	3,575
Interest in net assets of related Foundations	221	-	-	-	221
Assets limited as to use	221	-	260	-	481
Property and equipment, net	18,503	2	127	81	18,713
Other assets	760	45	11	6	822
Due from affiliates	883	-	-	-	883
Total assets	$ 21,230	$ 398	$ 2,744	$ 323	$ 24,695
Liabilities and Net Assets					
Current liabilities					
Current portion of long-term obligations	$ 1,490	$ -	$ -	$ -	$ 1,490
Accounts payable	223	-	583	65	871
Accrued expenses	-	5	-	45	50
Due to third party payors	-	-	36	-	36
Due to affiliates	-	-	1,639	516	2,155
Total current liabilities	1,713	5	2,258	626	4,602
Long-term obligations	15,893	-	-	-	15,893
Due to affiliates, net	5,859	-	-	-	5,859
Other long-term liabilities	2,577	-	174	-	2,751
Total liabilities	26,042	5	2,432	626	29,105
Net assets					
Unrestricted	(5,033)	13	312	(303)	(5,011)
Temporarily restricted	221	380	-	-	601
Permanently restricted	-	-	-	-	-
Total net assets (deficit)	(4,812)	393	312	(303)	(4,410)
Total liabilities and net assets	$ 21,230	$ 398	$ 2,744	$ 323	$ 24,695

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

Catholic Health System - Other Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
December 31, 2011

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Unrestricted revenues, gains and other support					
Net patient/resident service revenue	$ -	$ -	$ 4,488	$ 1,060	$ 5,548
Other revenue	2,397	12	-	755	$ 3,164
Total unrestricted revenues, gains and other support	2,397	12	4,488	1,815	8,712
Expenses					
Salaries and wages	186	-	930	1,304	2,420
Employee benefits	49	-	180	240	469
Medical and professional fees	3	-	3,147	141	3,291
Purchased services	975	-	-	-	975
Supplies	38	-	-	115	153
Depreciation and amortization	1,265	-	65	14	1,344
Interest	520	-	-	10	530
Insurance	59	-	-	36	95
Provision for bad debts	-	-	-	8	8
Other expenses	81	20	616	250	967
Total expenses	3,176	20	4,938	2,118	10,252
Loss from operations	(779)	(8)	(450)	(303)	(1,540)
Nonoperating revenue					
Investment income	-	-	1	-	1
Other	(32)	-	-	-	(32)
Total nonoperating revenue	(32)	-	1	-	(31)
Deficiency of revenues over expenses	(811)	(8)	(449)	(303)	(1,571)

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

Catholic Health System - Other Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (Continued)
December 31, 2011

	OLV Renaissance Corp.	Continuing Care Foundation	LIFE	Trinity	Total
Unrestricted net assets					
Deficiency of revenues over expenses	$ (811)	$ (8)	$ (449)	$ (303)	$ (1,571)
Change in unrealized loss on interest rate swap	(1,044)	-	-	-	(1,044)
Change in pension obligation	-	-	(129)	-	(129)
Change in unrestricted interest in related Foundations	-	-	-	-	-
Net assets released from restrictions	-	369	-	-	369
Other	128	(369)	575	-	334
Decrease in unrestricted net assets	(1,727)	(8)	(3)	(303)	(2,041)
Temporarily restricted net assets					
Contributions & other	-	329	-	-	329
Investment income	-	-	-	-	-
Change in temporarily restricted interest in related Foundations	(31)	-	-	-	(31)
Temporarily restricted net assets released from restrictions	-	(369)	-	-	(369)
Decrease in temporarily restricted net assets	(31)	(40)	-	-	(71)
Decrease in net assets	(1,758)	(48)	(3)	(303)	(2,112)
Net assets beginning of the year	(3,054)	441	315	-	(2,298)
Net assets, end of year	$ (4,812)	$ 393	$ 312	$ (303)	$ (4,410)

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

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

The following is a brief summary of certain provisions of each of the Loan Agreements. Such summary does not purport to be complete and reference is made to the Loan Agreements for full and complete statements of such and all provisions. Defined terms used herein have the meanings ascribed to them in Appendix A.

Termination

The Loan Agreements will remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreements by the Institutions have been made or provision has been made for the payment thereof; provided, however, that the provisions under the section heading "Arbitrage" under the Loan Agreements and the liabilities and the obligations of the Institutions to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the provisions of the Loan Agreements under the section heading "Indemnity by Institution" under the Loan Agreements, 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 Institutions to evidence such termination and the discharge of its duties under the Loan Agreements, including the release or surrender of any security interests granted by the Institutions to the Authority pursuant to the Loan Agreements.

(Section 38)

Project Financing

The Authority agrees to use its best efforts to issue and deliver the Bonds. The proceeds of the Bonds will be applied as specified in the Resolution, the Series 2012 Resolutions or the Bond Series Certificates relating to such Series 2012 Bonds.

(Section 4)

Construction of Projects

Each Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolutions and the Loan Agreements, such Institution will complete the acquisition, design, construction, reconstruction, rehabilitation and improving or otherwise providing and furnishing and equipping of the Project in connection with which the Authority has issued the Bonds for the benefit of such Institution, substantially in accordance with the Contract Documents relating thereto. Subject to the conditions of the Loan Agreements, the Authority will, to the extent of moneys available in the Construction Fund, cause each of the Institutions to be reimbursed for, or pay, any costs and expenses incurred by such Institution which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority and the Commissioner of Health.

(Section 5)

Amendment of a Project; Cost Increases; Additional Obligations

Each Project may be amended by the respective Institution 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, improving, or otherwise providing, furnishing and equipping of the Project which the Authority is authorized to undertake.

Each of the Institutions covenants that it will not transfer, sell, encumber or convey any interest in the Applicable Project or any part thereof or interest therein, including development rights (relating to any Project

financed with proceeds of Tax-Exempt Bonds), without complying with Governmental Requirements and obtaining the prior written consent of the Authority in accordance with the terms of the Loan Agreements.

(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 Resolutions or under the Loan Agreements, including moneys in the Debt Service Fund, but excluding moneys from the Debt Service Reserve Fund, if any, and excluding interest accrued but unpaid on investments held in the Debt Service Fund, each 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 Obligation No. 9 or Obligation No. 10, as applicable, pursuant to the Master Indenture:

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

(b) On or before the date of delivery of the Bonds, such amount, if any, as is required in addition to the proceeds of the Bonds available therefor, to pay the Costs of Issuance of the Bonds, and other costs in connection with the issuance of the Bonds;

(c) On the tenth (10th) day of each month commencing on the tenth (10th) day of the sixth (6th) month immediately preceding the date on which such interest becomes due, one-sixth (1/6) of the interest coming due on the Bonds, on the immediately succeeding interest payment date for the Bonds; provided, however, that, if there are less than six (6) such payment dates prior to the first such interest payment date on the Bonds of such Series, on each payment date prior to such interest payment date the Institution shall pay with respect to such Bonds an amount equal to the interest coming due on such Bonds on such interest payment date multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates prior to the first interest payment date on the Bonds of such Series;

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

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds;

(f) On December 10 of each Bond Year one–half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with the Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee with respect to the Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Bonds multiplied by a fraction the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to the Loan Agreements, and any liabilities incurred by the Authority pursuant to the provisions of the Loan Agreements, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan

Agreements, the Resolutions, the Master Indenture and the Applicable Obligation issued under the Master Indenture securing the Bonds in accordance with the terms thereof, (iv) for the fees and expenses of any Trustee and any Paying Agent and reasonable attorneys fees in connection with performance of their respective duties under the Resolutions, 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) On the date a Series of Bonds for the benefit of an Institution is issued, an amount equal to the Authority Fee for such Series of Bonds;

(i) Promptly upon demand by an Authorized Officer of the Authority (a copy of which will be furnished to the Trustee), all amounts required to be paid by the Institutions as a result of an acceleration pursuant to the provisions of the Loan Agreements;

(j) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with a Series of Bonds or otherwise available therefor under the Resolutions, and the amount required to be rebated or otherwise paid to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds of such Series;

(k) On the Business Day immediately preceding an interest payment date, if the amount on deposit in the Debt Service Fund is less than the amounts required for the payment of principal of or Sinking Fund Installments, if any, or interest on a Series of Bonds due and payable on such interest payment date, the amount of such deficiency;

(l) On the date specified in written notice to an Institution from the Department of Health, and on the tenth day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee for a Series of Bonds as described in the regulations of the Commissioner of Health;

Subject to the provisions of the Resolutions and the Loan Agreements, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to the Loan Agreements on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolutions with respect to Bonds to be redeemed through Sinking Fund Installments on the next succeeding July 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit will be equal to the principal amount of the Bonds so delivered.

The Authority directs the Institution, and the Institution agrees, to make the payments required by paragraphs (c), (d), (e), (i), and (k) above directly to the Trustee for deposit and application in accordance with the provisions of the Resolutions under the section entitled "Enforcement of Obligations, Deposit of Revenues and Allocation Thereof", the payments required by paragraph (b) above directly to the Trustee for deposit in the Construction Fund, or other fund, as applicable, established under the Resolution and 2012 Series Resolutions, as directed by an Authorized Officer of the Authority, the payments required by paragraphs (a), (f), (g) and (h) above directly to the Authority, the payments required by paragraph (j) above to or upon the order of the Authority and the payments required by paragraph (l) above, directly to the Commissioner of Health. In the event that the payments required to be made directly to the Trustee pursuant to the preceding sentence are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments will be applied pro rata to each such Series of Bonds based upon the amounts then due and payable on each Series of Bonds pursuant to paragraphs (c), (d), (e), (i) and (k) above bears to the total amount then due and payable on all Series of Bonds.

Each Institution agrees that it is also obligated to make all payments when due on the Applicable Obligation to the holders of such Obligation, and that the holders will be entitled to so receive all payments when due on such Obligation, it being the intention of the parties to the Loan Agreements that Obligation No. 9, Obligation No. 10 and the Loan Agreements are separate (but not duplicative) obligations of the Institutions (and, to the extent provided in such Obligations, of the Obligated Group), that payments by the Institutions (or the Obligated Group) to the Trustee pursuant to the Applicable Obligations will serve as a credit against amounts due from the

Institution to the Authority pursuant to the Loan Agreements with regard to the Series 2012 Bonds and that payments by the Institutions to or upon the order of the Authority pursuant to the Loan Agreements will serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the Applicable Obligations.

2. Notwithstanding any provisions in the Loan Agreements or in the Resolutions to the contrary (except as otherwise specifically provided for in the Loan Agreements), all moneys paid by the Institutions to the Trustee pursuant to the Loan Agreements or otherwise held by the Trustee will be applied in reduction of the Institutions' indebtedness to the Authority under the Loan Agreements, 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 provisions of the Resolutions under the section entitled "Defeasance". Notwithstanding any provision in the Loan Agreements or in the Resolution or the Series 2012 Resolutions to the contrary (except as otherwise specifically provided for in the Loan Agreements), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (c), (d), (e), (i), and (k), above (other than moneys received by the Trustee pursuant to the section of the Resolution entitled "Compensation", which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Institutions' indebtedness to the Authority with respect to the interest and principal on 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 (i) above) held by it in the Construction Fund to the Debt Service Fund in accordance with the applicable provisions of the Loan Agreements or of the Resolutions shall be deemed, upon such transfer, receipt by the Authority from an Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolutions, the Trustee will hold such moneys in trust in accordance with the applicable provisions of the Resolutions for the sole and exclusive benefit of the Holders of the Series 2012 Bonds, regardless of the actual due date or payment date of any payment to the Holders of the Series 2012 Bonds.

3. The obligations of the Institutions to make payments or cause the same to be made under the Loan Agreements shall be complete and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which an 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 an Institution to complete a Project or the completion thereof with defects, failure of an Institution to occupy or use a Project, any declaration or finding that the Bonds or any Series of Bonds are, or the Resolutions is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreements shall be construed to release the Authority from the performance of any agreements on its part contained in the Loan Agreements or any of its other duties or obligations, and in the event the Authority fails to perform any such agreement, duty or obligation, the Institutions 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 Agreements to cause advances to be made to reimburse the Institutions for, or to pay, the Costs of the Project, beyond the extent of moneys available in the Construction Fund established for such Project.

4. The Authority has the right in its sole discretion to make, on behalf of the Institutions, any payment required pursuant to the Loan Agreements which was not made by an Institution when due. No such payment by the Authority will limit, impair or otherwise affect the rights of the Authority under the Loan Agreements arising out of an Institution's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Institutions to make such payment.

5. Each Institution, if it is not then in default under the Loan Agreements, 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 Resolutions. Upon any voluntary payment by an Institution or upon any deposit in a Debt Service Fund made pursuant to the Loan Agreements, the Authority

agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Resolutions or to give the Trustee irrevocable instructions in accordance with the Resolutions 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 Agreements and under the Resolutions, including the purchase or redemption of all Outstanding Bonds of such Series, or to pay or provide for the payment of all Outstanding Bonds of such Series in accordance with the provisions of the Resolutions, the Authority agrees, in accordance with the instructions of the Institutions, to direct the Trustee to purchase or redeem all Outstanding Bonds of such Series, or to cause all Outstanding Bonds of such Series to be paid or to be deemed paid in accordance with the Resolutions.

(Section 9)

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

The Institutions consent 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 the Loan Agreements and any or all security interests granted by the Institutions under the Loan Agreements, the Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities pursuant to the Loan Agreements and all funds and accounts established by the Resolutions and pledged thereby in each case to secure any payment or the performance of any obligation of the Institutions under the Loan Agreements or arising out of the transactions contemplated hereby whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Institutions further agree that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreements. Upon any pledge and assignment by the Authority to the Trustee authorized by the Loan Agreements, 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 under the Loan Agreements or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing an Institution's obligation to make all payments required by the Loan Agreements, and to performing all other obligations required to be performed by the Institution under the Loan Agreements.

Each of the Institutions 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 Applicable Loan Agreement, to incur the indebtedness contemplated in the Applicable 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, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to the Applicable Loan Agreement in the manner and to the extent provided in the Loan Agreements and in the Resolutions. Each of the Institutions further covenants, warrants and represents that except with respect to additional Bonds, any and all pledges, security interests in and assignments made or to be made pursuant to the Applicable Loan Agreement are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant to the Loan Agreements, and that all corporate action on the part of each of the Institutions to that end has been duly and validly taken. Each of the Institutions further covenants that the provisions of the Applicable Loan Agreement and thereof are and will be valid and legally enforceable obligations of each Institution in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights. Each of the Institutions 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, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to the Applicable Loan Agreement and all of the rights of the Authority under the Applicable Loan Agreement and the Holders of Bonds under the Resolutions against all claims and demands of all persons whomsoever. Each of the Institutions further covenants, warrants and represents that the execution and delivery of the Applicable Loan Agreement, and the consummation of the transaction contemplated therein and compliance with the provisions thereof, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Federal Agency Obligations, Exempt Obligations and Securities delivered to the Trustee pursuant to the Loan Agreements, 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 Institutions or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which an Institution is party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any

governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institutions or any of their properties.

(Section 12)

Tax-Exempt Status

Each Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such listing continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. Each 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 Tax-Exempt Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 13)

Maintenance of Corporate Existence

Each Institution covenants that it will maintain its corporate existence, will continue to operate as a not-for-profit organization, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Project by such Institution, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default has occurred and is continuing and prior written approval has been obtained from the Authority and the Commissioner of Health, an Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of Bond Counsel adversely affect the exemption from federal income tax of the interest paid or payable on the Tax-Exempt Bonds, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution set forth in the Loan Agreements and furnishes to the Authority a certificate to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Loan Agreements and shall meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, shall provide the Authority with such other certificates and opinions as may reasonably be required by the Authority.

(Section 15)

Use of Project

Subject to the rights, duties and remedies of the Authority under the Loan Agreements and the statutory and regulatory powers of the Department of Health, each Institution will have sole and exclusive control of, possession of and responsibility for (i) any Project financed under the Applicable Loan Agreement; (ii) the operation of such Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of such Projects.

(Section 17)

Restrictions on Religious Use

Each Institution agrees that with respect to any 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 a Project or portion thereof to be used without regard to the above stated restriction, said restriction shall 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 any Project or any portion thereof financed by Bonds is being used for any purpose proscribed hereby. Each Institution further agrees that prior to any disposition of any portion of a 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) shall 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 shall 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 shall further provide that such restriction may be enforced at the insistence 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 shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of a 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 shall be without any force or effect.

(Section 18)

Maintenance, Repair and Replacement

Each Institution agrees that, throughout the term of the Applicable Loan Agreement, it will, at its own expense, hold, operate and maintain each Project 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 a Project may be properly and advantageously conducted. Each 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 any Series of Bonds provided such 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. With regard to equipment, furniture and fixtures that have not been financed by the proceeds of the Bonds, an Institution may convey any such equipment, furniture and fixtures outside of the Obligated Group as permitted by the Master Indenture. As permitted in the Master Indenture, subject to compliance with all applicable Governmental Requirements, an Institution may transfer any equipment, furniture and fixtures at any time to any other Member of the Obligated Group. Notwithstanding the foregoing, in all cases such transfers cannot be made unless they will not adversely affect the tax-exempt status of the Bonds.

Each Institution further agrees that it will pay at its own expense all extraordinary costs of maintaining, repairing and replacing a Project except insofar as funds are made available therefor from proceeds of insurance, condemnation or eminent domain awards.

(Section 20)

Damage or Condemnation

In the event of a taking of a Project or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of such Project, the Applicable Institution will use such insurance, condemnation or eminent domain proceeds in a manner as to not adversely affect the tax-exempt status on any Tax-Exempt Bonds. Any proceeds of a taking of a Project or any portion thereof by eminent domain or proceeds of insurance related to

damage or destruction affecting all or part of such Project which are deposited with a Trustee shall be applied as provided in the Series 2012 Resolution or the Bond Series Certificate.

(Section 21)

Taxes and Assessments

Each 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. Each Institution shall file exemption certificates as required by law.

(Section 22)

Defaults and Remedies

1. As used in the Loan Agreements the term "Event of Default" means:

(a) an Institution shall (i) default in the timely payment of any amount payable pursuant to the provisions of the Applicable 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 Applicable Loan Agreement or with the Resolutions, and such default continues for a period in excess of seven (7) days or (ii) default in the payment of any amount payable pursuant to the Applicable Loan Agreement;

(b) an Institution defaults in the due and punctual performance of any other covenant contained in the Applicable 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 shall not constitute an Event of Default if corrective action is instituted by such 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 either of the Institutions or any Event of Default under the Loan Agreements, whether or not declared, the Authority shall be in default in the payment or performance of any of its obligations under the Resolutions and an "Event of Default" (as defined in the Resolutions) shall have been declared under the Resolutions so long as such default or Event of Default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolutions as a result thereof;

(d) the Obligated Group shall 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) an Institution shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction will enter an order appointing, without consent by an Institution, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institution, or any petition for any such relief shall be filed against the Institution and such petition shall not be dismissed within ninety (90) days;

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

(h) a petition to dissolve an Institution shall be filed by the Institution with the Department of Health, the legislature of the State or any other governmental authority having jurisdiction over the Institution;

(i) an order of dissolution of either of the Institutions shall be made by the Department of Health, the legislature of the State or any other governmental authority having jurisdiction over such Institution which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to either of the Institutions which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to either of the Institutions, which order shall remain undismissed or unstayed for the earlier of (x) three (3) Business Days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order shall have been entered;

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

2. Upon the occurrence of an Event of Default, the Authority shall provide written notice of such Event of Default to the Department of Health upon receiving knowledge thereof, provided, however, that failure to give such notice shall in no manner impair or diminish the Authority's ability to take any action under the Loan Agreements. 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 Agreements or under the Obligations relating to the Series 2012 Bonds immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Series 2012 Construction Fund or otherwise to which the Institution may otherwise be entitled under the Loan Agreements and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolutions;

(c) withhold any or all further performance under the Loan Agreements;

(d) maintain an action against the Institution under the Loan Agreements or under Obligation No. 9, Obligation No. 10 or against any or all members of the Obligated Group under the Master Indenture or Obligation No. 9 or Obligation No. 10 to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreements or of the Master Indenture or Obligation No. 9 or Obligation No. 10;

(e) [Reserved];

(f) to the extent permitted by law, (i) enter upon any Project and complete the construction of any Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the Applicable Institution, consent to such entry being given by such Institution, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action

undertaken by the Applicable Institution and not be bound by any limitations or requirements of time whether set forth in the Applicable Loan Agreement or otherwise, (iii) assume any construction contract made by the Applicable Institution in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by such Institution, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of any Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreements as the Authority may from time to time determine. Each Institution shall be liable to the Authority for all sums paid or incurred for construction of any 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 Agreements of any kind whatsoever shall be paid by the Applicable Institution to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreements, each Institution has agreed to irrevocably constitute and appoint 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 such Institution; and

(g) take any action necessary to enable the Authority to realize on its liens under the Loan Agreements, or by law, including any other action or proceeding permitted by the terms of the Loan Agreements, or by law.

3. All rights and remedies given or granted to the Authority in the Loan Agreements are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

4. At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreements, the Authority may annul any declaration made or action taken pursuant to the Loan Agreements and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

5. Each Institution will give the Authority and the Department of Health telephonic and written notice within one (1) Business Day of receiving information that the Master Trustee has appointed or intends to appoint a receiver in accordance with the terms of the Master Indenture.

(Section 26)

Arbitrage

Each 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 any Series 2012 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, each Institution covenants that it will comply with the instructions and requirements of the Tax Certificate. Each 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 (except in the case of a purchase in lieu of redemption) in an amount related to the amount of any obligation to be acquired from such Institution by the Authority. Each Institution will, on a timely basis, provide the Authority with all necessary information regarding funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolutions under the section entitled "Tax Exemption: Rebates". The

Applicable Institution shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirements.

(Section 31)

Amendments to Loan Agreements

The Loan Agreements may be amended only in accordance with the Resolutions and each amendment shall be made by an instrument in writing signed by an Authorized Officer of the Institution and of the Authority, an executed counterpart of which shall be filed with the Trustee; provided, however, that no amendment or waiver of any provision of the Loan Agreements may be made without the prior written consent of the Commissioner of Health.

(Section 37)

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Unless otherwise indicated, references to section numbers in this summary refer to sections in the Resolution. Defined terms used herein will have the meanings ascribed to them in Appendix A.

Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its Bonds in one or more Series, each such Series to be authorized by a separate Applicable Series Resolution and, *inter alia*, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the Applicable Series Resolution authorizing such Series of Bonds. With respect to each Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of the 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 shall 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 such Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority 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 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 Trustee all of the Authority's estate, right, title, interest and claim in, to and under the Applicable Loan Agreement, or Applicable Obligation, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under such Loan Agreement 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 Revenues, and other payments and other security now or hereafter payable to or receivable by the Authority under such Loan Agreement 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, or Applicable Obligation, subject to the following conditions: (a) that, unless and until the Authority grants, pledges or assigns such rights under the Applicable Loan Agreement or the Applicable Obligation to the Trustee, the Authority may, with the consent of the Applicable Credit Facility Issuer, if any, if required, modify, amend or release any provisions of such Applicable Loan Agreement, or the Applicable Obligation only 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 Trustee shall, in its discretion when an "Event of Default" (as defined in the Applicable Loan Agreement) under the Applicable Loan Agreement will have occurred and shall be continuing, so elect, by instrument in writing delivered to the Authority and the Applicable Institution (and then only to the extent that the Trustee shall 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 Applicable Loan Agreement 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 Applicable Loan Agreement to be observed and performed by it; *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 Applicable Loan Agreement pursuant to the Resolution shall secure, in the case of the Applicable Loan Agreement or any applicable portion thereof, only the payment of the amounts payable under such Applicable Loan Agreement.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in the preceding paragraph, the Trustee shall accept such grant, pledge and assignment which acceptance will be evidenced in writing and signed by an Authorized Officer of the Trustee.

If not previously assigned to the Trustee in accordance with the Resolution, then upon (1) the occurrence of an Event of Default under the Resolution (other than an Event of Default specified in the Resolution) and (2) the written request of the Trustee, the Authority shall assign the Applicable Obligation to the Trustee.

(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 the Resolution 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.

With respect to Refunding Bonds issued to refund all or any portion of any Series of Outstanding Bonds or to refund all or a portion of one or more series of Bonds, the 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.

With respect to the Refunding Bonds issued to refund all or any portion of any bonds or other obligations issued by the Authority, the proceeds, including accrued interest, will be applied simultaneously with the delivery of such Refunding Bonds in the manner provided or as determined in accordance with the resolution or resolutions authorizing such bonds or other obligations.

(Section 2.04)

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien created by the Resolution and pursuant to any Series Resolution, or prior or equal to the rights of the Authority and Holders of any Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to any Series Resolution.

(Section 2.05)

Pledge of Revenues

The proceeds from the sale of a Series of Bonds, the Revenues and all funds authorized by the Resolution and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund and Applicable Credit Facility Repayment 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 such Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under the Applicable Series

Resolution, all in accordance with the provisions thereof and of the Resolution. The pledge made by the Resolution, subject to the adoption of the Applicable Series Resolution, shall relate only to the Bonds of a Series authorized by the Applicable Series Resolution and no other Series of Bonds and such pledge shall 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 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 shall 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 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 Revenues and the funds established by the Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Establishment of Funds

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;
Debt Service Fund;
Debt Service Reserve Fund;
Arbitrage Rebate Fund; and
Credit Facility Repayment Fund.

Accounts and sub-accounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created by the Resolution, other than the Applicable Arbitrage Rebate Fund and Applicable Credit Facility Repayment Fund, shall be held in trust for the benefit of the Holders of a Series of Bonds, but will nevertheless be disbursed, allocated and applied solely in connection with such 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 a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Applicable Series Resolution authorizing such Series or in the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of a 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 in the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Construction Fund

For purposes of internal accounting, an account in an Applicable Construction Fund for a Series of Bonds may contain one or more sub-accounts, as the Authority or the Trustee may deem necessary or desirable. As soon as practicable after the delivery of such 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 Applicable 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 Project in connection with which such Series of Bonds was issued.

Except as otherwise provided in the Resolution and in the Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Fund shall be used only to pay the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project in connection with which such Series of Bonds were issued.

Payments for Costs of a 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 Applicable Institution, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on the Applicable Series of Bonds 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.

Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or the Applicable Institution with respect to a Project shall be deposited in the appropriate account in the Applicable Construction Fund and, if necessary, such fund may be reestablished for such purpose and if not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Fund for the redemption of the Applicable Series of Bonds in accordance with the Applicable Loan Agreement.

A Project shall be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Institution which certificate will be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Applicable Institution and the Trustee of a certificate of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate 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 the Applicable Institution, will specify the date of completion, or, if any portion of the Project has been abandoned and will not be completed, will so state.

Upon receipt by the Trustee of the certificate required pursuant to the Resolution, 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 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;

Second: To the Applicable Debt Service Reserve Fund, such amount as will be necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Third: To the Applicable Debt Service Fund for the redemption or purchase of the Applicable Series of Bonds in accordance with the Resolution and the Applicable Series Resolution, any balance remaining.

(Section 5.04)

Enforcement of Obligations, Deposit of Revenues and Allocation Thereof

(a) To the extent an Institution fails to make any timely payment with respect to a Series of Bonds under the Applicable Loan Agreement, which payment would constitute a credit for payment of the Applicable Obligation in accordance with the terms thereof, the Trustee shall promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

(b) Except as otherwise provided in the Applicable Series Resolution authorizing a Series of Bonds, the Revenues, including all payments received under the Applicable Loan Agreement, the Master Indenture and the Applicable Obligation, 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 Applicable 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 such 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 Facility Providers, if any, for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to such Facility Providers, if any, in connection with such Series of Bonds;

Second: Upon the direction of an Authorized Officer of the Authority, to the Applicable Arbitrage Rebate Fund in the amount set forth in such direction;

Third: To the Applicable Debt Service Reserve Fund, such amount, if any, necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Fourth: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required 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 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.

(c) After making the payments required by paragraph (a) above, the balance, if any, of the Revenues 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 shall notify the Authority and the Institution promptly after making the payments required by paragraph (a) of above, of any balance of Revenues then remaining.

(d) In the event that any payments received by the Trustee under the Resolution are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments will be applied pro rata to each such Series of Bonds based upon the amounts then due and payable.

(Section 5.05)

Debt Service Fund

1. The Trustee shall, on or before each interest payment date with respect to a Series of Bonds, as required by the Applicable Series Resolution or Applicable Bond Series Certificate, pay, from the Applicable Debt Service Fund, to itself and any other Paying Agent:

(a) the interest due on all Outstanding Bonds of the Applicable Series of Bonds on such interest payment date;

(b) the principal amount due on all Outstanding Bonds of the Applicable Series of Bonds on such interest payment date;

(c) the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series of Bonds on such interest payment date; and

(d) moneys required for the redemption of Bonds of the Applicable Series of Bonds in accordance with the Resolution.

The amounts paid out pursuant to the Resolution will be irrevocably pledged to and applied to such payments.

2. In the event that on the fourth (4^{th}) Business Day preceding any interest payment date for a Series of Bonds the amount in the Applicable Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of such 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 shall notify the Authority, the Facility Provider, if any, the Applicable Credit Facility Issuer, if any, the Master Trustee, the Obligated Group Representative and each member of the Obligated Group of a withdrawal from the Applicable Debt Service Reserve Fund.

3. In accordance with the Resolution, the Authority may, at any time subsequent to the first principal payment date of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Applicable Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by the Institution 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 shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

4. Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Outstanding Bonds of a Series payable on or prior to the next succeeding principal payment date, the interest on such Outstanding Bonds payable on the earlier of the next succeeding interest payment date, assuming that a Variable Interest Rate Bond will bear interest, from and after the next date on which the rate at which such Variable Interest Rate Bond bears interest is to be adjusted, at a rate per annum equal to the rate per annum at which such Bonds then bear interest plus one percent (1%) per annum, and the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of such Outstanding Bonds of an Applicable Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Applicable Debt Service Fund, such moneys may be applied by the Trustee: (i) in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Bonds as provided in the Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Applicable Bond Series Certificate or (ii) as may otherwise be directed by the Authority.

(Section 5.06)

Debt Service Reserve Fund

1. (a) The Trustee of a Series of Bonds shall deposit to the credit of the Applicable Debt Service Reserve Fund such proceeds of the sale of Bonds, if any, as shall be prescribed in the Applicable Series Resolution or the Applicable Bond Series Certificate, and any Revenues, moneys, Government Obligations and Exempt Obligations as, by the provisions of the Loan Agreement, 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, Federal Agency Obligations or Exempt Obligations, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Applicable Debt Service Reserve Requirement; provided (i) that any such surety bond or insurance policy 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.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of a Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to an Applicable Credit Facility Issuer to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority, (iii) in the event such Reserve Fund Facility is a letter of credit, an opinion of counsel acceptable to the Trustee substantially to the effect that payments under such letter of credit shall not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority or the Institution thereunder or under any applicable provisions of the Debtor and Creditor Law of the State, and (iv) the written consent of all Applicable Credit Facility Issuers, if any.

Notwithstanding the foregoing, if at any time after a Reserve Fund Facility has been deposited with the Trustee the unsecured or uncollateralized long term debt of the Facility Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Facility Provider is reduced below the ratings required by the second preceding paragraph, the Authority shall, unless at the time such ratings are reduced such Facility Provider is the Credit Facility Issuer of all Outstanding Bonds of the Applicable Series, either (i) replace or cause to be replaced said Reserve Fund Facility with another Reserve Fund Facility which satisfies the requirements of the Resolution or (ii) deposit or cause to be deposited in the Applicable Debt Service Reserve Fund an amount of moneys, Government Obligations, Federal Agency Obligations or Exempt Obligations which meet the requirements of the Resolution, which is equal to the value of the Reserve Fund Facility of such Facility Provider, such deposits to be, as nearly as practicable, in ten (10) equal semi-annual installments commencing on the earlier of the January 1 or July 1 next succeeding the reduction in said ratings.

Each such surety bond, insurance policy or letter of credit will be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Applicable Debt Service Reserve Fund and such withdrawal cannot be made without obtaining payment under such Reserve Fund Facility.

For the purposes of the Resolution, in computing the amount on deposit in the Applicable Debt Service Reserve Fund, a Reserve Fund Facility will be valued at the amount available to be paid thereunder on the date of computation; *provided, that*, if the unsecured or uncollateralized long term debt of such Facility Provider, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Facility Provider has been reduced below the ratings required by the Resolution, said Reserve Fund Facility will be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such

available amount the numerator of which is the aggregate number of interest payment dates which have elapsed since such ratings were reduced and the denominator of which is ten (10).

2. Moneys held for the credit of the Applicable Debt Service Reserve Fund shall be withdrawn by the Trustee and deposited to the credit of the Applicable Debt Service Fund at the times and in the amounts required to comply with the provisions of the Resolution; *provided, that*, no payment under a 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 the Resolution cannot be withdrawn therefrom without obtaining payment under such Reserve Fund Facility; *provided further*, that, if more than one Reserve Fund Facility is held for the credit of the Applicable Debt Service Reserve Fund at the time moneys are to be withdrawn therefrom, the Trustee shall obtain payment under each such Reserve Fund Facility, pro rata, based upon the respective amounts then available to be paid thereunder. The Trustee shall provide notification as set forth in the Resolution of any withdrawal of moneys from the Debt Service Reserve Fund or payment of a Reserve Fund Facility immediately upon such withdrawal or payment.

With respect to any demand for payment under any Reserve Fund Facility, the Trustee will make such demand for payment in accordance with the terms of such Reserve Fund Facility at the earliest time provided therein to assure the availability of moneys on the interest payment date for which such moneys are required.

3. (a) Moneys and investments held for the credit of an Applicable Debt Service Reserve Fund in excess of the Applicable Debt Service Reserve Fund Requirement, upon direction of an Authorized Officer of the Authority, shall be withdrawn by the Trustee and (i) deposited in the Applicable Arbitrage Rebate Fund, Applicable Debt Service Fund or Applicable Construction Fund, (ii) paid to the Applicable Institution or (iii) applied by the Authority to pay the principal or Redemption Price of, and interest on bonds of the Authority issued in connection with the Applicable Institution pursuant to resolutions other than the Resolution, in accordance with such direction; *provided, however*, with respect to Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes, no such amount shall be withdrawn and deposited, paid or applied unless, in the opinion of Bond Counsel, such deposit, payment or application will not adversely affect the exclusion of interest on any such Bonds from gross income for federal income tax purposes.

(b) Notwithstanding the provisions of the Resolution, if, upon a Bond having been deemed to have been paid in accordance with the Resolution or redeemed prior to maturity from the proceeds of Bonds, bonds, notes or other obligations issued for such purpose, the moneys and investments held for the credit of the Applicable Debt Service Reserve Fund shall exceed the Applicable Debt Service Reserve Fund Requirement, then the Trustee shall, simultaneously with such redemption or a deposit made in accordance with the Resolution, withdraw all or any portion of such excess from the Applicable Debt Service Reserve Fund upon the direction of an Authorized Officer of the Authority and either (i) apply such amount to the payment of the principal or Redemption Price of, and interest on such Bond in accordance with the irrevocable instructions of the Authority or (ii) fund any reserve for the payment of the principal and sinking fund installments of, or interest on the bonds, notes or other obligations, if any, issued to provide for payment of such Bond if, in the opinion of Bond Counsel, application of such moneys to the use authorized in the Resolution (ii) shall not adversely affect the exclusion of interest on any Applicable Bonds from gross income for federal income tax purposes, or (iii) pay such amount to the Authority for deposit to the Applicable Construction Fund if, in the opinion of Bond Counsel, application of such moneys to the payment of Costs of the Project shall not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes; *provided, that*, after such withdrawal the amount remaining in the Applicable Debt Service Reserve Fund shall not be less than the Applicable Debt Service Reserve Fund Requirement.

4. If upon a valuation, the moneys, investments and Reserve Fund Facilities held for the credit of the Applicable Debt Service Reserve Fund for a Series of Bonds are less than the Applicable Debt Service Reserve Fund Requirement, the Trustee will immediately notify the Authority and the Applicable Institution of such deficiency and such Institution shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys, Government Obligations, Federal Agency Obligations, Exempt Obligations or Reserve Fund Facilities the value of which is sufficient to increase the amount in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. If the Applicable Institution has not made timely payment, the Trustee shall immediately notify the Authority, the Obligated Group Representative and the Master

Trustee of such non-payment and will seek payment under the Applicable Obligation in accordance with the terms thereof.

(Section 5.07)

Arbitrage Rebate Fund

The Trustee of a Series of Tax-Exempt Bonds shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and in accordance with the Resolution, shall transfer to the Applicable Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as will be set forth in such directions.

Moneys on deposit in the Applicable Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which the Authority determines to be in excess of the amount required to be so rebated 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 Applicable Debt Service Reserve Fund relating to a Series of Bonds pursuant to the Resolution the amounts held in the appropriate accounts in such Debt Service Fund and Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series of Bonds and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, the Trustee shall so notify the Authority and the Applicable Institution. Upon receipt of such notice, the Authority shall request the Trustee to redeem all such Outstanding Bonds unless the Applicable Institution objects in writing within five (5) Business Days of receiving notice of such request. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds under the Resolution and the Applicable Series Resolution.

(Section 5.09)

Computation of Assets of Certain Funds

The Trustee of a Series of Bonds, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of an Applicable Institution, but not more frequently than once a calendar month, and (iv) at such other times as may be necessary in connection with a withdrawal and deposit made pursuant to the Resolution, shall compute the value of the assets in the Applicable Debt Service Reserve Fund, in the case of the requirement under (i) above, on the last day of each such month, in the case of a request pursuant to (ii) or (iii) above, at the date of such request, or, in the case of a withdrawal and deposit, at the date of such withdrawal and deposit, and notify the Authority and the Applicable Institution as to the results of such computation and the amount by which the value of the assets in the Applicable Debt Service Reserve Fund exceeds or is less than the Applicable Debt Service Reserve Fund Requirement.

(Section 5.11)

Investment of Funds Held by the Trustee

Money held under the Resolution by the Trustee of a Series of Bonds in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under the Resolution, any other Permitted Investment; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution; provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent thereof approved by the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

Permitted Investments purchased or other investments made as an investment of moneys in any fund held by the Trustee under the Resolution shall be deemed at all times to be a part of such fund and the income or interest earned, profits realized or losses suffered by a fund due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund unless otherwise provided in the Applicable Series Resolution.

In computing the amount in any fund held by the Trustee under the provisions of the Resolution, Permitted Investments purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Applicable Debt Service Reserve Fund shall be valued at the market value thereof, plus accrued interest and except that Investment Agreements shall be valued at original cost, plus accrued interest.

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 the Resolution. 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 shall be necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee shall advise the Authority and the Institution in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments 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 shall also describe all withdrawals, substitutions and other transactions occurring in each such fund in the previous month.

No part of the proceeds of any Series of Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

(Section 6.02)

Enforcement of Duties and Obligations of the Institution

The Authority will take all legally available action to cause the Applicable Institution to perform fully all duties and acts and comply fully with the covenants of such Institution required by the Applicable Loan Agreement relating to a Series of Bonds in the manner and at the times provided in such Loan Agreement; *provided, however*, that the Authority may delay, defer or waive enforcement of one or more provisions of said 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 the Applicable Series.

(Section 7.06)

Deposit of Certain Moneys in the Construction Fund

In addition to the proceeds of Bonds of a 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 equipping of an Applicable Project and any moneys received in respect of damage to or condemnation of such Project shall be deposited in the Applicable Construction Fund.

(Section 7.07)

Amendment of Loan Agreements and Master Indenture

The Authority may not amend, change, modify, alter or terminate any Loan Agreement or consent to the amendment, change, modification, alteration or termination of the Master Indenture, in either case so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the then Outstanding Bonds of each Series so affected; *provided, however*, that if such modification or amendment shall, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution; *provided, further*, that no such amendment, change, modification, alteration or termination shall reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by an Institution under its Applicable Loan Agreement that is to be deposited with the Trustee, or extend the time of payment thereof or reduce the amount of any payment required to be made under the Obligations held by the Authority. In accordance with the Resolution, the Authority may consent to the waiver, amendment or removal of any covenant which, pursuant to the Master Indenture, may be waived by the Authority without the consent of the Holders of the Bonds or the Trustee. A Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Applicable Project or which may be added to or adjacent to said Project or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in the such Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in such Loan Agreement. In accordance with the Resolution, if the Applicable Loan Agreement or the Master Indenture expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement or to the Master Indenture, such consent shall be required to be obtained as provided in such Loan Agreement or in the Master Indenture. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of this paragraph, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of an Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on an Applicable Institution, the Authority and all Holders of Bonds.

For all purposes of this paragraph, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Section 7.09)

Notice as to Event of Default Under Loan Agreement

The Authority shall notify the Trustee and any Applicable Credit Facility Issuer 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 shall be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.10)

Tax Exemption: Rebates

Except as otherwise provided in the Applicable Series Resolution, in order to maintain the exclusion from gross income for purposes of federal income taxation of interest on any Series of Tax-Exempt Bonds, the Authority will comply with the provisions of the Code applicable to the Bonds of such Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of such Series of Tax-Exempt Bonds, reporting of earnings on the Gross Proceeds of such Series of Tax-Exempt Bonds and rebates of Excess Earnings to the Department of the Treasury of the United States of America. Except as otherwise provided in the Resolution, the Authority will comply with the letter of instructions as to compliance with the Code with respect to each such Series of Tax-Exempt Bonds, to be delivered by Bond Counsel at the time the Bonds of the 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 any Series shall not entitle the Holder of Bonds of any other 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 the Resolution or of the Code.

(Section 7.11)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time Supplemental Resolutions relating to a Series of Bonds for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, *provided, that*, the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, the Master Indenture, or any Applicable Series Resolution, the Revenues, or any pledge of any other moneys, Securities or funds;

(e) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution in any other respects, *provided, that*, such modifications shall not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution will cease to be Outstanding, and all Bonds of the Series issued under an Applicable Series Resolution shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, *provided, that*, any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, *provided, that*, such modification shall not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(Section 9.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution and an Applicable Series Resolution may also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders in accordance with and subject to the provisions of 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 shall be deemed to affect an Applicable Series of Bonds and of the Holders of the Bonds of such Series under the Resolution, in any particular, may be made by an Applicable Supplemental Resolution, with the written consent given in accordance with the Resolution, (i) of the Holders of at least fifty-one per centum (51%) in principal amount of the Bonds Outstanding of the 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 fifty-one per centum (51%) 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 the Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. No such modification or amendment shall 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 shall 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 paragraph, an Applicable Series shall 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 the Applicable Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds of such 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 of such Applicable Series then Outstanding, 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 a Series 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 shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same shall become due and payable; or

(c) With respect to the Applicable Series of Tax-Exempt Bonds, the Authority shall default in the due and punctual performance of the covenants contained in the Resolution and, as a result thereof, the interest on the Bonds of such Series will no longer be excludable from gross income under Section 103 of the Code; or

(d) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the Holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee (unless such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof), which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series; or

(e) The Authority shall have notified the Trustee that an "Event of Default", as defined in the Applicable Loan Agreement, arising out of or resulting from the failure of the Applicable Institution to comply with the requirements of the Applicable Loan Agreement shall have occurred and be continuing and all sums payable by the Institution under the Applicable Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

An event of default under the Resolution in respect of an Applicable Series of Bonds shall not in and of itself be or constitute an event of default in respect of any other Series of Bonds.

(Section 11.02)

Acceleration of Maturity

In accordance with and upon the happening and continuance of any event of default specified in the Resolution, 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 a Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers, if any, have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Outstanding Bonds due upon the acceleration thereof, upon the request of a Credit Facility

Issuer, if any, or Applicable Credit Facility Issuers, if any, making such deposit, shall: (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of the Applicable Series to be due and payable immediately and (B) request that the Master Trustee declare all applicable Outstanding Obligations (as defined in the Master Indenture) to be immediately due and payable. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest will become and be immediately due and payable, anything in the Resolution or in the Applicable Series Resolution or in the Bonds to the contrary notwithstanding. In the event that an Applicable Credit Facility Issuer shall make any payments of principal of or interest on any Bonds pursuant to an Applicable 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 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, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee shall, with the written consent of the Applicable Credit Facility Issuers, if any, which have issued Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the 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 Outstanding Bonds of the Applicable Series of Bonds, with the written consent of the Applicable Credit Facility Issuers, if any, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under the Resolution) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in the Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under the Resolution) will 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 of a Series of Bonds may proceed, and upon the written request of the Applicable Credit Facility Issuers, if any, 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 Applicable Credit Facility Issuers, if any, or, in the case of a happening and continuance of an event of default specified in paragraph (c) of the section above captioned "Events of Default," upon 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 of Bonds 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 Credit Facility Issuer, if any, under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained in the Resolution or in the Applicable Series Resolution or in aid or execution of any power granted by the Resolution or by the Applicable Series Resolution, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee will deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee 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 the Applicable Series Resolution or of the Bonds of the Applicable Series of Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Applicable Series Resolution and under such Bonds, without prejudice to any other right

or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in the Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

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 shall not be sufficient to pay the principal of and interest on the Bonds of a 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 shall have become or been declared due and payable, all such moneys shall 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 shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available will not be 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 shall have become or been declared due and payable, all such moneys shall 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 any 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 of a Series of Bonds pursuant to the provisions of the Resolution, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose will constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Holder of Bonds of such 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 of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it will fix the date (which will be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date.

(Section 11.05)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series with the consent of the Applicable Credit Facility Issuers, if any, or, in the case of an event of default specified in paragraph (c) of the section above captioned "Events of Default," the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series with the consent of the Applicable Credit Facility Issuers, if any, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under the Applicable Series Resolution, *provided*, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of the Applicable Series Resolution, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

Neither any Holder nor Applicable Credit Facility Issuer of a Credit Facility of any of the Bonds of a 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 Applicable Credit Facility Issuer shall have previously 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 the Applicable Series with the Consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) of the section above captioned "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, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are 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 granted by the Resolution or for any other remedy under the Resolution. It is understood and intended that no one (1) or more of the Applicable Credit Facility Issuers of the Applicable Series secured by the Resolution and by the Applicable Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of the 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 shall not be impaired without the consent of such Holder.

(Section 11.08)

Defeasance

If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Trustee in the Applicable Loan Agreement, and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Trustee, on demand of the Authority, will release the lien of the Resolution and Applicable Series Resolution but only with respect to such Series, except

as it covers moneys and securities provided for the payment of such Bonds, and will execute such documents to evidence such release as may be reasonably required by the Authority and the Applicable Institution and will turn over to the Applicable Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Trustee may reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; *provided, that*, if any of such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice shall have been given to the Trustee.

Bonds of a Series for which moneys shall 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 shall be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. All Outstanding Bonds of the Applicable Series or any maturity within such Series or a portion of a maturity within such Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if: (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in the Resolution, notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which 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 Installment, if any, or Redemption Price, if applicable, of and interest due and to become due on said Bonds of the Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment will be made in accordance with the Resolution. The Trustee will select which Bonds of such Series and which maturity thereof shall be paid in accordance with and in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; *provided, that*, any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, 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 hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, as directed by the Authority; and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with clause (b) of the preceding paragraph, the interest to come due on such

Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; *provided, however,* that, if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy clause (b) of the preceding paragraph, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Applicable Paying Agent in trust for the payment and discharge of any of the Bonds of the 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 Applicable 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 Applicable Paying Agent will thereupon be released and discharged with respect thereto, and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; *provided, however*, that, before being required to make any such payment to the Authority, the Trustee or Applicable Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

No principal or Sinking Fund Installment of or installment of interest on a Bond shall be considered to have been paid, and the obligation of the Authority for the payment thereof will continue, notwithstanding that an Applicable Credit Facility Issuer, if any, pursuant to the Applicable Credit Facility issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

Prior to any defeasance of a Series of Bonds becoming effective under the Resolution, each Applicable Credit Facility Issuer, if any, shall have received (a) the final official statement delivered in connection with the refunding of such 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 of and with the effect expressed in the Resolution and the Applicable Series Resolution, and that the covenants, agreements and other obligations of the Authority to the Holders of such Bonds have been discharged and satisfied.

(Section 12.01)

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE 2012 SUPPLEMENTAL INDENTURES

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CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE

The following are definitions of certain words and terms used in the Master Indenture and used in this Official Statement, and excerpts of certain provisions of the Master Indenture. The following should not be regarded as a full statement of the Master Indenture. Reference is made to the Master Indenture in its entirety for a full and complete statement of the provisions thereof, a copy of which is on file with the Trustee.

DEFINITIONS USED IN THE MASTER INDENTURE

"Additional Indebtedness" means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the Initial Obligations under the Master Indenture or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

"Affiliate" means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by a Member or the Obligated Group Representative or their respective successors or assigns or by any Person which directly or indirectly controls a Member or the Obligated Group Representative. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"Audited Financial Statements" means, as to any Member of the Obligated Group, financial statements for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants. Audited Financial Statements of the Obligated Group shall also consist of, in an additional information section, unaudited combining financial statements for the same twelve-month period from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not already included have been added.

"Authority" means the Dormitory Authority of the State of New York and any successor thereto.
"Authorized Representative" shall mean, with respect to the Obligated Group Representative, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer, and, with respect to each Member of the Obligated Group, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer or 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 or its president or its chief executive officer or chief financial officer and filed with the Master Trustee and the Credit Facility Issuer, if any.

"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.

"Book Value" when used in connection with Property, Plant and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

"Capital Addition" means any addition, improvement or extraordinary repair to or replacement of any Property of a Member of the Obligated Group, whether real, personal or mixed, the cost of which is properly capitalized under generally accepted accounting principles.

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

"Consultant" means a firm or firms, selected by the Obligated Group Representative, which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant or other financial institution of national or regional 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 the Master Trustee.

"Credit Facility" means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness to provide credit or liquidity support for such Indebtedness.

"Credit Facility Default" means, with respect to a Credit Facility Issuer, any of the following: (a) there shall occur a default in the payment of principal of or any interest on any bond supported by such Credit Facility or purchase price thereof by the Credit Facility Issuer when required to be made under the terms of the applicable Credit Facility, (b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction, or (c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

"Credit Facility Issuer" means the firm, association, corporation or other Person, if any, which has issued a Credit Facility that provides credit or liquidity support with respect to Indebtedness or Related Bonds.

"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 the Master Indenture and such Supplement.

"Demand Obligation" means any Indebtedness the payment of all or a portion of which is subject to the demand of the holder thereof.

"Derivative Agreement" means, without limitation,

(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 Section 4.01 of the Master Indenture.

"Excluded Property" means any real Property that is not Health Care Facilities of the Obligated Group.

"Fiscal Year" means the fiscal year of each Member of the Obligated Group, which shall be the period commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

"Fitch" means Fitch Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Governing Body" means, when used with respect to any Member of the Obligated Group, including the Obligated Group Representative, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such Member of the Obligated Group 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 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 Restrictions" means federal, state or other applicable governmental laws or regulations, affecting any Member of the Obligated Group and its health care facilities including but not limited to (a) Articles 28 and 28-B of the Public Health Law, and (b) those placing restrictions and limitations on the (i) fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (ii) the amount or timing of the receipt of such fees or charges.

"Gross Receipts" means all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, health-care-insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; *provided however*, Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (A) paying debt service on an Obligation or (B) meeting any commitment of a Member of the Obligated Group under any Indebtedness evidenced by an Obligation issued hereunder; (ii) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment intangibles, contract rights, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, any of which is derived from the Excluded Property which constitutes real property; and (iii) insurance proceeds relating to assets financed by a third party through a capital lease permitted under the Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee.

"Guaranty" means any Obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness hereunder. For the purposes of the Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to 20% of the amount which would be

payable as principal of and interest on the indebtedness for which a Guaranty shall have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Ratio), provided that if there shall have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account. Any Guaranty that is an obligation of more than one Member of the Obligated Group shall be counted only once for purposes of any test herein.

"Health Care Facilities" means the Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. Any facility whose primary function or functions is other than providing health care services and which has incidental health care services provided on its premises, shall not be deemed to be Health Care Facilities.

"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 12 consecutive calendar months, its excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; *provided, however*, that (1) notwithstanding generally accepted accounting principles, no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) unrealized gains and losses on investments of a Member of the Obligated Group, (c) losses resulting from any reappraisal, revaluation or write-down of assets for such period, other than temporary impairment of assets, and (d) change in the value of the Derivative Agreement and (2) revenues shall not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

"Indebtedness" means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by any Member of the Obligated Group, (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness, and (iv) all reimbursement and indemnity obligations of Members of the Obligated Group in favor of any Credit Facility Issuer relating to a Credit Facility. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

"Insurance Consultant" means a firm or Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations and which is selected by the Obligated Group Representative and is not unacceptable to the Master Trustee; provided that, except with respect to the review of self-insurance programs or any captive insurance company, the term "Insurance Consultant" shall include qualified in house risk management officers employed by any Member of the Obligated Group or an Affiliate.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other

obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

"Long-Term Debt Service Coverage Ratio" means, for the Obligated Group, on a consolidated basis, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

"Long-Term Debt Service Requirement" means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, 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 over 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 shall be included in such calculation, or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit, surety or standby bond purchase agreement issued by, or an irrevocable line of credit with, a bank or a commercial bond insurance company 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, surety, standby bond purchase agreement or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit, surety, standby bond purchase agreement or insurance policy, and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

(ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), 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 shall be the initial rate at which such Indebtedness is issued and thereafter shall 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 shall not be included in the Long-Term Debt Service Requirement;

(iv) with respect to any guaranties, the principal and interest relating to the Indebtedness which is guaranteed shall be included in accordance with the Definition of "Guaranty" in Section 1.01 of the Master Indenture;

(v) with respect to Indebtedness for which a Member of the Obligated Group shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness (as evidenced by a certificate filed with the Master Trustee so specifying that the Derivative Agreement relates to all or a portion of such Indebtedness, which certification may be provided at the time of or after the issuance of such Indebtedness), the principal or notional amount of such Derivative Agreement shall be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms (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 shall be the initial rate at which such Indebtedness is issued), and (y) 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 shall be the initial rate at which interest is payable under such Derivative Agreement), and subtracting (z) the amount of interest payable to the Member of the Obligated Group by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period shall be the initial rate at which interest is payable under such Derivative Agreement); *provided, however*, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed;

(vi) with respect to a Derivative Agreement that has not been certified as relating to underlying Indebtedness which has been entered into by any Member of the Obligated Group and which is secured by an Obligation, the principal or notional amount of such Derivative Agreement shall be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, shall be calculated by taking (y) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (z) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement; and

(vii) notwithstanding anything herein to the contrary, any so-called mark to market charge or credit attributable to any Derivative Agreement under Statement of Financial Accounting Standards 133 or otherwise shall be excluded from calculation of the revenues and expenses, in each case, of each Member of the Obligated Group and all related definitions and financial covenants herein for all purposes of the Master Indenture. Furthermore, notwithstanding anything else herein to the contrary, any portion of any Indebtedness of any Member for which a Derivative Agreement has been obtained by such Member shall be deemed to bear interest for the period of time that such Derivative Agreement is in effect at a net rate which takes into account the interest payments made by such Member on such Indebtedness and the payments made or received by such Member on such Derivative Agreement; provided that the long-term credit rating of the provider of such Derivative Agreement (or any guarantor thereof) is in one of the three highest rating categories of any rating agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise).

provided, however, that Escrowed Interest and Escrowed Principal shall 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 shall any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once.

"Long-Term Indebtedness" means all Indebtedness (other than Indebtedness for which the timely payment of the principal of and interest on which has been provided for from the deposit of Defeasance Obligations) having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including without duplication:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;

(iii) installment sale or conditional sale contracts having an original term in excess of one year;

(iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and

(v) the current portion of Long-Term Indebtedness.

"Master Indenture" means the Master Trust Indenture, dated as of November 29, 2006, including any amendments or supplements hereto.

"Master Trustee" means The Bank 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 Catholic Health System, Inc., Mercy Hospital of Buffalo, Sisters of Charity Hospital of Buffalo, New York, Kenmore Mercy Hospital, St. Joseph Hospital of Cheektowaga, New York and any other Person becoming a Member of the Obligated Group pursuant to Section 3.10 of 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 shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Mortgage" means a Mortgage delivered by and between a Member of the Obligated Group to the Master Trustee to secure the Obligations of the Obligated Group to the Master Trustee with respect to the Initial Obligations and all such other Obligations as may be issued from time to time.

"Mortgaged Property" means any and all Property, whether real, personal or mixed, and all rights and interests in and to the Property, which is subject to the liens and security interests created under a Mortgage.

"Non-Recourse Indebtedness" means any Indebtedness 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 as comprised at the time of reference.

"Obligated Group Representative" shall mean Catholic Health System, Inc. or its successor, acting on behalf of the Obligated Group under the Master Indenture.

"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 of a particular obligation of each Member of the Obligated Group under a Derivative Agreement.

"Officer's Certificate" means a certificate signed by the Authorized Representative of such Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer's Certificate presented pursuant to the Master Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of), and shall incorporate by reference and use in all appropriate instances all terms defined in, the Master Indenture. Each Officer's Certificate shall state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer's Certificate is delivered or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by a Member of the 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 any applicable Related Bond Issuer.

"Opinion of Counsel" means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Obligated Group Representative or any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

"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 shall be deemed not to be Outstanding, *provided further, however*, that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent, or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be deemed to be not Outstanding.

"Permitted Liens" shall have the meaning given in Section 3.05 of the Master Indenture.

"Person" means an individual, association, unincorporated organization, limited liability company, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Property, Plant and Equipment" means all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

"Related Bond Indenture" means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" means the issuer of any issue of Related Bonds.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Bonds" means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (i.e. a "Related Bond Issuer") ("governmental issuer"), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Obligated Group Representative or a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer.

"Related Credit Facility Issuer" means the Credit Facility Issuer with respect to any issue of Related Bonds.

"Related Loan Agreement" means, for any Obligation, any loan agreement, lease agreement or any similar instrument relating to the proceeds of Indebtedness of a Member of the Obligated Group which the Obligation was issued to evidence.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no

longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Short-Term Indebtedness" means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group, excluding trade debt incurred in the ordinary course of business, but, including:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(iii) installment purchase or conditional sale contracts having an original term of one year or less.

"Subordinated Debt" means Indebtedness the payment of which is evidenced by instruments, or issued under an indenture or other document, containing specific provisions subordinating such Indebtedness to the Obligations, including following any event of insolvency by the debtor or following acceleration of such Indebtedness.

"Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state or territory thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code, and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Tax Exempt Related Bonds" means Related Bonds on which the interest is not includable in gross income for purposes of federal income taxation pursuant to Section 103 of the Code.

"Total Operating Revenues" means, with respect to the Obligated Group, as to any period of time, total operating revenues less all deductions from revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Transfer" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein or to relieve such Person from any liability other than by payment thereof by such Person, including specifically, but without limitation, the forgiveness of any debt.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

INDEBTEDNESS, ISSUANCE AND TERMS OF OBLIGATIONS

Section 2.01 Amount of Indebtedness. Subject to the terms, limitations and conditions established in the Master Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations hereunder or by creating Indebtedness under any other document. The principal

amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created hereunder are not limited, except by the provisions of the Master Indenture, including Section 3.06, or of any Supplement.

Section 2.07 Issuance of Obligations in Forms Other than Notes. Obligations may be issued under the Master Indenture in a form other than a promissory note to evidence any type of Indebtedness or Derivative Agreement that itself is in a form other than a promissory note, including without limitation, deeming such Indebtedness or Derivative Agreement or certain payments due thereunder to be an Obligation. Consequently, the Related Supplement pursuant to which any Obligation is issued may provide for such supplements or amendments to the provisions of the Master Indenture as are necessary or appropriate to permit the issuance of such Obligation hereunder and as are not inconsistent with the intent of the Master Indenture that all Obligations issued hereunder be equally and ratably secured by the lien on the trust estate created hereunder except to the extent that an Obligation provides for subordination of some or all of the payment obligations thereunder and/or subordination of security therefor. Any Derivative Agreement (or any particular payments thereunder) which is or are authenticated as an Obligation under the Master Indenture shall be equally and ratably secured by any lien created under the Master Indenture with all other Obligations except as otherwise provided in the Master Indenture; *provided, however*, that any such Obligation shall be deemed outstanding under the Master Indenture solely for the purpose of receiving payment under the Master Indenture and shall not be entitled to exercise any rights under the Master Indenture, including without limitation the right to vote or control remedies, and any Obligation issued to secure any Derivative Agreement shall not be deemed to be Outstanding for any purpose under Article VI, other than the right to receive payment of amounts due thereunder equally and ratably with all other Obligations.

Section 2.09 Mortgages. To secure, among other things, the prompt payment of the principal of, redemption premium, if any, and the interest on all Obligations issued from time to time under the Master Indenture, and the performance by the Members of the Obligated Group of their other Obligations hereunder, each Member of the Obligated Group shall grant to the Master Trustee a Mortgage on all core Health Care Facilities owned by such Member and any new Member of the Obligated Group at the time of such admission shall grant to the Master Trustee a Mortgage on all core Health Care Facilities owned by such new Member of the Obligated Group, subject to any liens or security interests permitted to remain outstanding under Section 3.05 of the Master Indenture.

PARTICULAR COVENANTS OF THE OBLIGATED GROUP

Section 3.01 Security; Restrictions on Encumbering Property; Payment of Principal and Interest.

(a) Any Obligation issued pursuant to the Master Indenture shall be a general obligation of each Member of the Obligated Group and the Members shall be jointly and severally liable therefor. Upon receipt, all such security shall be held in trust for the holders from time to time of all Obligations issued and Outstanding hereunder, without preference or priority of any one Obligation over any other Obligation.

(b) Commencing on the date on which any Obligations are first issued and delivered and continuing until no Obligations are Outstanding, each of the Members of the Obligated Group agrees to establish and maintain at a bank satisfactory to the Master Trustee, the Authority (if any Related Bonds are Outstanding) and the Credit Facility Issuer (if any Credit Facility is applicable) an account designated as the "**[Member]** Gross Receipts Pledge Fund Account" (individually, and collectively, the "Pledge Fund"), and each of the Members of the Obligated Group agrees to execute and deliver in form and content satisfactory to the Authority (if any Related Bonds are Outstanding) and the Credit Facility Issuer

(if any Credit Facility is applicable), an account control agreement for the Pledge Fund of such Member of the Obligated Group (each an "Account Control Agreement") to perfect the security interest for the benefit of the Master Trustee. Each Member of the Obligated Group agrees to deposit into its respective Pledge Fund as and when received, its Gross Receipts. Each Member of the Obligated Group shall apply the monies in its respective Pledge Fund to the making of the payments required by the Obligations as they become due and payable, and may withdraw monies from its respective Pledge Fund for any lawful purpose of such Member of the Obligated Group. The Members of the Obligated Group shall provide to the Master Trustee, the Authority, and the Credit Facility Issuer a statement identifying the name and number of any fund or account established by Members of the Obligated Group with any banking, trust or other financial institution pursuant to this Section and shall promptly notify the Master Trustee, the Authority, if applicable and the Credit Facility Issuer, if applicable, upon any change thereto.

(c) The Obligated Group represents and warrants that no part of the Gross Receipts or any right to receive or collect the same or the proceeds thereof is subject to any lien, pledge, security interest or assignment, other than the Permitted Liens, and that the Gross Receipts are legally available to provide security for the performance of the Members of the Obligated Group hereunder. Except as expressly provided herein, the Obligated Group agrees that no Member of the Obligated Group shall hereafter create or permit the creation of any loan, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Gross Receipts which is prior to the pledge granted to the Master Trustee.

Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Indenture as may be necessary or appropriate to include as security hereunder the Gross Receipts. In addition, each Member of the Obligated Group covenants that it will take such other action and execute such documents, including control agreements or amendments thereto which shall, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to Section 3.10 of the Master Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to Section 3.11 of the Master Indenture.

(d) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens as set forth in Section 3.05 of the Master Indenture) any of its Property.

(e) Each Obligation shall be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Section 3.02 Covenants as to Corporate Existence, Maintenance of Properties, Etc. Each Member of the Obligated Group hereby covenants:

(a) Except as otherwise expressly provided herein, to preserve its corporate or other legal existence and all its material rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; *provided, however*, that nothing herein contained shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property in all material respects to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; *provided, however*, that nothing contained in this subsection shall be construed to (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 in all material respects with any and all applicable laws of the United States and the several states thereof (including, but not limited to, the Public Health Law of the State of New York) and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing herein contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; *provided, however*, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding hereunder) whose validity, amount or collectibility is being contested in good faith.

(f) At all times to comply in all material respects with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness, other than any Liens (exclusive of the Obligations created and outstanding hereunder) whose validity, amount or collectibility is being contested in good faith.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (if any, and other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; *provided, however*, that it need not comply with this Section 3.02(g) if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Indenture shall 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 shall 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 Tax Exempt Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes.

Section 3.03 Insurance. Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations.

The Obligated Group Representative shall engage an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially). If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Member that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the Member of the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding anything in this Section to the contrary, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group Representative furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including, without limitation, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage, the report of the Insurance Consultant mentioned above shall state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

Section 3.04 Insurance and Condemnation Proceeds.

(a) Unless otherwise provided in the Mortgages or in a Supplement, amounts that do not exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Mortgaged Property or as condemnation awards relating to the Mortgaged Property may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Unless otherwise provided in the Mortgages or in a Supplement, amounts that exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to

the Mortgaged Property or as condemnation awards relating to the Mortgaged Property shall be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; *provided, however*, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted compliance by the Obligated Group with all financial covenants and ratios set forth in the Master Indenture or an applicable Supplement, for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, as shown by pro forma financial statements, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Book Value of the Property, Plant and Equipment of the 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 compliance by the Obligated Group with any financial covenants and ratios set forth in the Master Indenture or the Supplement, for each of the periods described in paragraph (i) of this section, 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, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section.

Section 3.05 Limitations on Creation of Liens.

(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 Obligations issued under the Master Indenture, which is set forth on Schedule A attached hereto, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien hereunder;

(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to Section 3.10(e) of the Master Indenture;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by Section 3.06(d) of the Master Indenture;

(viii) Any Lien on Property acquired by a Member of the Obligated Group if the Indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions of Section 3.06 of the Master Indenture, 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 Indenture on creation of Liens on Property of the Obligated Group;

(x) Any Lien on Equipment used at a Health Care Facility provided the Indebtedness secured by such Lien was incurred in accordance with Section 3.06 of the Master Indenture;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings; banker's liens or rights of setoff; or liens securing letters of credit or other liquidity or credit enhancement that provides liquidity or credit enhancement for Indebtedness otherwise permitted hereunder;

(xii) Any Liens on the proceeds of insurance insuring assets that are subject to a lease from a third party owner or lessor of such assets;

(xiii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiv) Any Lien securing all Obligations on a parity basis, including the Lien created by the Master Indenture on Gross Receipts and by the Mortgages;

(xv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xvi) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvii) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) The Mortgages;

(xix) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq and similar rights under other federal and state statutes or by reason of any loan or grant made available to a Member of the Obligated Group, and similar rights of the State of New York or local municipalities under similar state or local statutes;

(xx) Any Lien on funds established pursuant to the terms of any Related Bond Indenture or related document in favor of the Master Trustee, a Related Bond Trustee or the registered owner of any Indebtedness issued pursuant to such Related Loan Agreement, Related Bond Indenture or related document;

(xxii) any Lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts of capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the Property subject to such Lien or encumbrance;

(xxiii) any Lien arising by reason of deposits to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans, or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(xxiv) any Liens on pledges of grants or gifts which secure payment of Short-Term Indebtedness permitted by Sections 3.06(c) and 3.06(f) of the Master Indenture;

(xxv) Liens to which the Property is subject at the time (the "Effective Date") either (i) its owner becomes (or is merged into or consolidated with) a Member of the Obligated

Group or (ii) all or substantially all of the assets of the owner of the property are sold or otherwise conveyed to a Member of the Obligated Group, provided that:

(A) no Lien so described may be extended or renewed, nor may it be modified, to apply to any Property or any Member of the Obligated Group not subject to such Lien on the Effective Date, unless the Lien as so extended, renewed or modified, or the replacement Lien, otherwise qualifies as a Permitted Lien;

(B) no additional indebtedness may be thereafter incurred that is secured by such Lien; and

(C) no Lien so described was created in order to avoid the limitations contained herein on the impositions of Liens on the Property of such Members.

(xxvi) any Lien with respect to assets acquired after the date of the issuance of the Initial Obligations, which Lien either secures the purchase price of such property or is a Lien to which such property is subject at the time of its acquisition;

(xxvii) operating leases or ground leases of five years or less whereunder any Member of the Obligated Group is the lessor; or any license or other use agreement made with respect to Property where revenues generated inure to the benefit of any Member of the Obligated Group;

(xxviii) any lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by a Member of the Obligated Group to secure payment of Indebtedness (including any commitment indebtedness, whether or not then drawn upon);

(xxix) such minor defects and irregularities of title as normally exist with respect to Property similar in character to the Property involved, and which do not materially adversely affect the value of or materially impair the Property affected thereby;

(xxx) any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and Liens on or in Property given, bequested or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (i) such Liens attach solely to the Property which is the subject of such gift, bequest or devise, and (ii) the indebtedness secured by such Liens is not assumed;

(xxxi) any Lien securing Indebtedness on a parity basis, to the extent permitted by Section 3.06 of the Master Indenture; and

(xxxii) Any Lien on Excluded Property.

Section 3.06 Limitations on Indebtedness. Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (f) inclusive, of this Section 3.06.

(a) Long-Term Indebtedness (including Obligations secured on a parity with the existing Obligations) may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative certifying that:

(i) The Long –Term Debt Service Coverage Ratio for the most recent period of twenty-four (24) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited 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 1.5; and

(ii) The Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years immediately following the date of the Audited Financial Statements referenced in (ii) above, as shown by pro forma financial statements, accompanied by a statement of the relevant assumptions upon which such pro forma statements are based, taking all Long-Term Indebtedness incurred after the date of such Audited Financial Statements 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 projected to be less than 1.5; or

(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, if there is delivered to the Master Trustee (i) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 10% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (ii) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding.

(c) Short-Term Indebtedness may be incurred subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed 10% of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Financial Statements are available; *provided, however*, that there shall be a period of at least 30 consecutive calendar days during each such period of twelve (12) consecutive calendar months which Audited Financial Statements are available during which Short Term Indebtedness shall not at any time exceed 5% of Total Operating Revenues. For the purpose of calculating compliance with the tests set forth in this subsection 3.06(c), Short-Term Indebtedness secured by accounts receivable shall not be taken into account except to the extent provided in subsection 3.06(f) of the Master Indenture.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) 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 shall be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to this Section 3.06.

Section 3.08 Merger, Consolidation, Sale or Conveyance.

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with any other Person that is not a Member of the Obligated Group or sell or convey all or substantially all of its assets to any Person that is not a Member of the Obligated Group unless:

(i) After giving effect to the merger, consolidation, sale or conveyance,

(A) the successor or surviving corporation (hereinafter, the "Surviving Corporation") is a Member of the Obligated Group,

or

(B) the Surviving Corporation shall

(1) be a corporation organized and existing under the laws of the United States of America or any State thereof

and

(2) become a Member of the Obligated Group pursuant to Section 3.11, and pursuant to a Related Supplement shall expressly assume in writing the due and punctual payment of all Outstanding Obligations of the disappearing Member of the Obligated Group hereunder;

(ii) The Master Trustee receives an Officer's Certificate to the effect that no Member of the Obligated Group, immediately after the date of the proposed merger, consolidation, sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture, or Supplement or any Obligation issued hereunder;

(iii) The Master Trustee receives an Officer's Certificate to the effect that, for the last full Fiscal Year immediately preceding the proposed merger, consolidation, sale or conveyance, the Long-Term Debt Service Coverage Ratio, calculated as if the merger, consolidation, sale or conveyance had occurred as of the first day of such Fiscal Year, would have been at least equal to the amount required pursuant to the Master Indenture or any Supplement;

(iv) So long as any Tax Exempt Related Bonds are Outstanding, the Master Trustee receives an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such merger, consolidation, sale or conveyance, in and of itself, would not result in the inclusion of interest on such Tax Exempt Related Bonds in gross income for purposes of federal income taxation; and

(v) The Master Trustee receives an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that (A) all conditions in this Section 3.08 relating to such merger, consolidation, sale or conveyance have been complied with and it is proper for

the Master Trustee to join in the execution of any instrument required to be executed and delivered; (B) the Surviving Corporation meets the conditions set forth in this Section 3.08 and is liable on all Outstanding Obligations; and (C) such merger, consolidation, sale or conveyance will not cause the Master Indenture or any Outstanding Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(vi) The Surviving Corporation shall be substituted for its predecessor in trust in all Master Indenture Obligations and agreements then in effect which affect or relate to any Master Indenture Obligation, and the Surviving Corporation shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Corporation shall be treated as though it were a Member of the Obligated Group as of the date of the execution of the Master Indenture and shall thereafter have the right to participate in transactions hereunder relating to Outstanding Obligations to the same extent as the other Members of the Obligated Group. All Outstanding Obligations issued hereunder on behalf of a Surviving Corporation shall have the same legal rank and benefit under the Master Indenture as Master Indenture Obligations issued on behalf of any other Obligated Group Member.

Except as may be expressly provided in any Supplement, the ability of any Member of the Obligated Group to merge or consolidate with any Person that is a Member of the Obligated Group after such merger or consolidation or to sell or convey all or substantially all of its assets to any Person that is a Member of the Obligated Group after such sale or conveyance is not limited by the provisions of the Master Indenture.

(b) The Members of the Obligated Group may, from time to time, enter into one or more real estate transactions (each, a "Permitted Partial Release Sale") pursuant to which there is a sale of fee interests in real estate (the "Partial Release Parcel"), which may include a portion(s) of the Mortgaged Property, to a third party (a "Partial Release Sale Counterparty"); (i) the sale of the Partial Release Parcel does not materially detract from the utility of the Health Care Facilities subject to the applicable Mortgage; (ii) the Partial Release Parcel is sold for fair market value as evidenced by a written appraisal prepared by an independent appraiser with experience in valuing similar assets; and (iii) the net proceeds received by the Members of the Obligated Group from the Permitted Partial Release Sale will be applied to the prepayment of the Obligations then outstanding, pro rata based on the Outstanding principal amount thereof or as otherwise required pursuant to the Opinion of counsel referred to in subsection (c) below.

Prior to entering into a Permitted Partial Release Sale, the Obligated Group Representative will deliver to the Master Trustee an Officer's Certificate (the "Partial Release Sale Certificate") that describes the Permitted Partial Release Sale in reasonable detail and certifies that the conditions set forth in clauses (i) through (iii) above will be satisfied.

The Master Trustee will executed and deliver all instruments (such as releases, partial releases, subordinations, access agreements, and consents) that are reasonably required to effectuate a Permitted Partial Release Sale (the "Partial Release Sale Master Trustee Documents"), provided that the Master Trustee has previously received a Partial Release Sale Certificate and a written, reasonably detailed request for execution and delivery of the Partial Release Sale Master Trustee Documents from the Obligated Group Representative.

(c) No Member of the Obligated Group shall enter into a Permitted Sale Leaseback or a Permitted Partial Release Sale pursuant to this Section 3.08(b) without first delivering to the Master Trustee an Opinion of Counsel, in form and substance satisfactory to the Master Trustee and the Related Bond Issuer, to the effect that the proposed transaction would not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Related Bond would otherwise be entitled.

Section 3.09 Filing of Audited Financial Statements; Certificate of No Default; Other Information. The Obligated Group covenants that it will:

(a) provide to the Master Trustee: (i) the audited financial statement for the Obligated Group Representative, on a consolidated and consolidating basis, and for the Obligated Group within 150 days following the end of each fiscal year, prepared by an independent certified public accountant reasonably acceptable to the Master Trustee which statements shall be prepared according to generally accepted accounting principles and shall include a statement of financial position (balance sheet), statement of activities (revenue and expenses), expenses and charges to the fund balance, cash flow statement and supporting schedule of functional expenses with such notes as are deemed necessary to present fairly the financial condition of the Obligated Group;

(b) deliver to the Master Trustee on a quarterly basis, within forty-five (45) days of the end of each fiscal quarter of the Obligated Group, internally prepared financial statements, together with budget variance reports of the Obligated Group certified to by management of the Obligated Group as being true, complete and correct;

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee 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.

(d) Within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

Section 3.10 Parties Becoming Members of the Obligated Group. Persons which are not Members of the Obligated Group and entities which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by Section 3.08 of the Master Indenture, may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under the Master Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Indenture and any Supplements, and the performance and observance of all covenants and obligations of a Member of the Obligated Group hereunder, and (ii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and

Outstanding hereunder will be paid in accordance with the terms thereof and of the Master Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles, laws dealing with fraudulent conveyances, limitations on the ability of one charity to make guarantees in favor of other entities, and subject to other customary exceptions acceptable to the Master Trustee and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there shall be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative shall 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 for the last full Fiscal Year immediately preceding the addition of the proposed New Member of the Obligated Group, the Long Term Debt Service Coverage Ratio, calculated as if the proposed New Member of the Obligated Group as of the first day of such Fiscal Year, would have been at least the amount required pursuant to the Master Indenture or any applicable Supplement and (ii) after giving effect to the admission of such Person as a Member of the Obligated Group, no Member of the Obligated Group will be in default in the performance of any covenant contained in the Master Indenture or any Supplement.

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect, if such Indebtedness could have been incurred pursuant to the provisions of Sections 3.06 of the Master Indenture immediately after such Person became a Member of the Obligated Group.

Section 3.11 Withdrawal from the Obligated Group.

(a) Subject to the terms of any applicable Supplement, no Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any Tax Exempt Related Bonds have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law

such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) The Obligated Group shall have provided one of the following:

(A) An Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payments or extinguishment of Obligations to be made in connection therewith had occurred at the beginning of the calculation periods described below:

(1) the Long-Term Debt Service Coverage Ratio of the remaining Members for each of the most recent two periods of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Financial Statements available taking all Long-Term Indebtedness incurred after such period into account is not less than the amount required pursuant to the Master Indenture or any Supplement; and

(2) either:

(x) the Long-Term Debt Service Coverage Ratio for the remaining Members of the Obligated Group for the most recent period of twelve (12) full consecutive calendar months for which Audited Financial Statements are available would not, if such withdrawal had occurred at the beginning of such period, be less than 1.25 to 1.0; or

(y) 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 would not be less than 60% 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

(z) a written report of a Consultant or an officer's certificate demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.5 to 1.0; or

(B) receipt by the Trustee of a Credit Enhancement, including evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed withdrawal is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than "AA" (or the corresponding rating) by any rating agency;

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee and each Credit Facility Issuer and, to the extent any Related Bonds of the Authority are outstanding, to the Authority, to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of the Master Indenture and any agreements or other documents relating to the Master Indenture, the applicable Obligations or the applicable Related Bonds; and

(iv) an Officer's Certificate of the Obligated Group Representative certifying that upon such withdrawal the remaining Members of the Obligated Group will not be in default in the performance of any covenant contained in the Master Indenture or any Supplement.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Obligation Holders, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease.

For purposes of this Section, "Credit Enhancement" means credit enhancement consisting of a surety bond, insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains outstanding, or which allows for the tender of the Related Bonds or Obligation, prior to the stated expiration of the Credit Enhancement and provides for payment in full of principal and interest on such Related Bond or Obligation when due) or the Obligated Group has delivered, respectively, to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each holder of an outstanding Obligation which is not pledged to secure Related Bonds and with respect to which there is no trustee, credit enhancement of the types described above in this subpart.

DEFAULT AND REMEDIES

Section 4.01 Events of Default. Event of Default, as used herein, shall mean any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding hereunder within three (3) days of when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture.

(b) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least 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 thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued hereunder;

(d) (1) Any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding hereunder), which Indebtedness is in an aggregate principal amount greater than two percent (2%) of Total Operating

Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or (ii) there shall occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than two percent (2%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; *provided, however*, that such default shall not constitute an Event of Default within the meaning of this Section if within 30 days (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith shall commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(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 ninety (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 4.02 Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, shall, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of the Master Indenture to the contrary notwithstanding. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal

then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied or waived pursuant to Section 4.09 of the Master Indenture, 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 shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Section 4.03 Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or upon the request of the Credit Facility Issuer, if any, with respect to any Obligations or Related Bonds, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders hereunder by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Bring suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State of New York;

(vi) Enforcement of any Mortgage granted by any Member of the Obligated Group; and

(vii) Enforcement of any other right of the Holders conferred by law or hereby.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Related Bonds, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation of the Master Indenture, 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 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, then so long as the Event of Default continues, any use of monies in the Pledge Fund will thereafter be subject to the consent of the Master Trustee, the Credit Facility Issuer (if any Credit Facility is applicable) and so long as any Related Bonds of the Authority are Outstanding the Authority and the New York State Commissioner of Health, except that the Members of the Obligated Group shall be required to make withdrawals for the payment of debt service on the Obligations; *provided, however*, that the New York State Commissioner of Health may, in his or her sole discretion, waive any requirement for obtaining the Commissioner's consent to making withdrawals from the Pledge Fund. Following any such Event of Default, so long as any Related Bonds of the Authority are Outstanding, the Members of the Obligated Group shall provide the Master Trustee, the Credit Facility Issuer (if any Credit Facility is applicable) and if any Related Bonds of the Authority are Outstanding, the Authority and the New York State Department of Health, with a plan for the continued operation of the Members of the Obligated Group's facilities, improvements of financial condition and the resumption of full and timely payment of the debts of the Members of the Obligated Group. Nothing in this Section is intended to cause the Master Trustee, the Authority, if applicable, or the Credit Facility Issuer, if applicable, to be, or be deemed to be, an "operator" of any Health Care Facility under the regulations of the Department of Health. In taking or not taking such action the Authority and the Commissioner, with the written consent of the Credit Facility Issuer may engage, at the Members of the Obligated Group's expense, the expertise of professionals knowledgeable in the health care field. The Master Trustee, the Authority, if applicable, and the Credit Facility Issuer, if applicable, may, with the consent of the Commissioner of Health and the Credit Facility Issuer, waive any of the requirements of this Section. The Master Trustee, the Authority, and the Credit Facility Issuer acknowledge that nothing in this Supplement shall limit the power of the Department of Health to protect the health, welfare or safety of the patients of the Health Care Facilities in accordance with the New York Public Health Law and regulations promulgated thereunder. Nothing contained in this Supplement is intended to limit the authority and responsibility of any of the Members of the Obligated Group from exercising its own judgment and discretion concerning the operation and management of its respective hospital in accordance with the requirements of Article 28 of the Public Health Law and the regulations adopted thereunder.

Section 4.04 Application of Moneys after Default. Except as otherwise provided in any applicable Supplement during the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article shall be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to Section 5.05 of the Master Indenture, in accordance with the provisions of the Master Indenture of any applicable Supplement and, with respect to the payment of Obligations thereunder, as follows:

(a) Unless all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations, including scheduled payments on an Obligation issued in connection with a Derivative Agreement ("Regularly Scheduled Swap Payments") in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full all installments or payments

due on any date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations or payments on an Obligation issued in connection with a Derivative Agreement other than Regularly Scheduled Swap Payments ("Other Swap Payments") which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference;

Third: To the extent there exists a Credit Facility Issuer with respect to any series of Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above; and

Fourth: To the payment of all other Outstanding Obligations (including, without limitation, obligations securing Derivative Agreements) ratably according to the amounts due thereunder, without any discrimination or preference.

(b) If all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of all amounts then due and unpaid upon Obligations without preference or priority of principal or Other Swap Payments over interest or Regularly Scheduled Swap Payments or of interest or Regularly Scheduled Swap Payments over principal or Other Swap Payments, or of any installment of interest or Regularly Scheduled Swap Payments over any other installment of interest or Regularly Scheduled Swap Payments, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, interest and all amounts due under any Derivative Agreement, to the Persons entitled thereto without any discrimination or preference.

(c) If all amounts due with respect to all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of Subsection (b) of this Section in the event that all amounts due with respect to all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

Section 4.05 Remedies Not Exclusive. No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity or by statute on or after the date of the Master Indenture.

Section 4.06 Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining as plaintiffs or defendants any Holders. Subject to the provisions of Section 4.04 of the Master Indneture, any recovery or judgment shall be for the equal benefit of the Holders.

Section 4.07 Holders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and provided further that nothing in this Section shall impair the right of the Master Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by the Holders; and provided, further, that the Credit Facility Issuer, if any, with regard to any series of Related Bonds, and not the Holders, shall have the right to control proceedings with respect thereto in the manner described in this Section.

Section 4.08 Termination of Proceedings. In case any proceeding taken by the Master Trustee on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Master Trustee or to the Holders, then the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Section 4.09 Waiver of Event of Default

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy hereunder.

(c) Notwithstanding anything contained herein to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, shall waive any Event of Default hereunder and its consequences; *provided, however*, that, except under the circumstances set forth in subsection (b) of Section 4.02 of the Master Indenture, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default hereunder, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Section 4.10 Appointment of Receiver. Upon the occurrence of any Event of Default described in Subsection (a), (d), (e) and (f) of Section 4.01 of the Master Indenture, unless the same shall have been waived as herein provided, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master 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 shall confer. Each Member of the Obligated Group, respectively, hereby consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.11 Remedies Subject to Provisions of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Article are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent

necessary so that they will not render this instrument or the provisions of the Master Indenture invalid or unenforceable under the provisions of any applicable law.

Section 4.12 Notice of Default. The Master Trustee shall, within ten (10) days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

THE MASTER TRUSTEE

Section 5.04 Removal and Resignation of the Master Trustee. The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created hereby. Written notice of such resignation or removal shall be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group Representative within thirty (30) days of the date notice of resignation or removal is given, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment hereunder, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties hereunder, shall mail a notice of such assumption to each registered Holder.

SUPPLEMENTS AND AMENDMENTS

Section 6.01 Supplements Not Requiring Consent of Holders. The Obligated Group Representative, on behalf of the Members, when authorized by resolution or other action of equal formality by the Governing Body of the Members for whose benefit an Obligation is being authorized, and the Master Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission herein.

(b) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Holders.

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of Section 6.02(a).

(d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of Indebtedness as permitted hereunder, so long as no Event of Default has occurred and is continuing under the Master Trust Indenture.

(f) To obligate a successor to any Member of the Obligated Group as provided in Section 3.11.

(g) To comply with the provisions of any federal or state securities law.

(h) So long as no Event of Default has occurred and is continuing under the Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under the Master Indenture has occurred and is continuing, to make any change to the provisions of the Master Indenture if the following conditions are met:

(i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A) evidence satisfactory to the Master Trustee to the effect that there exists for each Related Bond or Obligation, Credit Enhancement (as defined in Section 3.11) or (B) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change;

(ii) with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross

income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled.

Section 6.02 Supplements Requiring Consent of Holders.

(a) Other than Supplements referred to in Section 6.01 of the Master Indenture 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 shall have the right, with the consent of each Credit Facility Issuer, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by the Obligated Group Representative, on behalf of the Members, when authorized by resolution or other action of equal formality by the Governing Body of the Members for whose benefit the Obligation is being authorized, and the Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; *provided, however*, nothing in this Section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in the Master Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as shall be prescribed by each Member of the Obligated Group following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section 6.02 for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by Section 8.01 of the Master Indenture. At any time after the

Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as herein provided, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof

SATISFACTION AND DISCHARGE OF INDENTURE

Section 7.01 Satisfaction and Discharge of Indenture. If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable hereunder by the Members of the Obligated Group or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. Each Member of the Obligated Group, respectively, hereby agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations.

CONCERNING THE HOLDERS

Section 8.01 Evidence of Acts of Holders.

(a) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of any Obligation securing an issue of Related Bonds, the registered owners of such Related Bonds then outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of such series of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds of such series then outstanding; provided however that if any portion of such Related Bonds is secured by a Credit Facility, the applicable Credit Facility Issuer shall be deemed to be the Holder for the purpose of any such request, direction or consent with respect to the portion of such Related Bonds secured by the Credit Facility. Notwithstanding the foregoing, the request, consent or direction of the applicable Credit Facility Issuer shall not be required if a Credit Facility Default then exists with respect to such Credit Facility Issuer.

(b) As to any request, direction, consent or other instrument provided hereby to be signed and executed by the Holders, such action may be in any number of concurrent writings, shall be of similar tenor, and may be signed or executed by such Holders in person or by agent appointed in writing.

(c) Proof of the execution of any such request, direction, consent or other instrument or of the writing appointing any such agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes of the Master Indenture and shall be conclusive in favor of the Master Trustee and the Members of the Obligated Group, with regard to any action taken by them, or either of them, under such request, direction or consent or other instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

(ii) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(d) Nothing in this Section shall be construed as limiting the Master Trustee to the proof herein specified, it being intended that the Master Trustee may accept any other evidence of the matters herein stated which it may deem sufficient.

(e) Any action taken or suffered by the Master Trustee pursuant to any provision of the Master Indenture upon the request or with the assent of any person who at the time is the Holder of any Obligation, shall be conclusive and binding upon all future Holders of the same Obligation.

(f) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of an Obligation that constitutes a Guaranty, for purposes of any such request, direction or consent, the principal amount of such Obligation shall be deemed to be the stated principal amount of such Obligation.

CERTAIN PROVISIONS OF THE SUPPLEMENTAL INDENTURE FOR OBLIGATION NO. 9

The following are definitions of certain words and terms used in the Supplemental Indenture for Obligation No. 9 and used in this Official Statement, and excerpts of certain provisions of the Supplemental Indenture for Obligation No. 9. The following should not be regarded as a full statement of the Supplemental Indenture for Obligation No. 9. Reference is made to the Supplemental Indenture for Obligation No. 9 in its entirety for a full and complete statement of the provisions thereof, a copy of which is on file with the Trustee.

DEFINITIONS USED IN THE SUPPLEMENTAL INDENTURE

"Authority" means the Dormitory Authority of the State of New York, and any legal successor or successors thereto.

"Authorized Officer" means in the case of the Authority, the Chair, the Vice-Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director, the Managing Director of Construction, Managing Director of Portfolio Management, the Chief Information Officer, General Counsel and any other person authorized by a resolution or the by-laws of the Authority, from time to time, to perform any specific act or execute any specific document;

"Bond Trustee" means The Bank of New York Mellon, a banking organization duly organized under the laws of the State of New York and any successor to its duties under the Series 2012 Indenture.

"Bondholder" means the registered owner of any Bonds.

"Bonds" means the Series 2012A Bonds and any other bonds issued under the Series 2012 Indenture and a Series Resolution.

"Consultant" means a firm or firms 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 of national or regional repute for having the skill and experience necessary to render the particular report required by the provision of the Supplemental Indenture in which such requirement appears and which is acceptable to the Master Trustee and the Authority.

"Control Agreement" means any agreement whereby any Member of 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.

"Days-Cash-On-Hand" means, for the Obligated Group, as of any date (i) the Member's unencumbered cash and marketable securities (valued at current market value) on such date, together with any moneys or securities deposited or escrowed for the payment of debt service on Indebtedness and minus the aggregate principal amount of Short-Term Indebtedness Outstanding on such date, divided by (ii) for the 12-month period ending on such date, Operating Expenses, minus depreciation and amortization and other non-cash charges divided by (B) 365.

"Defeasance Security" means any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations (other than an obligation subject to variation in principal repayment); Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

"EBITDA" means, for the Obligated Group on a consolidated basis, the sum, without duplication, of the following: (a) Excess (Deficiency) of Revenues Over Expenses (as defined by and in conformity with GAAP in accordance with Not-for-Profit accounting); plus (b) interest expense; plus (c) taxes on Excess (Deficiency) of Revenues Over Expenses; plus (d) depreciation expenses; plus (e) amortization expense; plus (f) all other non-cash, non-recurring charges and expenses; plus (g) loss from any sale of assets other than the sales in the ordinary course of business; plus (h) management fees; minus (i) gains from any sale of assets, other than sales in the ordinary course of business; minus (j) other extraordinary or non-recurring gains, all determined in accordance with GAAP on a consistent basis with the latest audited financial statements of the Obligated Group.

"Exempt Obligation" means any of the following: (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Federal Agency Obligation" means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Funded Debt" means, for the Obligated Group, on a consolidated basis, the sum of all interest bearing indebtedness and capitalized leases.

"Government Obligation" means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Leverage Ratio" means, for the Obligated Group, on a consolidated basis, a ratio of the Funded Debt of the Obligated Group to the EBITDA of the Obligated Group.

"MSRB" means, the Municipal Securities Rulemaking Board, or if the Municipal Securities Rulemaking Board ceases to exist, another 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.

"Obligated Group" means, collectively, the Members of the Obligated Group.

"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.

"Required Ratios" shall mean a Long-Term Debt Service Coverage Ratio of at least 1.25, a Leverage Ratio of not more than 5.0 to 1.0, and Days-Cash-on-Hand of at least 30.

"Series 2012 Indenture" means the Catholic Health System Obligated Group Revenue Bond Resolution adopted by the Authority on October 25, 2006, as supplemented by the Series Resolution Authorizing Catholic Health System Obligated Group Revenue Bonds, Series 2012 adopted on May 23, 2012.

"Series 2012 Loan Agreement" means the Loan Agreement between the Authority and Kenmore Mercy Hospital dated as of May 23, 2012.

"Testing Date" means each June 30 and December 31 for Days-Cash-on-Hand and March 31, June 30, September 30 and December 31 for all other purposes.

"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.

ISSUANCE OF THE SERIES 2012A OBLIGATION

Section 2. There is hereby created and authorized to be issued the Series 2012A Obligation in the aggregate principal amount of Fourteen Million Two Hundred Thirty-Five Thousand and 00/100 Dollars ($14,235,000), designated "Catholic Health System Obligated Group Obligation No. 9. The Series 2012A Obligation shall be dated as of July 12, 2012, and shall be payable in such amounts, at such times and in such manner and shall have such other terms and provisions as are set forth in the form of Obligation No. 9.

The aggregate principal amount of the Series 2012A Obligation is limited to the amount stated in this Section except for any Obligation authenticated and delivered in lieu of another Obligation as provided in Section 8 of the Supplement with respect to any Obligation destroyed, lost, or, subject to the provisions of Section 7 of the Supplement, upon transfer of registration of the Series 2012A Obligation.

PAYMENTS OF THE SERIES 2012A OBLIGATION; CREDITS

Section 4. (a) Payments on the Series 2012A Obligation are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in subsections (b) and (c) of this Section with respect to credits, payments on the Series 2012A Obligation shall be made at the times and in the amounts specified in the Series 2012A Obligation in immediately available funds by the Members depositing the same with or to the account of the Bond Trustee at or prior to the day such payments shall become due or payable (or the next preceding Business Day as defined in the Series 2012 Indenture if such date is not a Business Day) and giving written notice to the Master Trustee of each payment on the Series 2012A Obligation, specifying the amount paid and identifying such payment as a payment on the Series 2012A Obligation.

(b) The Obligated Group shall receive credit for payment on the Series 2012A Obligation, in addition to any credits resulting from payment or prepayment from other sources, including payments made under the Master Indenture, for payments made directly to the Bond Trustee by any Member of the Obligated Group pursuant to the Series 2012A Obligation.

(c) The Obligated Group shall receive credit for payment on the Series 2012A Obligation, in addition to any credits resulting from payment or prepayment from other sources, including payments made under the Master Indenture, as follows:

(i) On installments of interest on the Series 2012A Obligation in an amount equal to moneys deposited in the Debt Service Fund created under the Series 2012 Indenture which amounts are available to pay interest on the Series 2012A Bonds and to the extent such amounts have not previously been credited against payments on the Series 2012A Obligation.

(ii) On installments of principal on the Series 2012A Obligation in an amount equal to moneys deposited in the Debt Service Fund created under the Series 2012 Indenture which amounts are available to pay principal of the Series 2012A Bonds and to the extent such amounts have not previously been credited against payments on the Series 2012A Obligation.

(iii) On installments of principal of and interest on the Series 2012A Obligation in an amount equal to the principal amount of Series 2012A Bonds which have been called by the Bond Trustee for redemption prior to maturity and for the redemption of which sufficient amounts in cash are on deposit in the Debt Service Fund created under the Series 2012 Indenture to the extent such amounts have not been previously credited against payments on the

Series 2012A Obligation, and interest on such Series 2012A Bonds from and after the date fixed for redemption thereof. Such credits shall be made against the installments of principal of and interest on the Series 2012A Obligation which would be due, but for such call for redemption, to pay principal of and interest on such Series 2012A Bonds when due at maturity.

(iv) On installments of principal of and interest, respectively, on Obligation No. 1 in an amount equal to the principal amount of Series 2012A Bonds acquired by any Member of the Obligated Group and delivered to the Bond Trustee and cancelled. Such credits shall be made against the installments of principal of and interest on the Series 2012A Obligation which would be due, but for such cancellation, to pay principal of and interest on such cancelled Series 2012A Bonds through maturity thereof.

PREPAYMENTS OF THE SERIES 2012A OBLIGATION

Section 5. (a) So long as all amounts which have become due under the Series 2012A Obligation have been paid, the Members may from time to time pay in advance all or part of the amounts to become due under the Series 2012A Obligation. Prepayment may be made by payments of cash and/or surrender of Series 2012A Bonds, as contemplated by Section 4(c)(iii) of the Supplemental Indenture. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Series 2012A Bonds) shall, upon receipt, be deposited with the Bond Trustee in the Debt Service Fund under the 2012 Indenture and, at the request of and as determined by the Authorized Representative of the Authority, used for the redemption or purchase of Outstanding Series 2012A Bonds in the manner and subject to the terms and conditions set forth in the Series 2012 Indenture. Notwithstanding any such prepayment or surrender of Series 2012A Bonds, as long as any Series 2012 Bond remains Outstanding or any additional payments required to be made hereunder remain unpaid, the Members shall not be relieved of their obligations hereunder.

(b) Prepayments made under subsection (a) of this Section shall be credited against amounts to become due on the Series 2012A Obligation as provided in Section 4(c)(iii) of the Supplement.

(c) The Obligated Group may also prepay all of its Indebtedness under the Series 2012A Obligation by providing for the payment of Series 2012A Bonds in accordance with Article 12 of the Series 2012 Indenture.

RIGHT TO REDEEM

Section 9. The Series 2012A Obligation shall be subject to redemption, in whole or in part, prior to the maturity, in an amount equal to the principal amount of any Series 2012 Bond (i) called for redemption pursuant to the Series 2012 Indenture or (ii) purchased for cancellation by the Bond Trustee. The Series 2012A Obligation shall be subject to redemption on the date any Series 2012 Bond shall be so redeemed or purchased, and in the manner provided herein.

PARTIAL REDEMPTION OF THE SERIES 2012A OBLIGATION

Section 10. Upon the call for redemption, and the surrender of the Series 2012A Obligation for redemption in part only, and payment of all unreimbursed amounts due under the Related Reimbursement Agreement, the Obligated Group Representative shall execute and the Master Trustee shall authenticate and deliver to or upon the written order of the Holder thereof, at the expense of the Members, a new Obligation in principal amount equal to the unredeemed portion of the Series 2012A Obligation, which old Series 2012A Obligation so surrendered to the Master Trustee pursuant to this Section shall be cancelled by it and delivered to, or upon the order of, the Obligated Group Representative.

The Obligated Group Representative may agree with the Holder of the Series 2012A Obligation that such Holder may, in lieu of surrendering the Series 2012A Obligation for a new fully registered Series 2012A Obligation, endorse on the Series 2012A Obligation a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and the principal amount remaining unpaid. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of the Series 2012A Obligation and the Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of the Series 2012A Obligation by the owner thereof and irrespective of any error or omission in such endorsement.

DISCHARGE OF SUPPLEMENT

Section 13. Upon payment by the Obligated Group of a sum, in cash or Defeasance Securities (as defined in the Series 2012 Indenture) or both, and payment of all amounts due and arising under the Series 2012 Loan Agreement and unreimbursed amounts owing under the Related Reimbursement Agreement, sufficient, together with any other cash and Defeasance Securities held by the Bond Trustee and available for such purpose, to cause all Outstanding Series 2012A Bonds to be deemed to have been paid within the meaning of Article 12 of the Series 2012 Indenture and to pay all other amounts referred to in Article 12 of the Series 2012 Indenture and all amounts due under the Series 2012 Loan Agreement, the Series 2012A Obligation shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture and this Supplement shall be discharged.

COVENANTS WITH THE AUTHORITY

Section 14. In consideration for the issuance by the Authority of the Series 2012A Bonds, each of the Members of the Obligated Group covenant for the benefit of the Authority that they shall (unless otherwise agreed to or consented to in writing by the Authority, if any), in addition to the covenants set forth in the Master Indenture, comply with the covenants set forth below in this Section 14 for so long as any Series 2012A Bonds remain Outstanding. These covenants may be waived by the Authority, in its sole discretion, without the consent of the Holders of the Series 2012A Bonds secured by the Obligations issued hereunder or the Related Bond Trustee

(a) Disposition of Cash and Investments; Unsecured Loans to Non-Members. No Member of the Obligated Group will loan, donate, transfer, exchange or otherwise dispose of cash, marketable securities or other liquid investments to any Person that is not a Member of the Obligated Group, unless immediately thereafter, the aggregate amount of such loans, donations, transfers, exchanges or other disposition to Persons that are not Members of the Obligated Group from December 31, 2005 to the date of such loan, donation, transfer, exchange or disposition, does not exceed $7,000,000.

(b) Required Ratios.

(i) The Obligated Group shall maintain the Required Ratios. The Required Ratios will be tested on each Testing Date based on the Obligated Group's unaudited financial statements as of each Testing Date. The Obligated Group Representative shall deliver a Certificate of an Authorized Officer not later than 45 days following each Testing Date to the Master Trustee and so long as any Series 2012A Bonds are Outstanding, the Authority, certifying as to the compliance with Required Ratios.

(ii) If on any Testing Date the Long-Term Debt Service Coverage Ratio is less than 1.50, the Leverage Ratio is greater than 5.0 to 1.0 or Days-Cash-on-Hand is less than 30, then the Obligated Group shall within seventy-five (75) days following such Testing Date, but in no event less than twenty (20) days following notice from the Authority, so to do, (A) prepare a scope of work for a Consultant in form and content acceptable to the Authority, (B) retain a Consultant, (C) require such Consultant, within fifteen (15) days of its appointment, to commence work on a report to be delivered to the Obligated Group, the Master Trustee and the Authority, recommending changes with respect to the operation and management of the Health Care Facilities and (D) to the extent permitted by law, implement such Consultant's recommendation in a timely manner. Any report of a Consultant prepared within the previous 12-month period pursuant to this subsection (b) shall, if addressed to the Authority, and meeting the requirements of this clause (ii), be deemed to satisfy the foregoing requirement to procure a Consultant's report.

(iii) For so long as the Obligated Group is not in compliance with subsection b(ii) above, the Obligated Group Representative shall deliver to the Authority: (A) within thirty (30) days of delivery of a Consultant's report pursuant to paragraph (ii) above, a certified copy of a resolution adopted by the Obligated Group Representative's Governing Body accepting such report on behalf of itself and the other Members of the Obligated Group and a report setting forth in reasonable details the steps the Obligated Group proposes to take to implement the recommendations of such Consultant; and (B) quarterly reports showing the progress made by the Obligated Group in achieving a Long-Term Debt Service Coverage Ratio of not less than 1.50 to 1.0, a Leverage Ratio of not greater than 5.0 to 1.0 and Days-Cash-On-Hand of not less than 30, and, if applicable, implementing the recommendations of the Consultant.

(c) Limitations on Indebtedness. No Member of the Obligated Group may incur additional Long-Term Indebtedness except (i) Indebtedness permitted pursuant to Section 3.06(a) of the Master Indenture, and (ii) additional Long-Term Indebtedness consented to in writing by the Authority. The Master Trustee shall execute such amendments to, spreaders of, or other documents relating to the Mortgages to secure such permitted additional Long-Term Indebtedness on a parity with all other Indebtedness secured from time to time by the Mortgages. If the Authority consent is not required, any Member of the Obligated Group proposing to incur Long-Term Indebtedness, whether evidenced by Obligations issued or by evidences of Indebtedness entered into pursuant to documents other than the Master Indenture, shall, at least seven (7) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness, including in such notice the amount of Indebtedness to be incurred and the subsection of Section 3.06 of the Master Indenture under which it will be incurred, to the Authority for so long as Series 2012A Bonds of the Authority are Outstanding.

(d) Authority Consent to Certain Amendments and Transactions. Notwithstanding any provision of the Master Indenture, so long as any Series 2012A Bonds issued by the Authority remain Outstanding, the prior consent of the Authority, shall be required prior to (i) any amendment of Sections 3.01 Security; Restrictions on Encumbering Property; Payment of Principal and Interest,

3.03 Insurance, 3.05 Limitations on Creations of Liens, or 3.06 Limitations on Indebtedness, 3.07 Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts, or (ii) any amendment to the Master Indenture that is inconsistent with any provision of this Supplement.

(e) Filing of Audited Financial Statements, Quarterly Reports, Certificate of Compliance, Other Information. The Obligated Group covenants that it will:

(i) Within 30 days after receipt of the audit report mentioned below but in no event later than one hundred fifty (150) after the end of each Fiscal Year, furnish to the Master Trustee, the Authority, the MSRB, each Bondholder who is the registered owner of in excess of an aggregate $1 million principal amount of the Series 2012A Bonds who has so requested and such other parties as an Authorized Officer of the Authority may designate, a copy of the Audited Financial Statements of the Obligated Group. Such Audited Financial Statements shall be 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 financial statements may contain such changes as are concurred in by such accountants, and shall include such statements necessary for a fair presentation of financial position, statement of activity and changes in net assets and cash flows of such fiscal reporting period.

(ii) Within 30 days after receipt of the audit report mentioned above but in no event later than one hundred fifty (150) days after the end of each fiscal reporting period, file with the Authority, an Officer's Certificate stating the Required Ratios for such fiscal reporting period and stating whether, to the best knowledge of the signer, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signer may have knowledge.

(iii) Furnish no later than forty-five (45) days subsequent to the last day of each of the first three quarters in each Fiscal Year to (1) the Authority and such other parties as the Authority may designate, (2) the MSRB, and (3) each Bondholder who is the registered owner of in excess of an aggregate $1 million principal amount of the Series 2012A Bonds who has so requested, the following information: the unaudited consolidated financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, the statement of operations, changes in net assets and cash flows, 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) and discharges by each Member of the Obligated Group by major payor mix.

(iv) Furnish annually, not later than one hundred fifty (150) days after the end of the Fiscal Year, to the Master Trustee, the Authority and such other parties as an Authorized Officer of the Authority may designate, including rating services, a certificate stating whether the Obligated Group is in compliance with the provisions of the Supplemental Indenture and such other statements, reports and schedules describing the finances, operation and management of the Obligated Group and such other information reasonably required by an Authorized Officer of the Authority.

(v) If an Event of Default shall have occurred and be continuing, file with the Authority 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.

(vi) Within 30 days after its receipt thereof, file with the Authority a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(g) Withdrawal from the Obligated Group.

(i) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(A) If all amounts due on any Tax Exempt Series 2012A Bonds have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Series 2012A Bonds to become includable in the gross income of the recipient thereof under the Code;

(B) An Officer's Certificate of a Member of the Obligated Group demonstrating either that (1) any Series 2012A Bonds issued on behalf of such Member are no longer outstanding; or (2) there has been deposited with the Master Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Master Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on the Series 2012A Bonds of such withdrawing Member;

(C) An Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payments or extinguishment of Obligations to be made in connection therewith had occurred at the beginning of the calculation period, the Long-Term Debt Service Coverage Ratio of the remaining Members for each of the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Financial Statements available, taking all Long-Term Indebtedness incurred after such period into account, would not be less than 1.5 to 1.0; and

(D) A written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.5 to 1.0.

(ii) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (i) of this Section, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Obligation Holders, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease.

(iii) Notwithstanding anything herein to the contrary, Mercy Hospital of Buffalo and Sisters of Charity Hospital of Buffalo, New York shall each remain a Member of the Obligated Group.

CERTAIN PROVISIONS OF THE SUPPLEMENTAL INDENTURE FOR OBLIGATION NO. 10

The following are definitions of certain words and terms used in the Supplemental Indenture for Obligation No. 10 and used in this Official Statement, and excerpts of certain provisions of the Supplemental Indenture for Obligation No. 10. The following should not be regarded as a full statement of the Supplemental Indenture for Obligation No. 10. Reference is made to the Supplemental Indenture for Obligation No. 10 in its entirety for a full and complete statement of the provisions thereof, a copy of which is on file with the Trustee.

DEFINITIONS USED IN THE SUPPLEMENTAL INDENTURE

"Authority" means the Dormitory Authority of the State of New York, and any legal successor or successors thereto.

"Authorized Officer" means in the case of the Authority, the Chair, the Vice-Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director, the Managing Director of Construction, Managing Director of Portfolio Management, the Chief Information Officer, General Counsel and any other person authorized by a resolution or the by-laws of the Authority, from time to time, to perform any specific act or execute any specific document;

"Bond Trustee" means The Bank of New York Mellon, a banking organization duly organized under the laws of the State of New York and any successor to its duties under the Series 2012 Indenture.

"Bondholder" means the registered owner of any Bonds.

"Bonds" means the Series 2012B Bonds and any other bonds issued under the Series 2012 Indenture and a Series Resolution.

"Consultant" means a firm or firms 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 of national or regional repute for having the skill and experience necessary to render the particular report required by the provision of the Supplemental Indenture in which such requirement appears and which is acceptable to the Master Trustee and the Authority.

"Control Agreement" means any agreement whereby any Member of 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.

"Days-Cash-On-Hand" means, for the Obligated Group, as of any date (i) the Member's unencumbered cash and marketable securities (valued at current market value) on such date, together with any moneys or securities deposited or escrowed for the payment of debt service on Indebtedness and minus the aggregate principal amount of Short-Term Indebtedness Outstanding on such date, divided by (ii) for the 12-month period ending on such date, Operating Expenses, minus depreciation and amortization and other non-cash charges divided by (B) 365.

"Defeasance Security" means any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations (other than an obligation subject to variation in principal repayment); Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

"EBITDA" means, for the Obligated Group on a consolidated basis, the sum, without duplication, of the following: (a) Excess (Deficiency) of Revenues Over Expenses (as defined by and in conformity with GAAP in accordance with Not-for-Profit accounting); plus (b) interest expense; plus (c) taxes on Excess (Deficiency) of Revenues Over Expenses; plus (d) depreciation expenses; plus (e) amortization expense; plus (f) all other non-cash, non-recurring charges and expenses; plus (g) loss from any sale of assets other than the sales in the ordinary course of business; plus (h) management fees; minus (i) gains from any sale of assets, other than sales in the ordinary course of business; minus (j) other extraordinary or non-recurring gains, all determined in accordance with GAAP on a consistent basis with the latest audited financial statements of the Obligated Group.

"Exempt Obligation" means any of the following: (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Federal Agency Obligation" means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Funded Debt" means, for the Obligated Group, on a consolidated basis, the sum of all interest bearing indebtedness and capitalized leases.

"Government Obligation" means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Leverage Ratio" means, for the Obligated Group, on a consolidated basis, a ratio of the Funded Debt of the Obligated Group to the EBITDA of the Obligated Group.

"MSRB" means, the Municipal Securities Rulemaking Board, or if the Municipal Securities Rulemaking Board ceases to exist, another 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.

"Obligated Group" means, collectively, the Members of the Obligated Group.

"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.

"Required Ratios" shall mean a Long-Term Debt Service Coverage Ratio of at least 1.25, a Leverage Ratio of not more than 5.0 to 1.0, and Days-Cash-on-Hand of at least 30.

"Series 2012 Indenture" means the Catholic Health System Obligated Group Revenue Bond Resolution adopted by the Authority on October 25, 2006, as supplemented by the Series Resolution Authorizing Catholic Health System Obligated Group Revenue Bonds, Series 2012 adopted on May 23, 2012.

"Series 2012 Loan Agreement" means the Loan Agreement between the Authority and Mercy Hospital of Buffalo dated as of May 23, 2012.

"Testing Date" means each June 30 and December 31 for Days-Cash-on-Hand and March 31, June 30, September 30 and December 31 for all other purposes.

"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.

ISSUANCE OF THE SERIES 2012B OBLIGATION

Section 2. There is hereby created and authorized to be issued the Series 2012B Obligation in the aggregate principal amount of Three Million Eighty Thousand and 00/100 Dollars ($3,080,000), designated "Catholic Health System Obligated Group Obligation No. 10. The Series 2012B Obligation shall be dated as of July 12, 2012, and shall be payable in such amounts, at such times and in such manner and shall have such other terms and provisions as are set forth in the form of Obligation No. 10.

The aggregate principal amount of the Series 2012B Obligation is limited to the amount stated in this Section except for any Obligation authenticated and delivered in lieu of another Obligation as provided in Section 8 of the Supplement with respect to any Obligation destroyed, lost, or, subject to the provisions of Section 7 of the Supplement, upon transfer of registration of the Series 2012B Obligation.

PAYMENTS OF THE SERIES 2012B OBLIGATION; CREDITS

Section 4. (a) Payments on the Series 2012B Obligation are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in subsections (b) and (c) of this Section with respect to credits, payments on the Series 2012B Obligation shall be made at the times and in the amounts specified in the Series 2012B Obligation in immediately available funds by the Members depositing the same with or to the account of the Bond Trustee at or prior to the day such payments shall become due or payable (or the next preceding Business Day as defined in the Series 2012 Indenture if such date is not a Business Day) and giving written notice to the Master Trustee of each payment on the Series 2012B Obligation, specifying the amount paid and identifying such payment as a payment on the Series 2012B Obligation.

(b) The Obligated Group shall receive credit for payment on the Series 2012B Obligation, in addition to any credits resulting from payment or prepayment from other sources, including payments made under the Master Indenture, for payments made directly to the Bond Trustee by any Member of the Obligated Group pursuant to the Series 2012B Obligation.

(c) The Obligated Group shall receive credit for payment on the Series 2012B Obligation, in addition to any credits resulting from payment or prepayment from other sources, including payments made under the Master Indenture, as follows:

(i) On installments of interest on the Series 2012B Obligation in an amount equal to moneys deposited in the Debt Service Fund created under the Series 2012 Indenture which amounts are available to pay interest on the Series 2012B Bonds and to the extent such amounts have not previously been credited against payments on the Series 2012B Obligation.

(ii) On installments of principal on the Series 2012B Obligation in an amount equal to moneys deposited in the Debt Service Fund created under the Series 2012 Indenture which amounts are available to pay principal of the Series 2012B Bonds and to the extent such amounts have not previously been credited against payments on the Series 2012B Obligation.

(iii) On installments of principal of and interest on the Series 2012B Obligation in an amount equal to the principal amount of Series 2012B Bonds which have been called by the Bond Trustee for redemption prior to maturity and for the redemption of which sufficient amounts in cash are on deposit in the Debt Service Fund created under the Series 2012 Indenture to the extent such amounts have not been previously credited against payments on the Series 2012B Obligation, and interest on such Series 2012B Bonds from and after the date fixed

for redemption thereof. Such credits shall be made against the installments of principal of and interest on the Series 2012B Obligation which would be due, but for such call for redemption, to pay principal of and interest on such Series 2012B Bonds when due at maturity.

(iv) On installments of principal of and interest, respectively, on Obligation No. 1 in an amount equal to the principal amount of Series 2012B Bonds acquired by any Member of the Obligated Group and delivered to the Bond Trustee and cancelled. Such credits shall be made against the installments of principal of and interest on the Series 2012B Obligation which would be due, but for such cancellation, to pay principal of and interest on such cancelled Series 2012B Bonds through maturity thereof.

PREPAYMENTS OF THE SERIES 2012B OBLIGATION

Section 5. (a) So long as all amounts which have become due under the Series 2012B Obligation have been paid, the Members may from time to time pay in advance all or part of the amounts to become due under the Series 2012B Obligation. Prepayment may be made by payments of cash and/or surrender of Series 2012B Bonds, as contemplated by Section 4(c)(iii) of the Supplemental Indenture. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Series 2012B Bonds) shall, upon receipt, be deposited with the Bond Trustee in the Debt Service Fund under the 2012 Indenture and, at the request of and as determined by the Authorized Representative of the Authority, used for the redemption or purchase of Outstanding Series 2012B Bonds in the manner and subject to the terms and conditions set forth in the Series 2012 Indenture. Notwithstanding any such prepayment or surrender of Series 2012B Bonds, as long as any Series 2012 Bond remains Outstanding or any additional payments required to be made hereunder remain unpaid, the Members shall not be relieved of their obligations hereunder.

(b) Prepayments made under subsection (a) of this Section shall be credited against amounts to become due on the Series 2012B Obligation as provided in Section 4(c)(iii) of the Supplement.

(c) The Obligated Group may also prepay all of its Indebtedness under the Series 2012B Obligation by providing for the payment of Series 2012B Bonds in accordance with Article 12 of the Series 2012 Indenture.

RIGHT TO REDEEM

Section 9. The Series 2012B Obligation shall be subject to redemption, in whole or in part, prior to the maturity, in an amount equal to the principal amount of any Series 2012 Bond (i) called for redemption pursuant to the Series 2012 Indenture or (ii) purchased for cancellation by the Bond Trustee. The Series 2012B Obligation shall be subject to redemption on the date any Series 2012 Bond shall be so redeemed or purchased, and in the manner provided herein.

PARTIAL REDEMPTION OF THE SERIES 2012B OBLIGATION

Section 10. Upon the call for redemption, and the surrender of the Series 2012B Obligation for redemption in part only, and payment of all unreimbursed amounts due under the Related Reimbursement Agreement, the Obligated Group Representative shall execute and the Master Trustee shall authenticate and deliver to or upon the written order of the Holder thereof, at the expense of the Members, a new Obligation in principal amount equal to the unredeemed portion of the Series 2012B Obligation, which old Series 2012B Obligation so surrendered to the Master Trustee pursuant to this Section shall be cancelled by it and delivered to, or upon the order of, the Obligated Group Representative.

The Obligated Group Representative may agree with the Holder of the Series 2012B Obligation that such Holder may, in lieu of surrendering the Series 2012B Obligation for a new fully registered Series 2012B Obligation, endorse on the Series 2012B Obligation a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and the principal amount remaining unpaid. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of the Series 2012B Obligation and the Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of the Series 2012B Obligation by the owner thereof and irrespective of any error or omission in such endorsement.

DISCHARGE OF SUPPLEMENT

Section 13. Upon payment by the Obligated Group of a sum, in cash or Defeasance Securities (as defined in the Series 2012 Indenture) or both, and payment of all amounts due and arising under the Series 2012 Loan Agreement and unreimbursed amounts owing under the Related Reimbursement Agreement, sufficient, together with any other cash and Defeasance Securities held by the Bond Trustee and available for such purpose, to cause all Outstanding Series 2012B Bonds to be deemed to have been paid within the meaning of Article 12 of the Series 2012 Indenture and to pay all other amounts referred to in Article 12 of the Series 2012 Indenture and all amounts due under the Series 2012 Loan Agreement, the Series 2012B Obligation shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture and this Supplement shall be discharged.

COVENANTS WITH THE AUTHORITY

Section 14. In consideration for the issuance by the Authority of the Series 2012B Bonds, each of the Members of the Obligated Group covenant for the benefit of the Authority that they shall (unless otherwise agreed to or consented to in writing by the Authority, if any), in addition to the covenants set forth in the Master Indenture, comply with the covenants set forth below in this Section 14 for so long as any Series 2012B Bonds remain Outstanding. These covenants may be waived by the Authority, in its sole discretion, without the consent of the Holders of the Series 2012B Bonds secured by the Obligations issued hereunder or the Related Bond Trustee

(a) Disposition of Cash and Investments; Unsecured Loans to Non-Members. No Member of the Obligated Group will loan, donate, transfer, exchange or otherwise dispose of cash, marketable securities or other liquid investments to any Person that is not a Member of the Obligated Group, unless immediately thereafter, the aggregate amount of such loans, donations, transfers, exchanges or other disposition to Persons that are not Members of the Obligated Group from December 31, 2005 to the date of such loan, donation, transfer, exchange or disposition, does not exceed $7,000,000.

(b) Required Ratios.

(i) The Obligated Group shall maintain the Required Ratios. The Required Ratios will be tested on each Testing Date based on the Obligated Group's unaudited financial statements as of each Testing Date. The Obligated Group Representative shall deliver a Certificate of an Authorized Officer not later than 45 days following each Testing Date to the Master Trustee and so long as any Series 2012B Bonds are Outstanding, the Authority, certifying as to the compliance with Required Ratios.

(ii) If on any Testing Date the Long-Term Debt Service Coverage Ratio is less than 1.50, the Leverage Ratio is greater than 5.0 to 1.0 or Days-Cash-on-Hand is less than 30, then the Obligated Group shall within seventy-five (75) days following such Testing Date, but in no event less than twenty (20) days following notice from the Authority, so to do, (A) prepare a scope of work for a Consultant in form and content acceptable to the Authority, (B) retain a Consultant, (C) require such Consultant, within fifteen (15) days of its appointment, to commence work on a report to be delivered to the Obligated Group, the Master Trustee and the Authority, recommending changes with respect to the operation and management of the Health Care Facilities and (D) to the extent permitted by law, implement such Consultant's recommendation in a timely manner. Any report of a Consultant prepared within the previous 12-month period pursuant to this subsection (b) shall, if addressed to the Authority, and meeting the requirements of this clause (ii), be deemed to satisfy the foregoing requirement to procure a Consultant's report.

(iii) For so long as the Obligated Group is not in compliance with subsection b(ii) above, the Obligated Group Representative shall deliver to the Authority: (A) within thirty (30) days of delivery of a Consultant's report pursuant to paragraph (ii) above, a certified copy of a resolution adopted by the Obligated Group Representative's Governing Body accepting such report on behalf of itself and the other Members of the Obligated Group and a report setting forth in reasonable details the steps the Obligated Group proposes to take to implement the recommendations of such Consultant; and (B) quarterly reports showing the progress made by the Obligated Group in achieving a Long-Term Debt Service Coverage Ratio of not less than 1.50 to 1.0, a Leverage Ratio of not greater than 5.0 to 1.0 and Days-Cash-On-Hand of not less than 30, and, if applicable, implementing the recommendations of the Consultant.

(c) Limitations on Indebtedness. No Member of the Obligated Group may incur additional Long-Term Indebtedness except (i) Indebtedness permitted pursuant to Section 3.06(a) of the Master Indenture, and (ii) additional Long-Term Indebtedness consented to in writing by the Authority. The Master Trustee shall execute such amendments to, spreaders of, or other documents relating to the Mortgages to secure such permitted additional Long-Term Indebtedness on a parity with all other Indebtedness secured from time to time by the Mortgages. If the Authority consent is not required, any Member of the Obligated Group proposing to incur Long-Term Indebtedness, whether evidenced by Obligations issued or by evidences of Indebtedness entered into pursuant to documents other than the Master Indenture, shall, at least seven (7) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness, including in such notice the amount of Indebtedness to be incurred and the subsection of Section 3.06 of the Master Indenture under which it will be incurred, to the Authority for so long as Series 2012B Bonds of the Authority are Outstanding.

(d) Authority Consent to Certain Amendments and Transactions. Notwithstanding any provision of the Master Indenture, so long as any Series 2012B Bonds issued by the Authority remain Outstanding, the prior consent of the Authority, shall be required prior to (i) any amendment of Sections 3.01 Security; Restrictions on Encumbering Property; Payment of Principal and Interest,

3.03 Insurance, 3.05 Limitations on Creations of Liens, or 3.06 Limitations on Indebtedness, 3.07 Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts, or (ii) any amendment to the Master Indenture that is inconsistent with any provision of this Supplement.

(e) Filing of Audited Financial Statements, Quarterly Reports, Certificate of Compliance, Other Information. The Obligated Group covenants that it will:

(i) Within 30 days after receipt of the audit report mentioned below but in no event later than one hundred fifty (150) after the end of each Fiscal Year, furnish to the Master Trustee, the Authority, the MSRB, each Bondholder who is the registered owner of in excess of an aggregate $1 million principal amount of the Series 2012B Bonds who has so requested and such other parties as an Authorized Officer of the Authority may designate, a copy of the Audited Financial Statements of the Obligated Group. Such Audited Financial Statements shall be 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 financial statements may contain such changes as are concurred in by such accountants, and shall include such statements necessary for a fair presentation of financial position, statement of activity and changes in net assets and cash flows of such fiscal reporting period.

(ii) Within 30 days after receipt of the audit report mentioned above but in no event later than one hundred fifty (150) days after the end of each fiscal reporting period, file with the Authority, an Officer's Certificate stating the Required Ratios for such fiscal reporting period and stating whether, to the best knowledge of the signer, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signer may have knowledge.

(iii) Furnish no later than forty-five (45) days subsequent to the last day of each of the first three quarters in each Fiscal Year to (1) the Authority and such other parties as the Authority may designate, (2) the MSRB, and (3) each Bondholder who is the registered owner of in excess of an aggregate $1 million principal amount of the Series 2012B Bonds who has so requested, the following information: the unaudited consolidated financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, the statement of operations, changes in net assets and cash flows, 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) and discharges by each Member of the Obligated Group by major payor mix.

(iv) Furnish annually, not later than one hundred fifty (150) days after the end of the Fiscal Year, to the Master Trustee, the Authority and such other parties as an Authorized Officer of the Authority may designate, including rating services, a certificate stating whether the Obligated Group is in compliance with the provisions of the Supplemental Indenture and such other statements, reports and schedules describing the finances, operation and management of the Obligated Group and such other information reasonably required by an Authorized Officer of the Authority.

(v) If an Event of Default shall have occurred and be continuing, file with the Authority 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.

(vi) Within 30 days after its receipt thereof, file with the Authority a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(g) Withdrawal from the Obligated Group.

(i) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(A) If all amounts due on any Tax Exempt Series 2012B Bonds have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Series 2012B Bonds to become includable in the gross income of the recipient thereof under the Code;

(B) An Officer's Certificate of a Member of the Obligated Group demonstrating either that (1) any Series 2012B Bonds issued on behalf of such Member are no longer outstanding; or (2) there has been deposited with the Master Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Master Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on the Series 2012B Bonds of such withdrawing Member;

(C) An Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payments or extinguishment of Obligations to be made in connection therewith had occurred at the beginning of the calculation period, the Long-Term Debt Service Coverage Ratio of the remaining Members for each of the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Financial Statements available, taking all Long-Term Indebtedness incurred after such period into account, would not be less than 1.5 to 1.0; and

(D) A written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.5 to 1.0.

(ii) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (i) of this Section, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Obligation Holders, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease.

(iii) Notwithstanding anything herein to the contrary, Mercy Hospital of Buffalo and Sisters of Charity Hospital of Buffalo, New York shall each remain a Member of the Obligated Group.

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APPENDIX F

PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

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PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

Upon delivery of the Series 2012 Bonds, Harris Beach PLLC, Bond Counsel to the Authority, proposes to deliver its approving opinion in substantially the following form:

[Date of Closing]

Dormitory Authority of the State of New York
515 Broadway
Albany, New York 12207

Re: Dormitory Authority of the State of New York
Catholic Health System Obligated Group Revenue Bonds,
Series 2012 A and Series 2012 B

Ladies and Gentlemen:

We have examined a record of proceedings relating to the sale and issuance of Authority's $17,315,000 aggregate principal amount of Catholic Health System Obligated Group Revenue Bonds, Series 2012A and Series 2012B (the "Series 2012 Bonds") of the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended from time to time by, including but not limited to, the Health Care Financing Consolidation Act and as incorporated thereby, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of the State of New York, each as amended by Chapter 83 of the Laws of 1995 of the State of New York (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Series 2012 Bonds are issued under and pursuant to (i) the Constitution and laws of the State of New York, including in particular the Act, (ii) the Authority's Catholic Health System Obligated Group Revenue Bond Resolution adopted by the Authority on October 25, 2006 (the "General Resolution"), (iii) the Authority's Series Resolution Authorizing Catholic Health System Obligated Group Revenue Bonds, Series 2012A adopted by the Authority on May 23, 2012 (the "Series 2012A Resolution"), (iv) the Authority's Series Resolution Authorizing Catholic Health System Obligated Group Revenue Bonds, Series 2012B adopted by the Authority on May 23, 2012 (the "Series 2012B Resolution" and, together with the Series 2012A Resolution and the General Resolution, the "Resolutions"); and (v) two separate Bond Series Certificates relating to each of the Series 2012A Bonds and the Series 2012B Bonds, dated as of July __, 2012, executed by an Authorized Officer of the Authority in accordance with the Resolutions (the "Bond Series Certificate").

The Bonds are being issued for the purposes set forth in the Resolutions. All capitalized terms not otherwise defined herein shall have the meaning given to such terms in the Resolutions.

The Series 2012 Bonds are dated their date of closing, will mature on July 1 in the years and in the principal amounts, and shall bear interest, payable January 1, 2013 and semiannually thereafter on July 1 and January 1 in each year at their respective rates per annum, as set forth in the Bond Series Certificate.

The Series 2012 Bonds are issuable initially in the form of fully registered bonds in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. The Series 2012 Bonds are lettered and numbered "R- " followed by the number from such bond. The Series 2012 Bonds are numbered consecutively from one upward in order of issuance.

The Series 2012 Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Resolutions and in the Bond Series Certificate.

The Authority has entered into a Loan Agreement with Kenmore Mercy Hospital dated as of May 23, 2012 (the "Series 2012 A Loan Agreement"), providing, among other things, for a loan by the Authority to Kenmore Mercy Hospital of the proceeds of the Series 2012A Bonds for the purposes permitted thereby and by the Resolutions. The Authority has entered into a Loan Agreement with Mercy Hospital of Buffalo dated as of May 23, 2012 (the "Series 2012B Loan Agreement", and together with the Series 2012A Loan Agreement, the "Loan Agreements"). Kenmore Mercy Hospital and Mercy Hospital of Buffalo are collectively referred to herein as the "Institutions". The Loan Agreements provide, among other things, for a loan by the Authority to each of the Institutions of the proceeds of the Series 2012 Bonds for the purposes permitted thereby and by the Resolutions.

Pursuant to the Loan Agreements, each of the Institutions is required to make payments sufficient to pay the principal of and interest on the Applicable Series of Series 2012 Bonds as the same shall become due, which payments have been pledged by the Authority to the Trustee for the benefit of the Holders of the Series 2012 Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2012 Bonds in order that interest thereon be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use and investment of bond proceeds and other moneys or property, required ownership of the facilities financed with the Series 2012 Bonds by an organization described in Section 501(c)(3) of the Code or a governmental unit, and the rebate to the United States of certain earnings in respect of investments. In the Resolutions, the Loan Agreement, the Tax and Arbitrage Certificate of the Authority, dated the date hereof (the "Arbitrage Certificate"), and the Tax Certificate of the Institution, dated the date hereof (the "Tax Certificate"), the Authority and the Institution have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure satisfaction of the requirements of the Code (the Arbitrage Certificate and the Tax Certificate being collectively referred to herein as the "Tax Documents").

In rendering the opinion set forth in paragraph 5 below, we have assumed the accuracy of certain factual certifications of, and continuing compliance with, the covenants, representations, warranties, provisions and procedures set forth in the Resolutions, the Loan Agreements and the Tax Documents by the Authority and the Institutions. In the event of the inaccuracy or incompleteness of any of the certifications made by the Authority or the Institutions, or the failure by the Authority or

the Institutions to comply with their covenants, representations, warranties, provisions and procedures set forth in the Resolutions, the Loan Agreements and the Tax Documents, interest on the Series 2012 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of the original issuance and delivery of the Series 2012 Bonds, regardless of the date on which the event causing such inclusion occurs. We render no opinion as to any federal, state or local tax consequences with respect to the Bonds, or the interest thereon, if any change occurs or action is taken or omitted under the Resolutions, the Loan Agreements or the Tax Documents or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Harris Beach PLLC. In addition, we have not undertaken to determine, or to inform any person, whether any actions taken, or not taken, or events occurring, or not occurring, after the date of issuance of the Series 2012 Bonds may affect the tax status of interest on the Series 2012 Bonds. Further, although interest on the Series 2012 Bonds is not included in gross income for purposes of federal income taxation, receipt or accrual of the interest may otherwise affect the tax liability of a holder of a Bond depending upon the tax status of such holder and such holder's other items of income and deduction. Except as stated in paragraphs 5 and 6 herein, we express no opinion as to federal or state and local tax consequences of the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds.

We have also examined one of the Series 2012 Bonds as executed and authenticated.

Based on the foregoing, and subject to the further assumptions and qualifications hereinafter set forth, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2012 Bonds thereunder.

2. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect, and constitute legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2012 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2012 Bonds are legal, valid and binding special obligations of the Authority payable as provided in Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions, and are entitled to the equal benefits of the Resolutions and the Act.

4. The Authority has the right and lawful authority and power to enter into the Loan Agreements and each of the Loan Agreements has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

5. Under existing statutes, regulations, administrative rulings and court decisions as of the date hereof, the interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that interest on the Series 2012 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations; we note, however, that interest on

the Series 2012 Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability, if any, of certain corporations.

The difference between (1) the principal amount of the Series 2012A Bonds maturing in the years 2014, 2022, 2027 and 2039 and Series 2012B Bonds maturing in the years 2022 and 2039 (collectively, the "Discount Bonds"), and (2) the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such an owner's adjusted basis for purposes of determining an owner's gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of such corporation's federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The Series 2012A Bonds maturing in the years 2015 through 2018 and 2032 and the Series 2012B Bonds maturing in the year 2032 (collectively, the "Premium Bonds") are being reoffered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2012A Bonds.

6. Under existing statutes, including the Act, interest on the Series 2012 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof.

The foregoing opinions are qualified only to the extent that the enforceability of the Resolutions, the Loan Agreements and the Series 2012 Bonds may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other laws heretofore or hereafter enacted and judicial decisions relating to or affecting the enforcement of creditors' rights or remedies or contractual obligations generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

In rendering the foregoing opinions we have made a review of such legal proceedings as we have deemed necessary to approve the legality and validity of the Series 2012 Bonds. In rendering

the foregoing opinions we have not been requested to examine any document or financial or other information concerning the Authority or the Institutions other than the record of proceedings referred to above, and we express no opinion as to the adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2012 Bonds.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • CATHOLIC HEALTH SYSTEM OBLIGATED GROUP REVENUE BONDS, SERIES 2012A AND SERIES 2012B

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